

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TENNESSEE

MALIBU BOATS, LLC,)
)
 Plaintiff,)
)
 v.) No.: 3:16-CV-82-TAV-HBG
)
 MASTERCRAFT BOAT COMPANY, LLC,)
)
 Defendant.)

MEMORANDUM OPINION & ORDER

This civil case is before the Court on defendant MasterCraft Boat Company, LLC’s (“MasterCraft”) Motion to Dismiss [Doc. 18] plaintiff Malibu Boats, LLC’s (“Malibu”) claim of willful infringement pursuant to Rule 12(b)(6). Malibu submitted a response [Doc. 20], to which MasterCraft submitted a reply [Doc. 24]. MasterCraft also submitted a supplemental brief [Doc. 29]. The Court has considered the pending motion and the responsive pleadings in light of the relevant case law. For the reasons discussed herein, MasterCraft’s motion [Doc. 18] will be denied.

I. Background¹

The dispute in this action arises from a patent related to Malibu’s wake surf technology known as SURF GATE [Doc. 1 ¶ 1]. Malibu claims that SURF GATE technology modifies the wake formed by a boat as it travels through water, which alters

¹ For the purposes of the motion to dismiss, the Court takes plaintiff’s factual allegations as true. *See Erickson v. Pardus*, 551 U.S. 89, 94 (2007) (noting that “when ruling on a defendant’s motion to dismiss, a judge must accept as true all factual allegations contained in the complaint” (citations omitted)).

the quality of the boat's wake and enables users to surf on either side of the boat's wake [*Id.* ¶ 2]. SURF GATE technology "allow[s] boaters . . . to create a better quality surf wave . . . without having to shift passengers or weight from one side [of the boat] to the other" [*Id.*].

The patent at issue is U.S. Patent No. 9,260,161 ("the '161 Patent"). The '161 Patent issued on February 16, 2016, and is titled "Surf Wake System for a Watercraft" [Doc. 1-A]. Malibu utilizes the patented technology under the name SURF GATE as a feature on many of its boat models [Doc. 1 ¶ 3]. Malibu alleges that MasterCraft's wake surf systems, specifically its "Gen 2 Surf System" and its "NXT Surf System" infringe upon the intellectual property protected by the '161 Patent [*Id.* ¶ 1]. Malibu filed this suit on February 16, 2016, the day that the '161 Patent issued, seeking amongst its prayers for relief enhanced damages pursuant to 35 U.S.C. § 284 claiming that "MasterCraft's infringement of the '161 Patent has been and continues to be deliberate and willful" [*Id.* ¶ 117].

Malibu contends that although the '161 Patent did not issue until February 16, 2016, the public has been on notice of the '161 Patent since as early as December 21, 2015, when the United States Patent and Trademark Office ("USPTO") entered into public record the Notice of Allowance for U.S. Patent Application No. 13/545969, the application that issued as the '161 Patent [*Id.* ¶ 16]. Malibu further alleges that on January 27, 2016, the USPTO entered into public record an Issue Notification indicating that the '161 Patent was to be issued on February 16, 2016 [*Id.*]. Additionally, Malibu

alleges that MasterCraft had actual notice of the impending issuance of ‘161 Patent by February 3, 2016, when MasterCraft allegedly sent correspondence regarding the allowance and upcoming issuance of the patent to Malibu’s patent prosecution counsel [*Id.* ¶ 17]. Malibu also notes in its complaint that these same parties are involved in a different case before this Court involving the alleged infringement of U.S. Patent No. 8,578, 873 (“the ‘873 Patent”), which Malibu contends issued from an application that was a continuation-in-part of the application that resulted in the ‘161 Patent [*Id.* ¶ 11].

In its instant motion, MasterCraft moves the Court to dismiss Malibu’s request for enhanced damages, asserting that Malibu cannot show that MasterCraft willfully infringed upon the ‘161 Patent because Malibu filed suit the same day that the ‘161 Patent issued.

II. Standard of Review

Federal Rule of Civil Procedure 8(a) sets out a liberal pleading standard. To survive a motion to dismiss, a complaint need contain only a “short and plain statement of the claim showing that the pleader is entitled to relief, ‘in order to give [the opposing party] fair notice of what the . . . claim is and the grounds upon which it rests.’” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (quoting *Conley v. Gibson*, 355 U.S. 41, 47 (1957)). Detailed factual allegations are not required, but a party’s “obligation to provide the ‘grounds’ of his entitle[ment] to relief” requires more than labels and conclusions.” *Id.* “[A] formulaic recitation of the elements of a cause of action will not do,” nor will

“an unadorned, the-defendant-unlawfully-harmed-me accusation.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009).

In deciding a Rule 12(b)(6) motion to dismiss, a court must construe the complaint in the light most favorable to the plaintiff, accept all factual allegations as true, draw all reasonable inferences in favor of the plaintiff, and determine whether the complaint contains “enough facts to state a claim to relief that is plausible on its face.” *Twombly*, 550 U.S. at 570; *Directv, Inc. v. Treesh*, 487 F.3d 471, 476 (6th Cir. 2007) (citation omitted). “A claim has facial plausibility when the plaintiff pleads the factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Iqbal*, 556 U.S. at 678. “Determining whether a complaint states a plausible claim for relief will [ultimately] . . . be a context-specific task that requires th[is Court] to draw on its judicial experience and common sense.” *Id.* at 679.

III. Analysis

Malibu seeks enhanced damages in this action pursuant to 35 U.S.C. § 284, which provides in relevant part that a court may increase damages in a case of patent infringement “up to three times the amount found or assessed.” *See* 35 U.S.C. § 284 (2012). Malibu contends that enhanced damages are available because “MasterCraft’s infringement of the ‘161 Patent has been and continues to be deliberate and willful” [Doc. 1 ¶ 117]. Specifically, Malibu contends that although MasterCraft’s alleged infringement did not begin until the patent issued, MasterCraft’s pre-issuance knowledge of the date of issuance and conduct could plausibly state a case for enhanced damages.

In its motion to dismiss, MasterCraft does not challenge the sufficiency of the complaint insofar as it requests damages for infringement. Rather, MasterCraft seeks to dismiss Malibu's complaint only to the extent that it seeks enhanced damages. MasterCraft argues that because Malibu brought suit on the same day that the '161 Patent issued, Malibu cannot plausibly claim that any alleged infringement by MasterCraft was willful. Thus, MasterCraft asks the Court to recognize a rule that a claim for willful infringement may never be brought on the basis of pre-patent issuance conduct and knowledge.

At the time that MasterCraft filed its motion to dismiss, the Federal Circuit's *Seagate* analysis determined when a district court was permitted to award enhanced damages for willful infringement under Section 284. *See In re Seagate Techn., LLC*, 497 F.2d 1360 (Fed. Cir. 2007) (en banc). Under *Seagate*, in order to establish willful infringement, a patentee was first required to show "by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." 497 F.2d at 1371. If that threshold was satisfied, a patentee was then required to show that "this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer." *Id.*

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, however, the Supreme Court abrogated the two-part *Seagate* test and rejected any "rigid formula" limiting a district court's discretion to award enhanced damages under Section 284. 136 S. Ct. 1923 (2016). The Supreme Court stated that Section 284 "permits district courts to exercise

their discretion in a manner free from the inelastic constraints of the *Seagate* test.” *Id.* at 1933–34. Rather, the Supreme Court emphasized that a district court should “take into account the particular circumstances of each case in deciding whether to award damages, and in what amount.” *Id.* at 1933. The Supreme Court in *Halo* cautioned, however, that enhanced damages should generally be “reserved for egregious cases typified by willful misconduct.” *Id.* at 1934.

Post-*Halo*, the Federal Circuit has held that “knowledge of the patent alleged to be willfully infringed continues to be a prerequisite to enhanced damages.” *WBIP, LLC v. Kohler Co.*, No. 2015-1038, 2016 WL 3902668, at *15 (Fed. Cir. July 19, 2016). Furthermore, the Federal Circuit in *WBIP* stated that the *Halo* decision did not disturb the “established law that the factual components of the willfulness question should be resolved by the jury.” *Id.* In conducting the willfulness inquiry, the Federal Circuit has traditionally held that the trier of fact should weigh a number of considerations and make the determination based on the “totality of the circumstances.” *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337, 1342–43 (Fed. Cir. 2004) .

The rule that MasterCraft asks the Court to adopt is neither consistent with this Federal Circuit “totality of the circumstances” precedent, nor with the level of discretion to award enhanced damages granted to district courts by the *Halo* decision. *See Gustafson, Inc. v. Intersystems Indus. Prods., Inc.*, 897 F.2d 508, 510 (Fed. Cir. 1990) (quoting *Rolls-Royce Ltd., v. GTE Valeron Corp.*, 800 F.2d 1101, 1110 (Fed. Cir. 1986)) (“[I]n respect of willfulness, there cannot be hard and fast *per se* rules.”).

The Federal Circuit has indicated while describing its totality of the circumstances analysis that “although willfulness is generally based on conduct that occurred after a patent issued, pre-patent conduct may also be used to support a finding of willfulness.” *Minn. Mining & Mfg. Co. v. Johnson Orthopedics, Inc.*, 976 F.2d 1559, 1581 (Fed. Cir. 1992); *see e.g., Kaufman Co., Inc. v. Lantech, Inc.*, 807 F.2d 970, 978–79 (Fed. Cir. 1986) (applying the totality of the circumstances approach and refusing to overturn a finding of willfulness where the allegedly improper copying “took place before the patent was issued”).

The Federal Circuit decision in *National Presto Industries v. West Bend Company*, 76 F.3d 1185 (Fed. Cir. 1996), where the Federal Circuit upheld a jury verdict in a situation exceedingly similar to the present suit, is particularly instructive. In *National Presto Industries*, the jury returned a finding of willful infringement where the plaintiff had filed suit on the day that the patent issued. *Id.* at 1193. The defendant had argued, as does MasterCraft, that as a matter of law the infringement could not have been willful because the defendant had no grace period after patent issuance in which it might have ceased its infringement. *Id.* In rejecting this argument, and affirming the jury’s finding of willfulness, the Federal Circuit noted that “[the defendant] knew exactly when [the plaintiff’s] patent came into existence, and indeed had several months’ advance notice.” *Id.*

In its complaint, Malibu alleges several instances in which MasterCraft had “advance notice” of Patent ‘161’s issuance. Specifically, Malibu points to the Notice of

Allowance and Issue Notification, as well as MasterCraft's alleged correspondence with Malibu's patent prosecution counsel. Thus, the allegations against MasterCraft are similar to the evidence against the defendant in *National Presto Industries* in that MasterCraft allegedly "knew exactly" when Patent '161 would come into existence and, in the case of the contact with Malibu's patent prosecution counsel, had at least thirteen days of actual notice. Furthermore, the fact that these same parties are currently involved in litigation involving the alleged infringement of another SURF GATE patent relating to the same application could conceivably contribute to a finding of willfulness.

Taking Malibu's allegations as true, the Court cannot say that it is implausible that MasterCraft had knowledge of the patent at the time that the alleged infringement began and Malibu filed suit.

In its motion to dismiss, MasterCraft relies upon several factually similar district court cases in which the district court granted a motion to dismiss claims for willful infringement. The Court has reviewed those decisions, and it finds that they are distinguishable and do not support MasterCraft's argument.

The first of these cases is *Medical University*, in which the plaintiffs filed their amended complaint alleging willful infringement of a patent on the day that the patent issued. *Med. Univ. of S.C. Found. for Research Dev. v. AstraZeneca Pharms. LP*, No. 2:13-2078, 2013 WL 11258965, at *1 (D.S.C. Dec. 6, 2013). In dismissing the claim for willful infringement, the district court noted that Federal Circuit precedent requires that an allegation of willful infringement "depends upon pre-suit knowledge of the patent at

issue.” *Id.* The district court further stated that “to have pre-suit knowledge of the patent at issue, the patent must actually exist pre-suit.” *Id.* There was no evidence, however, that the defendants in *Medical University* received notice of the impending issuance of the relevant patent to the extent that Malibu alleges MasterCraft received. Indeed, there is no mention at all in *Medical University* of the defendants having received any notice of the impending issuance of the relevant patent. Based on Malibu’s allegation that MasterCraft not only received notice, but had actual knowledge of the date on which the ‘161 Patent was said to issue, MasterCraft cannot be said to have necessarily lacked knowledge of the patent on the day in which it issued and on which MasterCraft’s alleged infringement began. Thus, the present case bears a much closer resemblance to the Federal Circuit’s precedent in *National Presto Industries* than it does to *Medical University*.

Similarly, in both *Master Lock Co. v. Toledo & Co.*, No. 13-1658, 2014 WL 11099433 (D.P.R. June 12, 2014), and *LML Holdings, Inc. v. Pacific Coast Distributing Inc.*, No. 11-CV-06173, 2012 WL 1965878 (N.D. Cal. 2012), the district courts dismissed claims for willful infringement where the alleged pre-suit knowledge of the patent was pre-suit knowledge of the patent application only. The district court in *Master Lock* noted, “filing an application is no guarantee that any patent will issue and a very substantial percentage of applications never result in patent.” *Master Lock*, 2014 WL 11099433, at *2.

In this case, Malibu contends that MasterCraft had notice not merely of a patent application, but of a Notice of Allowance and an Issue Notification. A Notice of Allowance is issued only when the USPTO determines that it appears as though the applicant is entitled to a patent under the law. 37 C.F.R. § 1.311. Unlike a mere patent application, a Notice of Allowance, and particularly an Issue Notification, are strong indications that the patent will issue. Indeed, Malibu contends that the Issue Notification provided the very date upon which the patent was to issue. Furthermore, Malibu asserts that MasterCraft had actual notice of the date of the ‘161 Patent’s issuance, evidenced by the alleged communication between MasterCraft and Malibu’s patent prosecution counsel regarding the ‘161 Patent’s imminent issuance.² The Court, therefore, does not find that the reasoning in *Master Lock* or *LML Holdings* is applicable in this case. The Court further notes that none of the cases MasterCraft cites establish the *per se* rule that MasterCraft advocates, but rather are consistent with the Federal Circuit’s “totality of the circumstances” analysis.

Additionally, the Court finds that *Seagate*, the chief case upon which MasterCraft relies, also does not establish the *per se* rule that MasterCraft advocates. As a preliminary matter, the Court notes that the Supreme Court’s *Halo* decision largely abrogated *Seagate*, limiting its precedential value. Secondly, *Seagate*’s holding never purported to, and indeed explicitly did not, change longstanding Federal Circuit

² In its Reply in Support of its Motion to Dismiss [Doc. 24], MasterCraft disputes Malibu’s version of these communications as described in the complaint. This factual dispute is beyond the scope of the Court’s Rule 12(b)(6) review, where the Court must take plaintiff’s allegations as true.

precedent regarding the willfulness inquiry being one of “totality of the circumstances.” *See Seagate*, 497 F.3d at 1369 (“Over time, our cases evolved to evaluate willfulness and its duty of care under the totality of the circumstances”). Rather, the language from *Seagate* upon which MasterCraft relies is the Federal Circuit’s statement that a “willfulness claim asserted in the original company must necessarily be grounded exclusively in the accused infringer’s pre-filing conduct.” *Id.* at 1374. Malibu’s complaint, detailing MasterCraft’s knowledge of the date upon which the patent would issue and subsequent infringement on that date, alleges such pre-filing conduct.

Furthermore, the Court notes that adopting the rule that MasterCraft seeks would have significant policy implications. Such a rule would require patent holders to delay bringing willful infringement claims, even in situations where the alleged infringer had notice of when the relevant patent would issue. This rule would further require that patent holders in similar situations allow a period of infringement in order for the infringer to develop “willfulness.” *See Ralston Purina Co. v. Far-Mar-Co*, 772 F.2d 1570, 1577 (Fed. Cir. 1985) (noting that there is “no precedent for a decision that an infringer must be allowed a certain amount of time to ‘develop’ willfulness”).

The Court cautions however, that even should the fact-finder return a finding of willfulness on part of MasterCraft, the Court would not be required to award the enhanced damages that Malibu seeks. In the wake of the Supreme Court’s *Halo* ruling, “whether . . . to award enhancement and the amount of the enhancement that is

appropriate [is] committed to the sound discretion of the district court.” *WBIP, LLC.*, 2016 WL 3902668, at *15 n.13.

IV. Conclusion

For the reasons set forth above, the Court **DENIES** MasterCraft’s Motion to Dismiss Malibu’s Willful Infringement Claim [Doc. 18].

ENTER:

s/ Thomas A. Varlan
CHIEF UNITED STATES DISTRICT JUDGE