

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES—GENERAL

**Case No. CV 19-7475-MWF (FFMx)**

**Date: April 2, 2020**

**Title: GCP Applied Technologies Inc. v. AVM Industries, Inc.**

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**Present: The Honorable MICHAEL W. FITZGERALD, U.S. District Judge**

Deputy Clerk:

Rita Sanchez

Court Reporter:

Not Reported

Attorneys Present for Plaintiff:

None Present

Attorneys Present for Defendant:

None Present

**Proceedings (In Chambers): ORDER RE: DEFENDANT’S MOTION TO DISMISS [26]**

Before the Court is Defendant AVM Industries, Inc.’s (“AVM”) Motion to Dismiss (the “Motion”), filed on January 6, 2020. (Docket No. 26). On January 13, 2020, Plaintiff GCP Applied Technologies, Inc. (“GCP”) filed an Opposition. (Docket No. 32). AVM filed a Reply on January 20, 2020. (Docket No. 33).

The Motion was noticed to be heard on February 3, 2020. The Court read and considered the papers on the Motion and deemed the matter appropriate for decision without oral argument. *See* Fed. R. Civ. P. 78(b); Local Rule 7-15. The hearing was therefore **VACATED** and removed from the Court’s calendar. The Court considered setting a hearing on another date, but now declines to do so because the Continuity of Operations Plan (COOP) arising from the COVID-19 emergency.

For the reasons discussed below, the Motion is ruled upon as follows:

- The Motion is **DENIED** as to AVM’s arguments regarding claim construction. At this stage in the litigation, the Court cannot determine as a matter of law that “sheet” and “strip” have identical meanings for the purposes of the ‘879 Patent. Likewise, the Court cannot determine at this stage in the litigation that GCP’s claim construction, as alleged in the FAC, is implausible.
- The Motion is **GRANTED *with leave to amend*** with respect to GCP’s willful infringement and indirect infringement claims because GCP has not sufficiently

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alleged AVM’s knowledge of the ‘879 Patent. GCP must do more than allege former Plaintiff sales associates now work at AVM.

**I. BACKGROUND**

GCP commenced this action against AVM on August 28, 2019. (Complaint (Docket No. 1)). The First Amended Complaint (“FAC”) was filed on November 12, 2019. (Docket No. 16). The following facts are based on the FAC, which the Court assumes are true and construes any inferences arising from those facts in the light most favorable to Plaintiff. *See, e.g., Schueneman v. Arena Pharm., Inc.*, 840 F.3d 698, 704 (9th Cir. 2016) (restating generally-accepted principle that “[o]rdinarily, when we review a motion to dismiss under Federal Rule of Civil Procedure 12(b)(6), we accept a plaintiff’s allegations as true ‘and construe them in the light most favorable’ to the plaintiff”) (quoting *Zucco Partners, LLC v. Digimarc Corp.*, 552 F.3d 981, 989 (9th Cir. 2009)).

This is an action for patent infringement of United States Patent No. 8,713,879 (the “‘879 Patent”) which is directed to waterproofing membranes for concrete structures. (FAC ¶¶ 1-3). The membranes are constructed of a flexible carrier sheet, a layer of waterproofing pressure-sensitive adhesive on one surface of the carrier, and inorganic particles adhered to the layer of adhesive. (*Id.* ¶ 3). The particles protrude above and protect the adhesive layer, and, as generally used, the membranes are disposed over a substrate such that the surface with the layer of adhesive and particles remains exposed. (*Id.*). The particles provide a substantially reflective surface and, due to their physical properties, facilitate bonding of the post-cast concrete to this outer exposed surface of the membrane. (*Id.*).

GCP is in the construction products business, and pioneered rollable waterproofing membranes with carrier sheets and performed adhesive layers. (*Id.* ¶ 4). GCP was formed from, and is the successor in interest to, the construction products business of W.R. Grace and Co. (“Grace”). (*Id.*). GCP maintains research facilities in several countries and invests in developing and improving its pre-applied waterproofing membrane technologies, which minimize waste at job sites. (*Id.*). GCP obtains global patents to protect its investments. (*Id.*). AVM sells construction

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products that compete directly with GCP’s products, including waterproofing membranes. (*Id.* ¶ 5).

The ‘879 Patent, entitled “Waterproofing Membrane,” was duly and legally issued on May 6, 2014, to inventors Robert Wiercinski, Hongmel Ding, and Xia Cao. (*Id.* ¶ 8). GCP is the owner of all right, title, and interest in and to the ‘879 Patent by assignments, with full right to bring suit to enforce the patent. (*Id.*). The ‘879 Patent claims a novel waterproofing membrane having particulate inorganic material of certain size and optical properties adhered to a surface intended to be bonded to concrete cast against it. (*Id.* ¶ 9). The inorganic material’s reflectivity protects the pressure sensitive adhesive layer from degradation by sunlight, which could prevent adherence of the membrane to the cast concrete. (*Id.*). Previous membranes required a release sheet over the working surface, often to facilitate rolling-up the sheet for packaging, that must be removed prior to use and disposed of at the job site. (*Id.*). In the claimed membrane of the ‘879 Patent, the presence of the substantially reflective inorganic particles adhered directly to the outer exposed surface of the adhesive eliminates the need for a release sheet. (*Id.*).

AVM imports waterproofing membranes into the United States and sells and/or offers to sell waterproofing membranes in the United States under the trademark “AUSSIE SKIN.” (*Id.* ¶ 10). At least the Aussie Skin 550 and 560 products meet each element and limitation of at least claim 1 of the ‘879 Patent. (*Id.*). Further, AVM instructs its customers to install the Aussie Skin membranes in a manner that meets each step of at least claim 15 of the ‘879 Patent. (*Id.*). For example, AVM provides publicly available technical data sheets for the Aussie Skin products. (*Id.*).

On information and belief, AVM promotes and sells its Aussie Skin products for waterproofing of floors, walls, and slabs in construction projects. (*Id.* ¶ 12). For example, on information and belief, AVM supplies Aussie Skin membrane products for waterproofing of below-grade applications to projects in or around Los Angeles. (*Id.*).

On information and belief, AVM has been aware of the ‘879 Patent since as early as 2017, by which time AVM had hired two former Grace employees, who had

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been sales representatives for Grace’s membranes. (*Id.* ¶ 12). These former Grace employees had access to sensitive Grace sales information, including market, customer, and pricing information, and were hired to sell competing waterproof membrane products for AVM. (*Id.*). On information and belief, one of these employees, just prior to leaving Grace’s employ, inserted an external storage drive to his Grace-issued computer and accessed and/or copied files relating to Grace’s membrane business. (*Id.*).

GCP obtained a sample of Aussie Skin from a distributor of AVM on or around November 8, 2018, and analyzed and compared the product to claim 1 of the ‘879 Patent. (*Id.* ¶ 13). GCP did the same in September of 2019. (*Id.* ¶ 14). GCP claims the Aussie Skin infringes claim 1 of the ‘879 Patent in a variety of ways. (*Id.* ¶ 15). Additionally, the way AVM instructs the public to install the Aussie Skin membranes infringes claim 15 of the ‘879 Patent. (*Id.* ¶ 16). AVM makes these instructions with knowledge of the ‘879 Patent and with the intent that the steps of this claimed method be performed by its customers and that the patent be infringed thereby. (*Id.* ¶ 17).

AVM’s other Aussie Skin products are substantially similar to the infringing Aussie Skin products, and AVM’s sales of the same compete directly with GCP’s sales of its waterproofing membrane. (*Id.* ¶¶ 18-19).

Based on the above allegations, GCP asserts (1) a direct infringement of the ‘879 Patent; and (2) indirect infringement of the ‘879 Patent. (*Id.* ¶¶ 20-28).

## **II. LEGAL STANDARD**

“Dismissal under Rule 12(b)(6) is proper when the complaint either (1) lacks a cognizable legal theory or (2) fails to allege sufficient facts to support a cognizable legal theory.” *Somers v. Apple, Inc.*, 729 F.3d 953, 959 (9th Cir. 2013).

In ruling on the Motion under Rule 12(b)(6), the Court follows *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007), and *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). “To survive a motion to dismiss, a complaint must contain sufficient factual matter . . . to ‘state a claim to relief that is plausible on its face.’” *Iqbal*, 556 U.S. at 678 (quoting

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*Twombly*, 550 U.S. at 570). The Court must disregard allegations that are legal conclusions, even when disguised as facts. *See id.* at 681 (“It is the conclusory nature of respondent’s allegations, rather than their extravagantly fanciful nature, that disentitles them to the presumption of truth.”); *Eclectic Properties E., LLC v. Marcus & Millichap Co.*, 751 F.3d 990, 996 (9th Cir. 2014). “Although ‘a well-pleaded complaint may proceed even if it strikes a savvy judge that actual proof is improbable,’ plaintiffs must include sufficient ‘factual enhancement’ to cross ‘the line between possibility and plausibility.’” *Id.* at 995 (quoting *Twombly*, 550 U.S. at 556–57) (internal citations omitted).

The Court must then determine whether, based on the allegations that remain and all reasonable inferences that may be drawn therefrom, the Complaint alleges a plausible claim for relief. *See Iqbal*, 556 U.S. at 679; *U.S. ex rel. Cafasso v. Gen. Dynamics C4 Sys., Inc.*, 637 F.3d 1047, 1054 (9th Cir. 2011). “Determining whether a complaint states a plausible claim for relief is ‘a context-specific task that requires the reviewing court to draw on its judicial experience and common sense.’” *Ebner v. Fresh, Inc.*, No. 13-56644, 2016 WL 5389307, at \*2 (9th Cir. Sept. 27, 2016) (as amended) (quoting *Iqbal*, 556 U.S. at 679). Where the facts as pleaded in the Complaint indicate that there are two alternative explanations, only one of which would result in liability, “plaintiffs cannot offer allegations that are merely consistent with their favored explanation but are also consistent with the alternative explanation. Something more is needed, such as facts tending to exclude the possibility that the alternative explanation is true, in order to render plaintiffs’ allegations plausible.” *Eclectic Properties*, 751 F.3d at 996–97; *see also Somers*, 729 F.3d at 960.

### **III. DISCUSSION**

AVM argues that GCP’s claims fail for multiple reasons. First, AVM argues that GCP falls far short of the requirement that “every limitation set forth in a claim must be found in an accused product, exactly.” (Motion at 4) (citing cases). Specifically, AVM argues that claim 1 of the ‘879 Patent explicitly states that the “waterproofing membrane does not include a removable release sheet,” yet that is exactly what the alleged infringing product contains. (*Id.* at 4-5; 7-11). In other

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words, because the ‘879 Patent “expressly claimed the absence of a removable release sheet,” and because the Aussie Skin products “include a removable release sheet,” there can be no patent infringement. (*Id.* at 5).

Second, AVM argues that the claim chart in the FAC relies on limitations that are not present in claim 1 of the ‘879 Patent, pointing out that numerous phrases in the claim chart are nowhere to be found in claim 1 of the ‘879 Patent. (*Id.* at 5-6). If the Court determines that GCP’s claims fail as a matter of law, AVM argues that amendment would be futile, because GCP cannot claim patent infringement over items not present in the ‘879 Patent, or items that were explicitly disclaimed from the patent. (*Id.* at 12-13).

Finally, AVM argues that GCP failed to allege prior knowledge and willful infringement with the requisite specificity, because the allegations about the two former Grace employees do not contain specific allegations that the employees *knew* about the ‘879 Patent, which also defeats GCP’s indirect infringement claim. (*Id.* at 13-16).

In opposition, GCP rebuts each of AVM’s points:

First, GCP generally argues that the FAC satisfies the general pleading standards under the federal rules, because “AVM understands GCP’s infringement positions.” (Opposition at 4-6).

Second, and most importantly, GCP argues that “AVM is not entitled to judicial notice of its preferred claim construction,” specifically AVM’s request that the terms “sheet” and “strip” are indistinguishable. (*Id.* at 7). GCP argues that “sheet” does not mean “strip,” and the meaning of “sheet” requires “interpretation within the context of the claim,” which “[c]ourts must avoid on motion to dismiss.” (*Id.* at 7-8).

Third, as to AVM’s futility argument, GCP argues that (i) it is premature and claim construction should not be addressed at this stage; and (ii) a “removal release sheet” does not equal a “removable strip” as demonstrated by the prior art, which

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draws a distinction between a sheet and a strip. (*Id.* at 8-13) (citing *Nalco Company v. Chem-Mod, LLC*, 883 F.3d 1337, 1348-50 (Fed. Cir. 2018)).

Finally, GCP argues that it set forth a plausible claim that AVM through the Grace employees had knowledge of the ‘879 Patent, because the theory it alleges in the FAC is “plausible” and at the motion to dismiss stage, the Court must accept GCP’s plausible theory over AVM’s. (*Id.* at 13-15) (citing *Lifetime v. Trim-Lok*, 869 F.3d 1372 (Fed. Cir. 2017)).

The Court agrees with GCP as to the claim construction arguments because the Court cannot determine that AVM’s interpretation of the claims is correct as a matter of law. For example, claim 1 of the ‘879 Patent is directed to a “waterproofing membrane” which does not include “a removable release sheet.” (Motion at 4) (citing Docket No. 16-1). AVM argues, as a matter of law, that the “removable black *strip*” in its product is the same as the “removable release *sheet*” the ‘879 Patent expressly disclaims. However, at this stage in the litigation, the Court is not convinced that AVM is right as a matter of law, especially considering that the prior art in the ‘879 Patent discusses prior art that includes *both* “a *sheet*-like paper substrate” and a “removable *strip* along the edge.” (Opposition at 10-11) (citing 879 Patent). If AVM is correct, and “sheet” and “strip” are indistinguishable, it would not make sense for the prior art of the ‘879 Patent to identify a “sheet” that includes a “strip.” Taking all inferences in GCP’s favor, the Court cannot make that determination.

As to claim construction beyond the “strip” versus the “sheet,” it is a closer call. The Court acknowledges the Federal Circuit’s instruction that it improper to consider at the motion to dismiss stage simple “objections to [a party]’s proposed claim construction,” when what the defendant is really disputing is the meaning of the words in the claims. *Nalco*, 883 F.3d at 1349 (ruling that a party’s objections to the claim construction “for ‘flue gas’” was “a dispute not suitable for resolution on a motion to dismiss”). However, if an alleged patent infringement is premised on words *not present* in the underlying patent, the Court agrees with AVM that a patent infringement claim may not be able to proceed under that scenario.

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In its Motion, AVM points to the inclusion of the phrase “outer exposed surface characterized by the particles” in the claim chart in the FAC as being problematic, because that phrase “appears nowhere in this claim limitation.” (Motion at 5). The same is true for the phrase “working surface.” (*Id.* at 6). However, GCP’s Opposition points to language in Claim 1 regarding an “outer exposed surface” and a “surface of the carrier sheet” to argue the claim chart in the FAC accurately portrays the ‘879 Patent. (Opposition at 4-5). Taking all inferences in GCP’s favor, the Court agrees with GCP. AVM may ultimately be correct that GCP’s interpretations are correct. At this stage, however, the Court cannot make that determination as a matter of law.

That being said, the Court agrees with AVM that GCP failed to sufficiently allege prior knowledge, which dooms GCP’s indirect infringement claims and request for enhanced damages. 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. A patentee seeking enhanced damages must show subjective willfulness by a preponderance of the evidence standard. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1934 (2016). Willfulness turns on the subjective belief of the accused infringer, measured at the time of the challenged conduct. *Id.* at 1933; *see also WBIP, LLC v. Kohler Co.*, 829 F.3d 1317, 1340 (Fed. Cir. 2016) (“[T]he appropriate time frame for considering culpability is by assessing the infringer’s knowledge at the time of the challenged conduct.”). “Knowledge of the patent alleged to be willfully infringed [is] a prerequisite to enhanced damages.” *WBIP*, 829 F.3d at 1341.

“Once a patentee demonstrates such subjective willfulness, the question of enhanced damages must be left to the district court’s discretion. *Corephotonics, Ltd. v. Apple, Inc.*, No. 17-CV-06457-LHK, 2018 WL 4772340, at \*7 (N.D. Cal. Oct. 1, 2018) (citing *Halo*, 136 S. Ct. at 1934). “The sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate.” *Id.* at 1932. Thus, under *Halo*, while “courts should continue to take into account the particular circumstances of each case,” enhanced damages are generally limited to “egregious cases of misconduct beyond typical infringement,” such as those “typified by willful misconduct.” *Id.* at 1933-35.



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Additionally, for indirect infringement “under [both] 35 U.S.C. § 271(b) and . . . 35 U.S.C. § 271(c), liability hinges on whether the defendant has knowledge of the patents-in-suit.” *MyMedicalRecords, Inc. v. Jardogs, LLC*, 1 F. Supp. 3d 1020, 1023 (C.D. Cal. 2014) (citing *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S.Ct. 2060 (2011))

GCP falls far short of that requirement here. It argues that AVM willfully infringed the ‘879 Patent because “employees who had previously worked for GCP’s predecessor . . . had knowledge of the ‘879 Patent.” (Opposition at 13). However, that is not *exactly* what the FAC alleges. Specifically, with respect to these former employees, the FAC alleges they were “sales representatives” who “had access to sensitive Grace . . . *sales information, including market, customer, and pricing information.*” (FAC ¶ 12). Additionally, the same paragraph alleges that one of the employees “accessed and/or copied files relating to Grace’s membrane business” prior to leaving for AVM. (*Id.*).

However, there is no allegation that these employees viewed the ‘879 Patent or had access to the ‘879 Patent, or were even knowledgeable regarding the patented processes. In fact, as AVM points out, these employees were *sales representatives*, with knowledge of “market, customer, and pricing information” who were selling a product which may not have even been *covered* by the ‘879 Patent. (Reply at 10-11). These factual allegations are insufficient to establish AVM had knowledge of the ‘879 Patent, and are distinguishable from the allegations in *Lifetime* which were sufficient to establish an inference of knowledge. See *Lifetime*, 869 F.3d at 1379 (plaintiff sufficiently alleged defendant’s knowledge by alleging that former plaintiff’s employees, two engineers, who had “knowledge of the [patent] *design and manufacturing process*” had joined defendant).

Therefore, the Motion is **GRANTED *with leave to amend*** with respect GCP’s indirect infringement claim and its prayer for enhanced damages.

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IV. CONCLUSION

Accordingly, for the reasons set forth above, the Motion is **DENIED** with respect to the claim construction, and is **GRANTED *with leave to amend*** with respect to knowledge and willful infringement.

GCP may file a Second Amended Complaint (“SAC”), if any, by no later than **April 27, 2020** to remedy its willful infringement claims. If an SAC is filed, AVM shall file a response to the SAC by no later than **May 15, 2020**. While there may be a Second Amended Complaint, there will be no Third. Any future successful motion to dismiss will be granted without leave to amend.

IT IS SO ORDERED.