UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	**SACV 17-00981 JVS(JCGx)**	Date	February 5, 2018
Title	**Document Security Systems, Inc. v. Seoul Semiconductor Co., et al.**		

Present: The Honorable	James V. Selna
Karla J. Tunis	Not Present
Deputy Clerk	Court Reporter
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: **(IN CHAMBERS)** **ORDER GRANTING DEFENDANT'S MOTION TO DISMISS**

The Court, having been informed by the parties in this action that they submit on the Court's tentative ruling previously issued, hereby GRANTS the Defendants' Motion to Dismiss and rules in accordance with the tentative ruling as follows:

Defendants Seoul Semiconductor Co., Ltd. ("SSC") and Seoul Semiconductor, Inc. ("SSI") (collectively, "Defendants") filed a motion to dismiss Plaintiff Document Security Systems, Inc.'s ("DSS") claims for willful infringement for failure to state a claim upon which relief can be granted pursuant to Federal Rule of Civil Procedure 12(b)(6). (Mot., Docket No. 45.) DSS filed an opposition. (Opp'n, Docket No. 48.) Defendants filed a Reply. (Reply, Docket No. 50.)

For the following reasons, Defendants' motion to dismiss is **granted**.

I. BACKGROUND

DSS holds all rights in and title to U.S. Patent Nos. 6,949,771 ("the '771 Patent"), 7,524,087 ("the '087 Patent"), and 7,256,486 ("the '486 Patent"). (Second Amended Complaint "SAC", Docket No. 40 ¶¶ 8-11.) On June 7, 2017, DSS filed the present action against Defendants. (Compl. Docket No. 1.) On November 16, 2017, DSS filed the SAC, which alleges infringement of the '771, '087, and '486 Patents. (See generally SAC, Docket No. 40.) In particular, the SAC alleges willful infringement of each asserted patent. (Id. ¶¶ 22, 33, 46.) Defendants now move to dismiss DSS's claims for willful infringement of all three asserted patents. (Mot., Docket No. 45.)

II. LEGAL STANDARD

Under Federal Rule of Civil Procedure 12(b)(6), a defendant may move to dismiss for failure to state a claim upon which relief can be granted. Fed. R. Civ. P. 12(b)(6). A plaintiff must state "enough facts to state a claim to relief that is plausible on its face." Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007). A claim has "facial plausibility" if the plaintiff pleaded facts that "allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." Ashcroft v. Iqbal, 556 U.S. 662, 663 (2009).

In resolving a 12(b)(6) motion under Twombly, a court must follow a two-step approach. Id. at 679. First, a court must accept all well-pleaded factual allegations as true, but "[t]hread-bare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." Id. at 677. Furthermore, a court must not "accept as true a legal conclusion couched as a factual allegation." Id. at 677-78 (quoting Twombly, 550 U.S. at 555). Second, assuming the veracity of well-pleaded factual allegations, a court must "determine whether they plausibly give rise to an entitlement to relief." Id. at 664. This determination is context-specific, requiring a court to draw on its experience and common sense, but there is no plausibility "where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct." Id.

III. DISCUSSION

Under 35 U.S.C. § 284, a court may "increase the damages up to three times the amount found or assessed" in a patent claim. In the Supreme Court's recent decision Halo Electronics Inc. v. Pulse Electronics, Inc., 136 S. Ct. 1923 (2016), the Court rejected the Federal Circuit's two-part test from In re Seagate, 497 F.3d 1360 (Fed. Cir. 2007), for determining when a district court may award enhanced damages. The Court reaffirmed that awarding damages under § 284 is in the discretion of the district court. Halo, 136 S. Ct. at 1933-34. The Court found that the Seagate test was "unduly rigid" and "impermissibly encumber[ed]" the discretion of district courts. Id. at 1932. The Court did away with the requirement that "objective recklessness" be shown in every case, instead "limiting the award of enhanced damages to egregious cases of misconduct beyond typical infringement." Id. at 1932, 1935. Further, the Court noted that § 284 "allows district courts to punish the full range of culpable behavior[.]" but "such

misconduct." Halo, 136 S. Ct. at 1933-34.

"Halo did not address pleading standards at the motion to dismiss stage, instead addressing what plaintiffs needed to have shown in a motion for summary judgment and in a motion for judgment as a matter of law." Nanosys, Inc. v. QD Vision, Inc., No. 16-cv-01957-YGR, 2016 WL 4943006, at *8 (N.D. Cal. Sept., 16, 2016). However, "[s]ince Halo abrogated the 'objective recklessness' standard, the law concerning willfulness has been in a state of flux, and Halo's 'effect on the pleading standard for willful infringement remains unclear.'" Cont'l Circuits LLC v. Intel Corp., No. CV16-2026 PHX DGC, 2017 WL 2651709, at *7 (D. Ariz. June 29, 2017) (quoting Bobcar Media, LLC v. Aardvark Event Logistics, Inc., No. 16-885, 2017 WL 74729, at *5-6 (S.D.N.Y. Jan. 4, 2017)). Courts are in agreement that "[k]nowledge of the patent alleged to be willfully infringed continues to be a prerequisite to enhanced damages." WBIP, LLC v. Kohler Co., 829 F.3d 1317, 1341 (Fed. Cir. 2016). Additionally, "[c]ourts . . . have universally—either in word or deed—required plaintiffs to plead facts showing willfulness." Cont'l Circuits, 2017 WL 2651709, at *7 (collecting cases). "More uncertain is the quantum of culpability that a plaintiff must plead." Id. at *8. "Several courts have required facts showing 'egregious' conduct." Id. (collecting cases). "Some require 'allegations showing willfulness beyond a claim of mere knowledge.'" Id. (quoting Nanosys, 2016 WL 4943006, at *8). "Other courts have suggested that knowledge can suffice, at least under some circumstances." Id. (collecting cases).

The Court joins the majority of district courts in the Ninth Circuit in finding that allegations of knowledge alone are not sufficient to state a claim for willful infringement. See XpertUniverse, Inc. v. Cisco Sys., Inc., No. 17-cv-03848-RS, 2017 WL 4551519, at *6 (N.D. Cal. Oct. 11, 2017) ("Although [plaintiff] has alleged knowledge and continued infringement, it needs to do more to show that [defendant] has engaged in 'egregious cases of misconduct beyond typical infringement' that could possibly warrant enhanced damages." (quoting Halo, 136 S. Ct. at 1935)); Cont'l Circuits, 2017 WL 2651709, at *8 ("The Court continues to conclude that willfulness must be pled, and that allegations of knowledge alone are insufficient."); Finjan, Inc. v. Cisco Sys. Inc., No. 17-cv-00072-BLF, 2017 WL 2462423, at *5 (N.D. Cal. June 7, 2017) ("[E]ven if [plaintiff] had adequately alleged that [defendant] had pre-suit knowledge of the Asserted Patents, dismissal would also be warranted because the FAC does not contain sufficient factual allegations to make it plausible that [defendant] engaged in 'egregious' conduct

(granting leave to amend because plaintiffs "asserted they [could] allege additional facts upon which they [could] bolster allegations showing willfulness beyond a claim of mere knowledge"); CG Tech. Development, LLC v. Big Fish Games, Inc., No. 2:16-cv-00857-RCJ-VCF, 2016 WL 4521682, at *14 (D. Nev. Aug. 29, 2016) ("[A]lleging that Defendant only knew about the patent" and continued use of the infringing products "is insufficient to constitute willful infringement."); see also Halo, 136 S. Ct. at 1936 (Breyer, J., concurring) ("[T]he Court's references to 'willful misconduct' do not mean that a court may award enhanced damages simply because the evidence shows that the infringer knew about the patent and nothing more. . . . It is 'circumstanc[e]' that transforms simple knowledge into such egregious behavior, and that makes all the difference." (quoting majority opinion)). But see Straight Path IP Grp., Inc. v. Apple, Inc., No. C 16-03582 WHA, 2017 WL 3967864, at *4 (N.D. Cal. Sept. 9, 2017) (finding allegations that defendant was aware of the asserted patents and their infringement and nonetheless continued to sell the accused products and induce infringement by its customers were sufficient to survive a motion for judgment on the pleadings).

In the SAC, DSS alleges a nearly identical claim of willful infringement for each of the patents-in-suit. (SAC, Docket No. 40 ¶¶ 22, 33, 46.) For example, the allegations for the '771 Patent state:

> Defendants have been aware of the '771 Patent and of its infringement as of a date no later than the date they were served with the complaint in the case 2:17-cv-308, filed April 13, 2017. Since that date, Defendants have failed to investigate and remedy their infringement of the '771 Patent and thus willfully and egregiously continue to infringe the '771 Patent. On information and belief, Defendants continued to offer infringing products without having modified or altered those products in a manner that would not infringe the '771 patent. Defendants, at the very least, have been egregiously and willfully blind to infringement of the '771 Patent. Further evidence of Defendants' egregious and willful infringement are the acts of active inducement described in this Complaint. Defendants actively induce and encourage customers to

> Instrumentalities with knowledge that these acts constitute infringement of the '771 Patent, with the purpose of, inter alia, developing and serving the United States market for Defendants' LED products and consumer devices that include Defendants' products.

(Id. ¶ 22.)

The Court finds that DSS's allegations are not sufficient to state a claim for willful infringement of the patents-in-suit. Although, DSS has alleged knowledge and continued infringement, it has failed to allege facts suggesting that Defendants' conduct amounts to an "egregious case[] of misconduct beyond typical infringement." Halo, 136 S. Ct. at 1935. "Disagreement about the existence of continued infringement does not necessarily indicate willful or deliberate misconduct." XpertUniverse, 2017 WL 4551519, at *6. Thus, without more, the facts as alleged do not support a plausible inference that Defendants' conduct warrants enhanced damages under Halo and § 284.

Accordingly, the Court grants Defendants' motion to dismiss the claims of willful infringement.

IV. CONCLUSION

For the foregoing reasons, the Court **grants** Defendants' motion to dismiss with leave to amend.

IT IS SO ORDERED.

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