IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

WILLIAM GRECIA,
       Plaintiff

-vs-

PAYPAL, INC.,
       Defendant

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W-21-CV-00309-ADA

MEMORANDUM OPINION AND ORDER

Before the Court is Defendant PayPal, Inc.'s ("PayPal") Motion to Dismiss arguing that Plaintiff Grecia Estate Holdings, LLC ("Grecia") fails to state a plausible infringement claim under Rule 12(b)(6) or is collaterally estopped from asserting such a claim. ECF No. 10. Grecia's Opposition to Defendant's Motion was timely filed in response. ECF No. 16. PayPal timely filed a reply. ECF No. 17. Having considered the motion, parties' briefs, and applicable law, the Court **GRANTS** PayPal's Motion.

I.   BACKGROUND

Grecia filed this action against PayPal on March 30, 2021, asserting infringement of the sole patent in this case: U.S. Patent No. 8,402,555 (the "'555 Patent"). ECF No. 1 at 1. This patent relates to "digital rights management" ("DRM") schemes used "to protect commercial intellectual property copyrights privy to illegal copying using computerized devices." '555 Patent at 1:19-32. As the patent explains, traditional DRM schemes "rel[ied] on content providers to maintain computer servers to receive and send authorization keys." *Id*. at 2:54-59. These schemes suffered drawbacks limiting a user's access to content, including "a requirement to reconnect with the server ... for reauthorization." *Id*. at 2:57-59. Consequently, users could no

longer access purchased media when "content providers discontinue[d] servers or even [went] out of business some years after DRM encrypted content was sold to consumers[.]" *Id*. at 2:59-62. In such cases, traditional DRM systems yielded a counterintuitive outcome: "hardware failure or property theft ... could lead to a paying customer losing the right to recover purchased products." *Id*. at 2:63-67. The '555 Patent allegedly solved this problem by providing "unlimited interoperability of digital media between unlimited machines with management of end-user access to the digital media." *Id*. at 3:11-13. Figure 6 illustrates the invention's general steps:
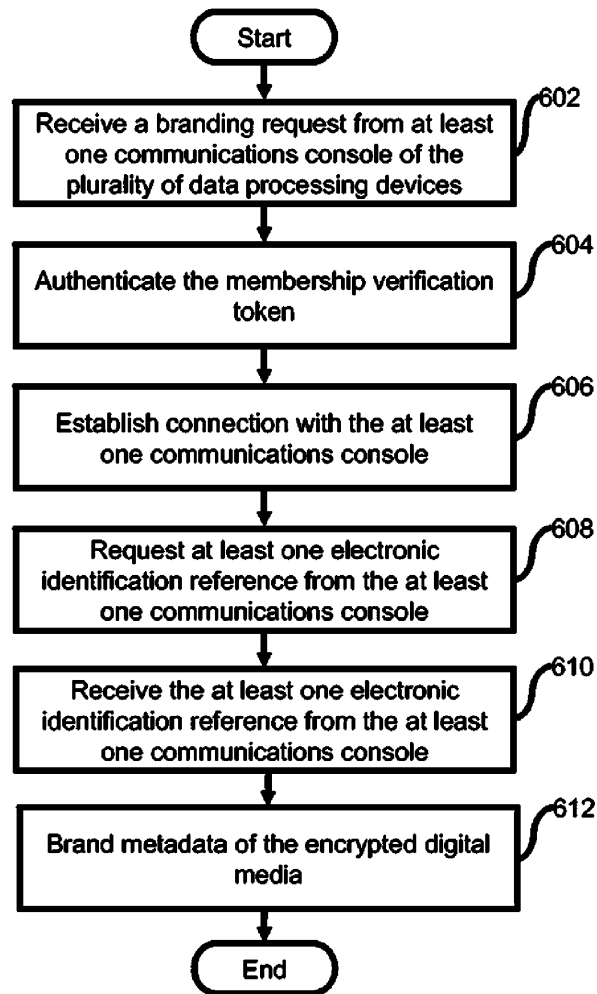
Id. at Fig. 6. Grecia claims this invention represents an advancement over the prior art in that it "employs electronic IC, as part of a web service membership, to manage access rights across a plurality of devices" rather than restrict digital media interoperability to a limited number of machines. *Id*. at 1:23-26.

The Complaint accuses PayPal's app (the "Accused Product") as the instrumentality infringing the '555 Patent. ECF No. 16 at 6. Specifically, Grecia alleges that the Accused Product meets each limitation in claim 16 of the '555 Patent by "associating a QR code with the user's account" and monitoring "access to the digital media of the PayPal user's account." *Id*. at 6–7. PayPal petitions the Court to dismiss that Complaint under Rule 12(b)(6) for failure to state a plausible infringement claim, or under collateral estoppel because the '555 Patent issues in this case are allegedly identical to those litigated in other proceedings. ECF No. 10 at 5. This Court has also granted a motion to dismiss in another similar case with nearly identical analysis and reasoning.[1]

II.   LEGAL STANDARD

A.   Rule 12(b)(6): Failure to State a Claim

A party may move to dismiss a claim if the complaint has "fail[ed] to state a claim upon which relief can be granted." FED. R. CIV. P. 12(b)(6). When considering a Rule 12(b)(6) motion, a court must assume that all well-pleaded facts are true and view them in the light most favorable to the non-moving party. *Bowlby v. City of Aberdeen*, 681 F.3d 215, 218 (5th Cir. 2012). However, courts "are not bound to accept as true a legal conclusion couched as a factual allegation." *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). To survive a Rule 12(b)(6) motion to dismiss, "a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to

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[1] *Grecia Estate holdings LLC v. Meta Platforms, Inc.*, No. 6:21-cv-00677-ADA, 2022 WL 2019296 (W.D. Tex. June 6, 2022).

relief that is plausible on its face.'" *Id*. (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007)). "A claim has facial plausibility when the pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Id*. at 663. A complaint is insufficient if it offers only "labels and conclusions" or "a formulaic recitation of the elements of a cause of action." *Id*.

A literal infringement claim "require[s] a showing that each and every limitation set forth in a claim appears in the accused product." *Iron Oak Techs., LLC v. Acer Am. Corp.*, No. 6:17-CV-00143-RP-JCM, 2017 WL 9477677, at *3 (W.D. Tex. Nov. 28, 2017) (internal quotation marks omitted). "[W]hen deciding a motion to dismiss, a court may 'consider documents attached to or incorporated into the complaint and matters of which judicial notice may be taken.'" *Id*. at *2. "[A] plaintiff cannot assert a plausible claim for infringement under the *Iqbal/Twombly* standard by reciting the claim elements and merely concluding that the accused product has those elements." *Bot M8 LLC v. Sony Corp. of Am.*, 4 F.4th 1342, 1353 (Fed. Cir. 2021). "[A] patentee may subject its claims to early dismissal by pleading facts that are inconsistent with the requirements of its claims." *Id*. at 1346.

B.   Collateral Estoppel

"Collateral estoppel protects a party from having to litigate issues that have been fully and fairly tried in a previous action and adversely resolved against a party-opponent." *Ohio Willow Wood Co. v. Alps South, LLC*, 735 F.3d 1333, 1342 (Fed. Cir. 2013). "The issue of whether to apply collateral estoppel is a question of law." *Bradberry v. Jefferson Cty., Tex.*, 732 F.3d 540, 549 (5th Cir. 2013). Thus, the issue of whether to apply collateral estoppel may be properly addressed in a motion to dismiss. *See, e.g., NetSoc, LLC v. Oath Inc.*, No. 18-CV-12267

(RA), 2020 WL 419469, at *1 (S.D.N.Y. Jan. 24, 2020); *Arunachalam v. Exxon Mobil Corp.*, No. 6:19-CV-00171-ADA, 2019 WL 10303695, at *1 (W.D. Tex. June 26, 2019).

Regional circuit law governs the general procedural question of whether collateral estoppel (i.e., issue preclusion) applies, but Federal Circuit law governs questions involving substantive issues of patent law. *Soverain Software LLC v. Victoria's Secret Direct Brand Mgmt., LLC*, 778 F.3d 1311, 1314 (Fed. Cir. 2015). The Fifth Circuit has held that collateral estoppel applies if: "(1) the identical issue was previously adjudicated; (2) the issue was actually litigated; and (3) the previous determination was necessary to the decision." *Bradberry*, 732 F.3d at 548. Determining an "identity of issues" test implicates substantive patent law, meaning Federal Circuit law controls. *Ohio Willow*, 735 F.3d at 1342; *Soverain*, 778 F.3d at 1314. Collateral estoppel applies where there is "identity of the issues" and does not require patent claims to be "identical." *Ohio Willow*, 735 F.3d at 1342 (emphasis in original); *see also Soverain*, 778 F.3d at 1319 ("Complete identity of claims is not required to satisfy the identity-of-issues requirement for claim preclusion."). "If the differences between the unadjudicated patent claims and adjudicated patent claims do not materially alter the question of invalidity, collateral estoppel applies." *Ohio Willow*, 735 F.3d at 1342.

III.   DISCUSSION

PayPal moves for dismissal of Grecia's Complaint on two grounds. First, it asserts Grecia is collaterally estopped from asserting claim 16. Second, it asserts Grecia's complaint fails to state a claim for infringement. The Court considers these arguments below.

A. Grecia is not collaterally estopped from asserting claim 16

PayPal argues that collateral estoppel bars Grecia from alleging infringement of the '555 Patent because claim 16 is substantively identical to claims previously invalidated in other

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