

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

LIQWD, INC. and OLAPLEX LLC,)

Plaintiffs,)

v.)

Civil Action No. 17-14-JFB-SRF

L'ORÉAL USA, INC., L'ORÉAL USA)
PRODUCTS, INC., L'ORÉAL USA S/D,)
INC., L'ORÉAL S.A. and REDKEN 5TH)
AVENUE NYC, L.L.C.,)

REDACTED
PUBLIC VERSION

Defendants.)

REPORT AND RECOMMENDATION

I. INTRODUCTION

Presently before the court in this patent infringement action are the following motions:

(1) the motion to dismiss the complaint pursuant to Rules 12(b)(6) and 12(b)(1) of the Federal Rule of Civil Procedure, filed by defendants L'Oréal USA, Inc., L'Oréal USA Products, Inc., L'Oréal USA S/D, Inc., and Redken 5th Avenue NYC, LLC (collectively, "L'Oréal USA") (D.I. 66); (2) the motion to dismiss the complaint pursuant to Rules 12(b)(5), 12(b)(2), 12(b)(1), and 12(b)(6), filed by defendant L'Oréal S.A. (together with the L'Oréal USA defendants, "defendants") (D.I. 117); (3) the motion for leave to file a second amended complaint, filed by plaintiffs Liqwd, Inc. and Olaplex LLC (together, "Olaplex") (D.I. 126); and (4) defendants' motion to stay pending post-grant review (D.I. 150). For the following reasons, I recommend that the court: (1) deny L'Oréal USA's motion to dismiss, (2) grant-in-part L'Oréal S.A.'s

motion to dismiss; (3) grant Olaplex's motion to amend the complaint;¹ and (4) deny defendants' motion to stay.

II. BACKGROUND

A. Patents-In-Suit

On November 22, 2016, the United States Patent and Trademark Office (the "USPTO") issued United States Patent No. 9,498,419 ("the '419 patent"), entitled "Keratin Treatment Formulations and Methods." The '419 patent was filed on March 31, 2016 on a fast track, and claims priority to United States Provisional Application No. 61/994,709, which was filed on May 16, 2014. The '419 patent is a continuation of parent application no. 14/713,885, which was filed on May 15, 2015, published on November 19, 2015, and issued as U.S. Patent No. 9,326,926 on May 3, 2016. The '419 patent lists as inventors Eric D. Pressly and Craig J. Hawker ("the inventors"), and identifies Liqwd, Inc. as the assignee. The '419 patent describes "[f]ormulations, kits, and methods for rebuilding the disulfide bonds in keratin" to be applied in conjunction with a hair coloring treatment. ('419 patent, Abstract)

While the '419 patent was pending before the USPTO as Patent Application No. 15/087,415, a series of anonymous submissions were made on August 25, 2016, August 29, 2016, September 14, 2016, and September 23, 2016 alleging that the pending claims could not be

¹ Olaplex's proposed second amended complaint adds a claim for infringement of a patent which was filed with the United States Patent and Trademark Office and issued after the commencement of this suit. (D.I. 126, Ex. 2 at ¶¶ 26, 116-139) The second amended complaint also eliminates the causes of action for unjust enrichment and breach of the implied covenant of good faith and fair dealing. (D.I. 126, Ex. 2 at 41-42) The proposed amendments do not otherwise significantly alter the pleading. In the interest of judicial efficiency, the court resolves the pending motions to dismiss the first amended complaint to the extent that those motions apply equally to the second amended complaint. Counsel for defendants suggested such an approach during the September 19, 2017 conference, and counsel for plaintiffs raised no objection. (9/19/17 Tr. at 26:3-27:21)

allowed. (D.I. 53 at ¶ 84) Olaplex alleges that L'Oréal USA made one or more of the third-party submissions to the USPTO to prevent the issuance of the '419 patent. (*Id.* at ¶ 85) The third-party submissions were rejected, and the '419 patent was issued. (*Id.* at ¶ 86)

On July 19, 2017, the USPTO's Patent Trial and Appeal Board ("PTAB") instituted post-grant review of claims 1-8 and 10 of the '419 patent. (D.I. 143, Ex. D)

United States Patent No. 9,668,954 ("the '954 patent") (together with the '419 patent, the "patents-in-suit") was filed on January 25, 2017 and issued on June 6, 2017. On April 26, 2017, the USPTO issued a notice of allowance for the claims in the '954 patent. (D.I. 143, Ex. B) The '954 patent is a continuation of United States Patent Application No. 15/290,593, which is a continuation of the '419 patent. The '954 patent has the same title, inventors, and specification as the '419 patent. The active agent element of claim 1 of the '954 patent requires application of a bleaching mixture containing an active agent of maleic acid to the hair. ('954 patent, col. 25:58-67)

B. Parties

Olaplex LLC is a California start-up that discovered, developed, and sells professional hair care products including Olaplex Bond Multiplier No. 1 ("Bond Multiplier"), which protects hair during bleach treatments. (D.I. 53 at ¶¶ 2, 18) Olaplex LLC is purportedly the exclusive licensee of the patents-in-suit pursuant to a May 20, 2014 licensing agreement. (D.I. 53 at ¶ 27; D.I. 68, Ex. A at 57:4-58:11 and Ex. 13) Olaplex formally launched in June 2014 via its website. (D.I. 53 at ¶ 33) Liqwd, Inc. is a California company which is the alleged owner of the patents-in-suit. (D.I. 53 at ¶¶ 6, 27)

L'Oréal USA Products, Inc., L'Oréal USA S.D., Inc., and Redken 5th Avenue NYC L.L.C. are subsidiaries of co-defendant L'Oréal USA, Inc. (D.I. 53 at ¶¶ 8-10, 12) L'Oréal

USA, Inc. is a wholly-owned subsidiary of L'Oréal S.A., a French company headquartered in France. (*Id.* at ¶ 11) L'Oréal USA develops and manufactures hair care, skin care, cosmetics, and fragrances distributed through over 30 brands. Three of L'Oréal USA's products are accused of infringement by Olaplex in the present case: Matrix Bond Ultim8 Step 1 Amplifier, Redken pH-Bonder #1 Bond Protecting Additive, and L'Oréal Professionnel Smartbond Step 1 Additive (collectively, the "Accused Products"). (*Id.* at ¶¶ 61-62)

L'Oréal S.A. maintains its principal offices in France, where it produces and markets personal care products. (D.I. 122 at ¶ 3) L'Oréal S.A. is the corporate parent of several subsidiaries which manufacture and distribute beauty, cosmetic, and personal hygiene products throughout the world and which operate as separate legal entities from L'Oréal S.A. (*Id.*) L'Oréal USA maintains separate licensing and distribution contracts, manufactures and distributes its own products, has its own board of directors, issues separate financial statements, files separate tax returns, and maintains a separate workforce from L'Oréal S.A. (*Id.* at ¶ 4) L'Oréal S.A. has no physical presence in Delaware, does not conduct business in Delaware, and is not registered to do business in Delaware. (*Id.* at ¶ 6)

C. Facts

Dean Christal, the CEO of Olaplex LLC and Liqwd, Inc., worked with Drs. Pressly and Hawker to develop a hair product that would protect hair during chemical treatments. (D.I. 53 at ¶¶ 21-22) On December 6, 2012, the inventors executed "working agreements" with Christal, pursuant to which Drs. Hawker and Pressly agreed to assign their rights in the intellectual property to Christal or any associated business entity in exchange for a percentage of stock in the company and profits (the "2012 Emails"). (D.I. 68, Ex. A at Exs. 17 & 18) The 2012 Emails expressly excluded Liqwd, Inc. as an assignee. (*Id.*)

On May 16, 2014, the inventors filed U.S. Provisional Application No. 61/994,709 with the USPTO. (D.I. 68, Ex. A at Ex. 21) On May 20, 2014, Liqwd, Inc. and Olaplex LLC executed a license agreement pursuant to which Liqwd, Inc. granted Olaplex LLC a license for provisional patent applications assigned to Liqwd, Inc. by the inventors. (D.I. 68, Ex. A at Ex. 13) Olaplex launched its products online in June 2014. (D.I. 53 at ¶ 33) On August 28, 2014, the inventors executed a formal assignment of their inventorship rights as inventors of Provisional Application No. 61/994,709 to Liqwd, Inc. (the "2014 Assignment"). (D.I. 68, Ex. A at Ex. 21) In November 2014, Olaplex launched in the United States by marketing its products through Salon Centric, a wholesale salon and beauty supply distributor wholly owned by L'Oréal USA. (D.I. 53 at ¶ 34)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The inventors executed an assignment of the '419 patent to Liqwd on December 7, 2015, and recorded the assignment with the PTO on March 31, 2016 ("the 2016 Assignment"). (D.I. 88, Exs. A & B)

D. Procedural History

On November 22, 2016, the '419 patent was issued by the USPTO, and Olaplex filed a complaint against L'Oréal USA for infringement of the '419 patent and false advertising in the Central District of California (the "California Action"). (D.I. 53 at ¶ 110; C.D. Cal. C.A. No. 16-8708-R-AFM, D.I. 1) Olaplex filed the present action on January 5, 2017 against L'Oréal USA after dismissing the California Action, asserting causes of action for the alleged infringement of the '419 patent, misappropriation of trade secrets under the Defend Trade Secrets Act, misappropriation of trade secrets under the Delaware Trade Secrets Act, unjust enrichment, breach of contract, and breach of the implied covenant of good faith and fair dealing. (D.I. 2) On January 17, 2017, Olaplex filed a motion for a preliminary injunction, alleging that it had suffered and would continue to suffer irreparable harm unless L'Oréal USA's infringement was enjoined. (D.I. 14)

Olaplex filed its first amended complaint on March 20, 2017, adding L'Oréal S.A. as a defendant. (D.I. 53) In response, L'Oréal USA filed its motion to dismiss the first amended complaint on April 17, 2017, alleging that Olaplex did not have standing to maintain the action under Rule 12(b)(1), and arguing that the causes of action failed to state a claim under Rule 12(b)(6). (D.I. 66) L'Oréal S.A. followed suit on June 15, 2017, filing a motion to dismiss for insufficiency of service of process, lack of personal jurisdiction, lack of standing, and failure to state a claim. (D.I. 117) On June 21, 2017, Olaplex moved for leave to file a second amended complaint, seeking to add a cause of action for infringement of the '954 patent, and striking its

causes of action for unjust enrichment and breach of the implied covenant of good faith and fair dealing. (D.I. 126, Ex. 2)

On June 8, 2017, Judge Robinson heard argument on the pending motion for preliminary injunction and L'Oréal USA's pending motion to dismiss. (D.I. 114) Judge Robinson issued a memorandum order on July 6, 2017, denying Olaplex's motion for a preliminary injunction. (D.I. 135) Specifically, Judge Robinson found that Olaplex failed to demonstrate a likelihood of success on the merits, even though it established irreparable harm. (*Id.*) On July 11, 2017, Olaplex appealed the ruling on the preliminary injunction to the Federal Circuit. (D.I. 136) The Federal Circuit issued its decision on January 16, 2018, vacating the district court's denial of a preliminary injunction and remanding the case to the district court for further proceedings. (D.I. 176, Ex. 1) The Federal Circuit mandate making the judgment of the court final has not issued, and during a February 6, 2018 Rule 16 scheduling conference, defendants indicated their intention to petition for rehearing. (2/6/18 Tr. at 25:21-23)

III. DISCUSSION

A. Standing

1. Legal standard

Federal Rule of Civil Procedure 12(b)(1) authorizes dismissal of a complaint for lack of jurisdiction over the subject matter, or if the plaintiff lacks standing to bring its claim. Motions brought under Rule 12(b)(1) may present either a facial or factual challenge to the court's subject matter jurisdiction. *See Lincoln Ben. Life Co. v. AEI Life, LLC*, 800 F.3d 99, 105 (3d Cir. 2015) (quoting *Common Cause of Pa. v. Pennsylvania*, 558 F.3d 249, 257 (3d Cir. 2009)). In reviewing a facial challenge under Rule 12(b)(1), the standards relevant to Rule 12(b)(6) apply. In this regard, the court must accept all factual allegations in the complaint as true, and the court

may only consider the complaint and documents referenced in or attached to the complaint. *See Church of Universal Bhd. v. Farmington Twp. Supervisors*, 296 F. App'x 285, 288 (3d Cir. 2008); *Gould Elec., Inc. v. United States*, 220 F.3d 169, 176 (3d Cir. 2000). In reviewing a factual challenge to the court's subject matter jurisdiction, the court is not confined to the allegations in the complaint. *See Mortensen v. First Fed. Sav. & Loan Ass'n*, 549 F.2d 884, 891 (3d Cir. 1977). Instead, the court may consider evidence outside the pleadings, including affidavits, depositions and testimony, to resolve any factual issues bearing on jurisdiction. *See Gotha v. United States*, 115 F.3d 176, 179 (3d Cir. 1997). Once the court's subject matter jurisdiction over a complaint is challenged, the plaintiff bears the burden of proving that jurisdiction exists. *See Lincoln*, 800 F.3d at 105; *Mortensen*, 549 F.2d at 891.

The Supreme Court has announced three requirements for standing which originate out of Article III of the Constitution, all of which must be satisfied for a federal court to entertain a claim. In *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61 (1992), the Supreme Court opined:

Over the years, our cases have established that the irreducible constitutional minimum of standing contains three elements. First, the plaintiff must have suffered an "injury in fact"—an invasion of a legally protected interest which is (a) concrete and particularized, and (b) "actual or imminent, not 'conjectural' or 'hypothetical.'" Second, there must be a causal connection between the injury and the conduct complained of—the injury has to be "fairly . . . trace[able] to the challenged action of the defendant, and not . . . th[e] result [of] the independent action of some third party not before the court." Third, it must be "likely," as opposed to merely "speculative," that the injury will be "redressed by a favorable decision."

Id. (internal citations and quotation marks omitted). Therefore, to satisfy the constitutional standing requirements, a plaintiff must show that it (1) has suffered or will immediately suffer an injury, (2) which is fairly traceable to the defendant's conduct, and (3) which is likely to be redressed by a favorable federal ruling on the matter. "[T]he touchstone of constitutional

standing in a patent infringement suit is whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury.” *WiAV Solutions LLC v. Motorola, Inc.*, 631 F.3d 1257, 1265 (Fed. Cir. 2010).

In addition to the constitutional standing requirements, the federal courts have adopted a set of self-imposed prudential standing limitations on the exercise of federal jurisdiction. “These considerations require that (1) a litigant assert his own legal interests rather than those of third parties, (2) courts refrain from adjudicating abstract questions of wide public significance which amount to generalized grievances, and (3) a litigant demonstrate that her interests are arguably within the zone of interests intended to be protected by the statute, rule or constitutional provision on which the claim is based.” *Davis by Davis v. Phila. Housing Auth.*, 121 F.3d 92, 96 (3d Cir. 1997) (citations omitted). These “prudential” limitations are generally designed to prevent courts from deciding broad questions of social import where no individual rights would be vindicated. *Id.* “Prudential standing to sue for patent infringement derives from 35 U.S.C. § 281: ‘A patentee shall have remedy by civil action for infringement of his patent.’” *Int’l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1276 (Fed. Cir. 2007). The term “patentee” in § 281 “includes the patentee’s successors in title.” *Id.* (citing 35 U.S.C. § 100(d)).

Although patent rights are initially held by the named inventor, they may be licensed or assigned, and when “a sufficiently large portion of this bundle of rights is held by one individual, we refer to that individual as the owner of the patent, and that individual is permitted to sue for infringement in his own name.” *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010). Accordingly, plaintiffs who “hold all legal rights to the patent as the patentee or assignee of all patent rights” can sue in their own name alone. *Morrow*

v. Microsoft Corp., 499 F.3d 1332, 1339 (Fed. Cir. 2007) (“Unquestionably, a patentee who holds all the exclusionary rights and suffers constitutional injury in fact from infringement is one entitled to sue for infringement in its own name.”).

Exclusive licensees also have constitutional standing because they hold “exclusionary rights and interests created by the patent statutes, but not all substantial rights to the patent.” *Morrow*, 499 F.3d at 1340. “However, these exclusionary rights ‘must be enforced through or in the name of the owner of the patent,’ and the patentee who transferred these exclusionary interests is usually joined to satisfy prudential standing concerns.” *Id.* at 1340; *see also Propat Int’l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007). In other words, “unlike an assignee that may sue in its own name, an exclusive licensee having fewer than all substantial patent rights . . . that seeks to enforce its rights in a patent generally must sue jointly with the patent owner.” *Intellectual Prop. Dev., Inc. v. TCI Cablevision of CA, Inc.*, 248 F.3d 1333, 1347-48 (Fed. Cir. 2001) (finding “it was proper for IPD, as an exclusive licensee of fewer than all substantial rights in the ‘202 patent, to add [licensor] as a party plaintiff”). “By contrast, a bare licensee, i.e., a party with only a covenant from the patentee that it will not be sued for infringing the patent rights, lacks standing to sue third parties for infringement of the patent.” *Propat*, 473 F.3d at 1193-94.

“Standing must be present at the time the suit is brought.” *Sicom Sys., Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 975-76 (Fed. Cir. 2005). If a plaintiff lacks standing at that time, the court lacks subject matter jurisdiction and the case must be dismissed pursuant to Rule 12(b)(1). *See generally Ballentine v. United States*, 486 F.3d 806, 810 (3d Cir. 2007). The party “bringing the action bears the burden of establishing that it has standing.” *Sicom*, 427 F.3d at 976.

2. Analysis²

(a) Infringement – Count 1

In support of the motion to dismiss, L'Oréal USA contends that Olaplex lacks standing to sue for infringement of the '419 patent based on the 2012 Emails between Christal and the inventors. (D.I. 67 at 13) Specifically, L'Oréal USA notes that Liqwd, Inc. was expressly excluded from the 2012 Emails as a potential assignee. (*Id.*) Moreover, L'Oréal USA indicates that Olaplex LLC did not yet exist at the time of the 2012 Emails, and if it received the patent rights upon its founding in May 2014, the August 2014 Assignment or any subsequent assignment to Liqwd, Inc. by the inventors would have no effect because the inventors had no rights to assign following the founding of Olaplex LLC. (*Id.* at 14)

In response, Olaplex argues that the 2016 Assignment recorded with the USPTO validly assigned the '419 patent to Liqwd, Inc. (D.I. 88 at 1) According to Olaplex, the 2012 Emails did not validly transfer the inventors' rights in the '419 patent because Olaplex LLC did not exist at the time, and the patent rights therefore remained with the inventors until the 2016 Assignment. (*Id.* at 2-3) Moreover, Olaplex alleges that the 2012 Emails are facially not assignments because they do not reflect a present, automatic grant or transfer of the inventors' future patent rights. (*Id.* at 3-4)

It is well-established that “[t]he present assignment of a future invention divests the inventor-assignor of ownership of the invention and automatically vests ownership of the invention, when invented, in the assignee.” *Picture Patents, LLC v. Aeropostale, Inc.*, 788 F. Supp. 2d 127, 135 (S.D.N.Y. 2011) (quoting *Imatec, Ltd. v. Apple Computer, Inc.*, 81 F. Supp.

² The court may consider evidence outside the pleadings in its analysis of this factual challenge to the court's subject matter jurisdiction. See *Wells v. City of Wilmington*, --- F. Supp. 3d ----, C.A. No. 16-076-SLR, 2017 WL 2798254, at *2 (D. Del. June 28 2017).

2d 471, 481 (S.D.N.Y. 2000); citing *FilmTec Corp. v. Allied-Signal, Inc.*, 939 F.2d 1568, 1573 (Fed. Cir. 1991); *Bd. of Trustees of the Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 842 (Fed. Cir. 2009)). Consequently, an inventor who assigns the rights in a future invention does not have standing to sue for infringement of a patent arising from the assigned invention. *Id.* However, an agreement to assign rights to an invention in the future requires further action to transfer title of the invention, and does not constitute a present transfer of the inventors' interest. See *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1576 (Fed. Cir. 1991) (“[a]ny inventions conceived by IDEA or its employees . . . shall be the property of [Arachnid], and all rights thereto will be assigned by IDEA . . . to [Arachnid]”). The determination of whether an agreement constitutes an automatic assignment or an obligation to assign is governed by federal law because it “is intimately bound up with the question of standing in patent cases.” See *DDB Techs., L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008).³

In the present case, the 2012 Emails use neither the “does hereby grant” language of present conveyance, nor the “will assign” language of a future conveyance of title following the completion of further acts. See *Affymetrix, Inc. v. Illumina, Inc.*, 446 F. Supp. 2d 292, 296 (D. Del. 2006). Nonetheless, the language of the 2012 Emails indicates that no further act on the part of the assignee was required once the invention came into being, and title would transfer by

³ The court acknowledges that the Federal Circuit’s choice of law discussion regarding the validity of patent transfers in *DDB Technologies* has been called into question. See *Abraxis Bioscience, Inc. v. Navinta LLC*, 672 F.3d 1239, 1242 (Fed. Cir. 2011) (O’Malley, dissenting) (criticizing the majority for “ignor[ing] New York law when interpreting the contracts, and cho[osing], instead, to create a new federal common law rule to assess the validity of patent transfers, relying on *dicta*” in *DDB Technologies*). However, this issue is not dispositive of the present analysis in light of the court’s conclusion that the 2012 Emails are not valid assignments due to the fact that Olaplex LLC, the purported assignee, did not yet exist.

operation of law. The 2012 Emails are written in present tense to describe the assignment of an invention to be developed in the future. Specifically, the 2012 Emails state, “I agree to give you” a percentage of the stock in an unidentified company and its profits in exchange for ownership of “[a]ll Intellectual Property and materials that have been discussed and will be developed by [the inventors], concerning Photoactive Light Technology outside of the UV spectrum and Hair Straightening Disulfide Bond breaking formulas for the beauty industry and other applicable business.” (D.I. 68, Ex. A at Exs. 17-18) The 2012 Emails indicate that “[a]ll Intellectual Property that relates to this agreement is wholly owned by the company or corporation,” describing a present transfer of title requiring no further action on the part of the inventors.⁴ (*Id.*) The use of the future tense to describe the inventors’ obligations under the 2012 Emails is limited to the development of the future inventions. (*Id.*) (“You will help with all language that is necessary to write a Patent application with the USPTO.”)

However, the 2012 Emails do not constitute a valid assignment because they purport to assign title in the future invention to an unidentified company. (D.I. 68, Ex. A at Exs. 17 & 18) Specifically, the 2012 Emails describe the parties to the agreement as “[y]ou being ‘[the inventor]’ and I being ‘Dean Christal’ or any business entity that you or I are affiliated with. This would exclude your current employer and Liqwd, Inc.” (*Id.*) The inventors indicate that the intended assignee under the 2012 Emails is Olaplex LLC, because their stakes in Olaplex LLC match the ownership interests granted in the 2012 Emails. (D.I. 88, Ex. E at 44:16-51:16;

⁴ The 2012 Emails state that, after the agreement is reached, Christal “will then have a more formal document created by an attorney.” (D.I. 68, Ex. A at Exs. 17-18) The Federal Circuit has declined to construe similar provisions as conflicting with the language of present, automatic assignment in the agreement. *See DDB Techs.*, 517 F.3d at 1290 n.3 (concluding that a clause stating, “Employee agrees to execute specific assignments and do anything else properly requested by Company, at any time during or after employment with Company, to secure such rights,” did not contemplate an additional act of assignment).

Ex. F at 59:12-17) However, the website for the California Secretary of State shows that Olaplex LLC registered to do business by filing its Articles of Organization of a Limited Liability Company on May 20, 2014, nearly two years after the 2012 Emails. (6/15/17 Tr. at 21:15-20; California Secretary of State website at <https://businesssearch.sos.ca.gov/>)

Courts have held that an assignment to an unidentified entity, or an entity which does not yet exist, is inadequate to divest the purported assignee of its ownership rights. *See Diagnostic Med. Assocs. v. N.Y. City Dist. Council of Carpenters Welfare Fund*, 2006 WL 728486, at *8 (S.D.N.Y. Mar. 21, 2006) (“Since an assignment to a nonexistent entity plainly is ineffective to divest the assignor’s entire interest, insofar as Marcucci attempted to transfer his claims to DMA, they remained his property despite the paperwork that he signed.”); *see also Imperium (IP) Holdings, Inc. v. Apple, Inc.*, 2012 WL 2995697, at *2 (E.D. Tex. July 23, 2012) (concluding that “even if the assignment was intended to be assigned to ESS Technologies International, Inc., that entity did not exist at the time of the 2004 Pictos Assignment. Therefore, the 2004 Pictos Assignment would be void as a matter of law, and Pictos Technologies, Inc. would have retained their rights to the patents-in-suit.”). L’Oréal USA has not directed the court to any authority contradicting this principle. Consequently, the 2012 Emails did not constitute a valid assignment of the inventors’ rights to the ‘419 patent.

In view of the foregoing analysis, the court concludes that the 2016 Assignment between the inventors and Liqwd, Inc. controls. (D.I. 88, Exs. A & B) Liqwd, Inc. has standing to sue based on its status as the assignee of legal title to the provisional and parent applications which preceded the ‘419 patent. *See* 35 U.S.C. § 119(e). The record reflects that Liqwd, Inc. exclusively licensed the invention to Olaplex LLC. (D.I. 68, Ex. A at Ex. 13) Consequently, Olaplex, LLC also has standing to assert its rights in the ‘419 patent together with Liqwd, Inc.

See *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1340 (Fed. Cir. 2007). Having concluded that both plaintiffs in the present action have standing to sue, I recommend that the court deny L'Oréal USA's motion to dismiss pursuant to Rule 12(b)(1).

(b) Breach of contract⁵ – Count 4

L'Oréal S.A. contends that Olaplex also lacks standing to sue for its breach of contract claim because the claim is based on the alleged breach of [REDACTED] by L'Oréal USA, Inc., and L'Oréal S.A. was not a party to [REDACTED]. In response, Olaplex argues that it has standing to sue L'Oréal S.A. for breach of contract even though L'Oréal S.A. was not a signatory to [REDACTED] because L'Oréal S.A. implicitly adopted [REDACTED] by accepting its benefits [REDACTED] (D.I. 140 at 10-11)

A claim for breach of contract under Delaware law requires a contractual obligation, a breach of that obligation, and injury to the plaintiff caused by the defendant's breach of the contractual obligation. See *H-M Wexford LLC v. Encorp, Inc.*, 832 A.2d 129, 140 (Del. Ch. 2003). Generally, "only a party to a contract may be sued for breach of that contract." *Koloni Reklam, Sanayi, Ticaret LTD/STI v. Viacom, Inc.*, C.A. No. 16-285-SLR, 2017 WL 726660, at *3 (D. Del. Feb. 23, 2017). However, a third party to a contract may be bound by it by expressly or implicitly adopting the agreement if the contract itself contemplates that non-signatories may adopt it. See *Am. Legacy Found. v. Lorillard Tobacco Co.*, 831 A.2d 335, 343-44 (Del. Ch. 2003). To determine whether a third party has standing as a beneficiary of the contract, the court considers whether the parties to the contract intended to confer direct benefits upon the third party. *Hadley v. Shaffer*, C.A. No. 99-144-JJF, 2003 WL 21960406, at *5 (D. Del. Aug. 12,

⁵ Given that the court has recommended granting L'Oréal S.A.'s Rule 12(b)(2) motion to dismiss for lack of personal jurisdiction, see § III.E.2, *infra*, this analysis is offered as an alternative in the event that the district judge does not adopt the Rule 12(b)(2) recommendation.

2003). If a third party happens to benefit from the performance of the contract coincidentally or indirectly, the third party will have no enforceable rights under the contract. *Id.*

It is undisputed in the present case that L'Oréal S.A. is not a party to [REDACTED]. Moreover, [REDACTED] does not expressly mention L'Oréal S.A., and does not contain a provision indicating that a non-signatory may adopt it. (D.I. 53, Ex. B) Consequently, the facts of the present case are distinguishable from the facts before the court in *Lorillard Tobacco*. 831 A.2d at 343-44 (describing provisions of the M.S.A. relating to the treatment of non-signatories specifically identified in the M.S.A.). There is no indication from the terms of [REDACTED] that the parties intended to benefit L'Oréal S.A. The allegation in the first amended complaint that [REDACTED] [REDACTED] is insufficient to establish that Olaplex suffered an injury as a result of L'Oréal S.A.'s actions. (D.I. 53 at ¶ 50) As a result, Olaplex does not have standing to assert a cause of action for breach of [REDACTED] against L'Oréal S.A. I recommend that the court grant L'Oréal S.A.'s Rule 12(b)(1) motion to dismiss with respect to Count 4 of the first amended complaint for breach of contract against L'Oréal S.A.

(c) Trade secrets⁶ – Counts 2 and 3

L'Oréal S.A. alleges that Olaplex lacks standing to assert its trade secrets claim against L'Oréal S.A. because the complaint contains no facts suggesting that L'Oréal S.A. caused injury to Olaplex. (D.I. 118 at 16) In response, Olaplex contends that L'Oréal S.A. received an unpublished patent application from Olaplex [REDACTED] containing

⁶ Given that the court has recommended granting L'Oréal S.A.'s Rule 12(b)(2) motion to dismiss for lack of personal jurisdiction, *see* § III.E.2, *infra*, this analysis is offered as an alternative in the event that the district judge does not adopt the Rule 12(b)(2) recommendation.

product formulas which constituted trade secrets, and were subsequently misappropriated to Olaplex's detriment. (D.I. 140 at 9-10)

The publication of a patent containing a trade secret destroys the trade secret because it "put[s] the world on notice." *Medtronic Vascular, Inc. v. Advanced Cardiovascular Sys., Inc.*, C.A. No. 98-80-SLR, 2005 WL 388592, at *1 n.4 (D. Del. Feb. 2, 2005). The first amended complaint alleges that an unpublished patent application, disclosed to L'Oréal [REDACTED], identified the active ingredient and formula later used in the Accused Products. (D.I. 53 at ¶ 48) Thus, the first amended complaint establishes the disclosure of a trade secret not available in the public domain at the time of the events described.

In addition, the first amended complaint provides a connection between the disclosure of the trade secret and L'Oréal S.A.'s misappropriation of the information, explaining that [REDACTED]

[REDACTED]

[REDACTED] According to Olaplex, this information provided L'Oréal with the necessary information to bring an infringing product to market quickly, thereby establishing a causal connection between the injury and the challenged conduct. (*Id.* at ¶ 57) The first amended complaint goes on to plead that L'Oréal did, in fact, bring infringing products to market after obtaining the trade secret information. (*Id.* at ¶¶ 61-62) As a result, the court concludes that the first amended complaint adequately establishes Olaplex's standing to assert causes of action for misappropriation of trade secrets against L'Oréal S.A. I recommend that the court deny L'Oréal S.A.'s Rule 12(b)(1) motion to dismiss Olaplex's causes of action for misappropriation of trade secrets.

B. Failure to State a Claim

1. Legal standard

Rule 12(b)(6) permits a party to move to dismiss a complaint for failure 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 to dismiss, the court must accept as true all factual allegations in the complaint and view them in the light most favorable to the plaintiff. *Umland v. Planco Fin. Servs.*, 542 F.3d 59, 64 (3d Cir. 2008). “[C]ourts use the same standard in ruling on a motion to dismiss a counterclaim under Rule 12(b)(6) as they do in assessing a claim in a complaint.” *Identix Pharms., Inc. v. Gilead Sciences, Inc.*, C.A. No. 13-1987-LPS-CJB, 2014 WL 4222902, at *5 (D. Del. Aug. 25, 2014) (citing *Tyco Fire Prods. LP v. Victaulic Co.*, 777 F. Supp. 2d 893, 898-99 (E.D. Pa. 2011)).

To state a claim upon which relief can be granted pursuant to Rule 12(b)(6), a complaint must contain a “short and plain statement of the claim showing that the pleader is entitled to relief.” Fed. R. Civ. P. 8(a)(2). Although detailed factual allegations are not required, the complaint must set forth sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007); *see also Ashcroft v. Iqbal*, 556 U.S. 662, 663 (2009). A claim is facially plausible when the factual allegations allow the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Iqbal*, 556 U.S. at 663; *Twombly*, 550 U.S. at 555-56.

When determining whether dismissal is appropriate, the court must take three steps.⁷ *See Santiago v. Warminster Twp.*, 629 F.3d 121, 130 (3d Cir. 2010). First, the court must identify

⁷ Although *Iqbal* describes the analysis as a “two-pronged approach,” the Supreme Court observed that it is often necessary to “begin by taking note of the elements a plaintiff must plead to state a claim.” 556 U.S. at 675, 679. For this reason, the Third Circuit has adopted a three-

the elements of the claim. *Iqbal*, 556 U.S. at 675. Second, the court must identify and reject conclusory allegations. *Id.* at 678. Third, the court should assume the veracity of the well-pleaded factual allegations identified under the first prong of the analysis, and determine whether they are sufficiently alleged to state a claim for relief. *Id.*; *see also Malleus v. George*, 641 F.3d 560, 563 (3d Cir. 2011). The third prong presents a context-specific inquiry that “draw[s] on [the court’s] experience and common sense.” *Id.* at 663-64; *see also Fowler v. UPMC Shadyside*, 578 F.3d 203, 210 (3d Cir. 2009). As the Supreme Court instructed in *Iqbal*, “where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged - but it has not ‘show[n]’ - ‘that the pleader is entitled to relief.’” *Iqbal*, 556 U.S. at 679 (quoting Fed. R. Civ. P. 8(a)(2)).

The court’s determination is not whether the non-moving party “will ultimately prevail,” but whether that party is “entitled to offer evidence to support the claims.” *United States ex rel. Wilkins v. United Health Grp., Inc.*, 659 F.3d 295, 302 (3d Cir. 2011). This “does not impose a probability requirement at the pleading stage,” but instead “simply calls for enough facts to raise a reasonable expectation that discovery will reveal evidence of [the necessary element].” *Phillips*, 515 F.3d at 234 (quoting *Twombly*, 550 U.S. at 556). The court’s analysis is a context-specific task requiring the court “to draw on its judicial experience and common sense.” *Iqbal*, 556 U.S. at 663-64.

pronged approach. *See Santiago v. Warminster Twp.*, 629 F.3d 121, 130 n.7 (3d Cir. 2010); *Malleus v. George*, 641 F.3d 560, 563 (3d Cir. 2011).

2. Analysis

(a) Direct infringement – Count 1

Pursuant to 35 U.S.C. § 271(a), a patent is directly infringed when a person “without authority makes, uses, offers to sell, or sells any patented invention, within the United States . . . during the term of the patent.” Amendments to the Federal Rules of Civil Procedure, which took effect on December 1, 2015, abrogated Rule 84 and the Appendix of Forms, including Form 18. Under the new rules, allegations of direct infringement are subject to the pleading standards established by *Twombly* and *Iqbal*, requiring plaintiffs to demonstrate a plausible claim for relief. See *Mayne Pharma Int’l PTY Ltd. v. Merck & Co., Inc.*, C.A. No. 15-438-LPS-CJB, 2015 WL 7833206, at *2 n.1 (D. Del. Dec. 3, 2015). “Direct infringement requires a party to perform each and every step or element of a claimed method or product.” *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1320 (Fed. Cir. 2009) (internal quotation marks omitted).

L’Oréal USA contends that Olaplex has failed to state a claim for direct infringement of the ‘419 patent because L’Oréal USA’s products contain a hair coloring agent,⁸ and the two-step hair bleaching method claimed in the ‘419 patent does not disclose hair coloring agents. (D.I. 67 at 16) However, paragraph 73 of the first amended complaint describes three dyes contained in L’Oréal USA’s Accused Products, and expressly states that, “[a]lthough one or more of the ingredients may be a *product* colorant, the ingredients do not contain a hair coloring agent. In

⁸ On appeal of the motion for preliminary injunction, the Federal Circuit determined that the district court relied on an incorrect claim construction of the term “hair coloring agent.” *Liqwd, Inc. v. L’Oréal USA, Inc.*, 2018 WL 480759, at *2 (Fed. Cir. Jan. 16, 2018). The Federal Circuit construed “hair coloring agent” as “referring to a customary hair-coloring composition that is present in the mixture in an amount that, when the mixture is applied to hair, results in hair coloring, judged in the usual way—by visual inspection.” *Id.* Thus, the Federal Circuit vacated the denial of the preliminary injunction on the basis that it was error for the district court to find no likelihood of success on the direct infringement claim.

other words, the dyes exist to color the product itself, not to color hair.” (D.I. 53 at ¶¶ 73-74) The first amended complaint subsequently reiterates that, “[w]hen used according to L’Oréal’s instructions and training, the mixture of the Accused Products and the bleaching formulation does not contain a hair coloring agent.” (*Id.* at ¶ 107) The allegations in the first amended complaint, taken as true, establish that the Accused Products do not contain a hair coloring agent, consistent with claim 1’s requirement that the claimed mixture “does not contain a hair coloring agent.” (‘419 patent, col. 26:4-5) The facts of this case are therefore distinguishable from the situation before the court in *Cumberland Pharm. Inc. v. Sagent Agila LLC*, in which the allegedly infringing product contained a product excluded from the scope of the patents-in-suit. C.A. No. 12-825-LPS, 2013 WL 5913742 (D. Del. Nov. 1, 2013).

L’Oréal USA further alleges that Olaplex’s claim for direct infringement fails because the Accused Products do not contain a bleaching formulation. (D.I. 67 at 16) Claim 1 of the ‘419 patent requires “mixing a formulation comprising an active agent with a bleaching formulation.” (‘419 patent, col. 25:43-44) The first amended complaint identifies a video broadcast on November 29, 2016, after the November 22, 2016 issuance date of the ‘419 patent, showing a L’Oréal representative mixing one of the Accused Products in a bleaching treatment. (D.I. 53 at ¶ 96) Although the video was uploaded on November 29, 2016, the first amended complaint does not establish when the recording was made to establish a post-issuance act of infringement. Moreover, the November 29, 2016 video showed the allegedly infringing use of the accused Matrix product, but the first amended complaint contains no post-issuance substantiation of the claim that L’Oréal employees also infringed the accused Redken and L’Oréal Professionnel products. However, the first amended complaint also alleges that L’Oréal stylists, colorists, and

trainers continue to produce videos and show employees how to use the Accused Products during bleaching following the issuance of the '419 patent. (*Id.* at ¶ 93)

Accepting the allegations of the first amended complaint as true at this stage of the proceedings, the court concludes that Olaplex has adequately stated a claim for direct infringement of the '419 patent.⁹ Consequently, I recommend that the court deny L'Oréal USA's Rule 12(b)(6) motion to dismiss the first cause of action for direct infringement.

(b) Induced infringement – Count 1

To state a claim for induced infringement, a plaintiff must allege facts showing that: (1) the plaintiff's patent is directly infringed, (2) the defendant induced that infringement by "aid[ing] and abett[ing] another's direct infringement of the patent," *Rodime PLC v. Seagate Tech., Inc.*, 174 F.3d 1294, 1306 (Fed. Cir. 1999), and (3) the defendant possessed the specific intent to encourage the third party to infringe, *see Warner-Lambert Co. v. Apotex Corp.*, 316 F.3d 1348, 1363 (Fed. Cir. 2003).

In support of its motion to dismiss, L'Oréal USA alleges that the first amended complaint does not demonstrate that L'Oréal USA had knowledge of specific third-party acts and the intent to induce third-party infringement of the '419 patent. (D.I. 67 at 17) In response, Olaplex directs the court to portions of the first amended complaint stating that L'Oréal USA induced infringement by intentionally directing and encouraging its customers, resellers, retailers, and end users to use, sell, offer to sell, and/or import the Accused Products. (D.I. 88 at 8) Olaplex further suggests that L'Oréal USA knew of the '419 patent at the time of the allegedly inducing

⁹ The court further notes that the proposed second amended complaint bolsters Olaplex's cause of action for direct infringement of the '419 patent by adding a paragraph describing L'Oréal's admission that it has continued to infringe since the issuance of the patents-in-suit, and has continued to train others in infringing uses of the Accused Products. (D.I. 126, Ex. B at ¶ 111)

acts because it was served a complaint for infringement on the same day the patent issued. (*Id.* at 9)

Olaplex has adequately pleaded a cause of action for induced infringement in the first amended complaint. For the reasons set forth in § III.B.2(a), *supra*, the court concludes that Olaplex has adequately pleaded underlying acts of direct infringement. The first amended complaint also establishes that L'Oréal USA had knowledge of the '419 patent prior to or as of the filing of the California Action on November 22, 2016.¹⁰ (D.I. 53 at ¶¶ 87, 110)

The first amended complaint plausibly suggests that L'Oréal USA knew the acts it induced would be infringing by describing L'Oréal USA's advertising materials and knowledge of the accusation that it infringed the '419 patent. Specifically, the first amended complaint describes YouTube videos posted by L'Oréal USA which remain online and continue to teach infringing uses of the Accused Products since the issuance of the '419 patent. (*Id.* at ¶ 98)

Federal Circuit precedent establishes that, at the pleadings stage, facts comparable to those alleged in the first amended complaint are sufficient to state a claim for induced infringement. *See In re Bill of Lading Transmission & Processing Sys. Patent Litig.*, 681 F.3d 1323, 1341-42 (Fed. Cir. 2012) (concluding that advertisements encouraging infringing uses of an accused product give rise to a reasonable inference of an intention to induce customers to use the patented method); *see also DermaFocus LLC v. Ulthera, Inc.*, 201 F. Supp. 3d 465, 471 (D. Del. 2016)

¹⁰ On appeal, the Federal Circuit found that its claim construction of the term "hair coloring agent" "makes it likely that the knowledge element for inducement of infringement may be satisfied" if Olaplex demonstrates that it is reasonably likely to succeed in proving that the instructions for use induce infringement and that L'Oréal knows, at the time a preliminary injunction is to take effect, that the instructions for use will induce infringement. *Liqwd*, 2018 WL 480759, at *4.

(holding that the plaintiff sufficiently pleaded knowledge of alleged infringing use by the defendant, which provided instructions, promotional and educational materials to its customers).

The first amended complaint also states that L'Oréal USA made one or more anonymous third party submissions to the USPTO in August and September 2016 in an effort to challenge the validity and prevent the issuance of the '419 patent. (D.I. 53 at ¶¶ 84-86) Taken as true, these allegations establish that L'Oréal USA had knowledge of the '419 patent prior to its issuance and had reason to believe its Accused Products would infringe the '419 patent.

Although L'Oréal USA challenges these allegations as conclusory and speculative, the Federal Circuit has held that “the plausibility requirement is not akin to a ‘probability requirement at the pleading stage; it simply calls for enough fact[s] to raise a reasonable expectation that discovery will reveal’ that the defendant is liable for the misconduct alleged.” *In re Bill of Lading*, 681 F.3d at 1341 (quoting *Twombly*, 550 U.S. at 556). The court concludes that Olaplex has met the plausibility standard with respect to its cause of action for induced infringement. As a result, I recommend that the court deny L'Oréal USA's Rule 12(b)(6) motion to dismiss Olaplex's first cause of action for induced infringement of the '419 patent.

(c) Willful infringement – Count 1

To state a claim for willful infringement, a patent owner must allege facts showing: (1) an objectively high likelihood that the defendant's actions constituted infringement, and (2) that the defendant either knew or should have known about the risk of infringement. *See In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

L'Oréal USA contends that Olaplex has failed to adequately plead facts that might substantiate a willfulness finding in the first amended complaint. (D.I. 67 at 17) In response, Olaplex cites the pleaded facts in the first amended complaint demonstrating that L'Oréal USA