

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Gompper v. Visx, Inc.

298 F.3d 893 (9th Cir. 2002) · Decided August 5, 2002

SUMMARY

The Ninth Circuit affirmed dismissal of a securities fraud class action against VISX, Inc. and its individual officers and directors. The court held that the complaint failed to plead falsity and scienter with the particularity required by the Private Securities Litigation Reform Act. It further held that courts must consider all reasonable inferences, including those unfavorable to plaintiffs, when determining whether a strong inference of scienter exists, and that leave to amend was properly denied as futile.

CASE DETAILS

COURT	United States Court of Appeals for the Ninth Circuit
WRITING FOR THE COURT	Brunetti, Circuit Judge; Brunetti; Leavy; Nelson
JURISDICTION	Federal
DECIDED	August 5, 2002
DISPOSITION	affirmed
PROCEDURAL POSTURE	Plaintiffs appealed the district court's dismissal of their securities-fraud class-action complaint under Federal Rule of Civil Procedure 12(b)(6), entered without leave to amend.
STANDARD OF REVIEW	Dismissal for failure to state a claim under Rule 12(b)(6) is reviewed de novo. Denial of leave to amend is reviewed for abuse of discretion.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Gompper, other plaintiffs v. Visx, Inc., individual defendants

TOPICS

- securities fraud
- motions to dismiss
- commercial litigation
- civil procedure
- corporate law

PRACTICE AREAS

- securities litigation
- civil procedure
- commercial litigation
- corporate law

QUESTIONS PRESENTED

1. Whether the complaint adequately pleaded falsity and scienter under the heightened pleading requirements of the Private Securities Litigation Reform Act.
2. Whether, in determining whether the complaint gives rise to a strong inference of scienter, the court must consider reasonable inferences unfavorable to the plaintiffs as well as favorable inferences.
3. Whether the district court erred by dismissing the complaint without leave to amend.

HOLDINGS

1. The complaint did not allege particularized facts giving rise to a strong inference that the defendants knew, or acted with deliberate recklessness as to, the falsity of their optimistic statements concerning VISX's business and patent portfolio.
2. When deciding whether a complaint establishes a strong inference of scienter under the PSLRA, the court must consider all reasonable inferences arising from the allegations, including inferences unfavorable to the plaintiffs, and evaluate the complaint as a whole.
3. The district court properly dismissed the complaint without leave to amend because the proposed additional facts did not meaningfully strengthen the scienter allegations and amendment would have been futile.

KEY QUOTATIONS

“District courts should consider all the allegations in their entirety, together with any reasonable inferences that can be drawn therefrom, in concluding whether, on balance, the plaintiffs’ complaint gives rise to the requisite inference of scienter.” (298 F.3d at 897)

“To accept plaintiffs’ argument that the court is required to consider only inferences favorable to their position would be to eviscerate the PSLRA’s strong inference requirement by allowing plaintiffs to plead in a vacuum.” (298 F.3d at 897)

FACTUAL BACKGROUND

Plaintiffs purchased VISX stock during a class period in which VISX made optimistic statements about its business, patents, earnings, and growth. VISX faced competition from Nidek, whose products did not require a per-procedure fee, and VISX pursued patent litigation against Nidek after Nidek entered the United States market. After an administrative law judge concluded that Nidek's products did not infringe VISX's patents and that one core patent was invalid, VISX announced a reduction in its per-procedure fee from \$250 to \$100, and its stock price fell. Plaintiffs alleged that VISX and its officers had knowingly or recklessly made false statements and engaged in insider trading to inflate the stock price.

PROCEDURAL HISTORY

The district court held that the complaint failed to satisfy the heightened pleading requirements of the Private Securities Litigation Reform Act and dismissed it without leave to amend. The Ninth Circuit affirmed, concluding that the complaint did not create a strong inference of scienter and that amendment would have been futile.

DISPOSITION

affirmed

CASES CITED

- In re Silicon Graphics Inc. Sec. Litig., 183 F.3d 970 (9th Cir. 1999)
- Ronconi v. Larkin, 253 F.3d 423 (9th Cir. 2001)
- City of Philadelphia v. Fleming Co., 264 F.3d 1245 (10th Cir. 2001)
- Conley v. Gibson, 355 U.S. 41 (1957)
- Yourish v. California Amplifier, 191 F.3d 983 (9th Cir. 1999)
- Helwig v. Vencor, Inc., 251 F.3d 540 (6th Cir. 2001) (en banc)
- Coleman v. Quaker Oats Co., 232 F.3d 1271 (9th Cir. 2000)
- Polich v. Burlington Northern, Inc., 942 F.2d 1467 (9th Cir. 1991)
- Steckman v. Hart Brewing, Inc., 143 F.3d 1293 (9th Cir. 1998)

OPINION

BRUNETTI, J.

OPINION BRUNETTI, Circuit Judge. The issue before us is whether the complaint in this securities fraud class action states a claim under the heightened pleading requirements of the Private Securities Litigation Reform Act of 1995 (“PSLRA”), 15 U.S.C. § 78u-4(b)(1), (2).

The district court held that it did not, and dismissed the complaint without leave to amend. The plaintiffs appeal, and we affirm. I. BACKGROUND This action is brought under §§ 10(b), 20(a) and 20A of the Securities Exchange Act of 1934, 15 U.S.C. §§ 78j(b), 78t(a), 781AL. Plaintiffs are individuals who purchased VISX, Inc. (“VISX”) stock during the class period.

The defendants are VISX, and various individuals who are either officers, directors, or both. We summarize the facts from the complaint, and assume these facts to be true for the purpose of our decision. VISX develops and sells laser vision-correction devices. Prior to February 22, 2000, VISX charged a \$250 fee for each use of its patented excimer laser system (the “per procedure fee”).

In early 1999, Nidek, a Japanese competitor, obtained FDA approval to sell its products in the United States. Nidek did not charge a per procedure fee and therefore presented a tremendous competitive threat to VISX.

In response, VISX immediately filed a patent infringement suit in the U.S. District Court for the Northern District of California. Within days of filing that suit, VISX brought a similar action against Nidek before the International Trade Commission (“ITC”).

After a two-week trial in August 1999, an ITC administrative law judge ruled in Nidek's favor. In an order entered in December 1999, the administrative law judge determined that Nidek's products did not infringe on VISX's patents, and further concluded that one of VISX's core patents was invalid because the patent applicant, Dr. Trokel, had failed to name a co-inventor, Dr. Srinivasan.

A little over two months later, on February 22, 2000, VISX publicly announced, *895 that as part of a new business strategy, it was reducing its per procedure fee to \$100. VISX's stock plummeted, and plaintiffs brought this action. Plaintiffs allege each defendant is hable for making false statements or for failing to disclose adverse facts while selling VISX stock and participating in a fraudulent scheme.

The class period begins on March 1, 1999, the date VISX announced anticipated First Quarter Fiscal Year 1999 results, and ends February 22, 2000, the date VISX announced it was reducing its per procedure fee. Plaintiffs argue that during this period defendants made positive statements about VISX's business and its patent portfolio in order to artificially inflate the stock price.

The thrust of the complaint is that these statements were false or misleading because defendants knew there was no basis for their core patent claims and thus, the revenue projections. Without a valid patent portfolio, plaintiffs argue, VISX could not possibly maintain its lucrative per procedure fee, and, thus could not deliver on the stated revenue projections.

The complaint alleges that defendants had this knowledge during the class period, but engaged in false public rhetoric in order to inflate stock prices and benefit from their own massive insider trading before the truth was revealed. II. DISCUSSION A. Standard of Review We review de novo the district court's dismissal of a complaint for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6).

See *In re Silicon Graphics Inc. Sec. Litig.*, 183 F.3d 970, 983 (9th Cir.1999). On review, we accept the plaintiffs' allegations as true and construe them in the light most favorable to plaintiffs. *Id.* B. Private Securities Litigation Reform Act of 1995 The PSLRA significantly altered pleading requirements in private securities fraud litigation by requiring that a complaint "plead with particularity both falsity and scienter." *Ronconi v. Larkin*, 253 F.3d 423, 429 (9th Cir.2001).

A securities fraud complaint must now "specify each statement alleged to have been misleading, the reason or reasons why the statement is misleading, and, if an allegation regarding the statement or omission is made on information and belief, the complaint shall state with particularity all facts on which that belief is formed." 15 U.S.C. 78u-4(b)(1). Further, the complaint must "state with particularity facts giving rise to a strong inference that the defendant acted with the required state of mind." 15 U.S.C. 78u-4(b)(2) (emphasis added); see also *Silicon Graphics*, 183 F.3d at 974 (facts must come closer to demonstrating intent, as opposed to mere motive and opportunity).

Thus, the complaint must allege that the defendants made false or misleading statements either intentionally or with deliberate recklessness. See *Silicon Graphics*, 183 F.3d at 985. C. Sufficiency of the Complaint under the PSLRA As stated above, the gravamen of plaintiffs' cause is that defendants intentionally or recklessly misrepresented the truth when they made optimistic statements about VISX's future earnings and growth because they knew its patents were invalid, and, as a result, also knew that VISX could not possibly hope to maintain its current practice of charging \$250 per procedure.

Though the complaint adequately demonstrates the defendants were unquestionably aware of Dr. Sriniva-san's claim against one of their core patents, in the end it fails to demonstrate the *896link between awareness of the claim and knowledge that the patents were therefore invalid. See *Ronconi*, 253 F.3d at 430 (no facts alleged that would support inference that corporation's optimistic predictions were known to be false or misleading at the time defendants made them); accord *City of Philadelphia v. Fleming Co.*, 264 F.3d 1245, 1265 (10th Cir.2001) (evidence in complaint must lead to the conclusion that company and officers must have known that litigation against it would be meritorious in the end).

To the contrary, the facts alleged in the complaint indicate that VISX and its officers fervently believed in the viability of the patent portfolio, and litigated its defense with ferocity. Thus, we agree with the district court's thorough analysis and ultimate conclusion that the facts alleged by plaintiffs are not sufficient to satisfy the strong inference of defendants' knowledge, as required by the PSLRA.

See *Ronconi*, 253 F.3d at 430 (facts must show insiders knew, at the time they made the statements, about the negative event the complaint claims would occur in the future). Though we would normally have concluded our business by aligning ourselves with the district court, the plaintiffs raise an additional legal question that warrants address. Specifically, plaintiffs raise the issue of inferences and who is entitled to them at this procedural stage.

The resolution of this matter requires a reconciliation between established law which attaches at this procedural stage, and the PSLRA's heightened requirement that a complaint plead facts evincing a strong inference of scienter in order to survive a motion to dismiss. D. Inferences On a motion to dismiss, the reviewing court must accept plaintiffs allegations as true and construe them in the light most favorable to the plaintiff.

See *Silicon Graphics*, 183 F.3d at 983; accord *Conley v. Gibson*, 355 U.S. 41, 45-46, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957) (dismissal of complaint improper "unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.").

Under the PSLRA, the court ultimately reviews the complaint in its entirety to determine whether the totality of facts and inferences demonstrate a strong inference of scienter. *Silicon Graphics*,

183 F.3d at 985. As plaintiffs point out, an inevitable tension arises between the customary latitude granted the plaintiff on a motion to dismiss under Fed. R.Civ.P.

12(b)(6), and the heightened pleading standard set forth under the PSLRA. On appeal, plaintiffs argue the district court erred by considering inferences unfavorable to their case. At oral argument, plaintiffs' counsel characterized their position as follows: if the facts as pled give rise to a reasonable and warranted inference of scienter, then the court must accept this inference entirely, without consideration of competing negative inferences, even where, under the circumstances, those competing inferences may be equally or more plausible.

Though plaintiffs argue forcefully, we cannot accept this position in light of Congress's more forceful mandate that a complaint in a securities fraud action must simply state more in order to prevail on a motion to dismiss.

To accept plaintiffs' argument that the court is required to consider only inferences favorable to their position would be to eviscerate the PSLRA's strong inference requirement by allowing plaintiffs to plead in a vacuum.

For example, the complaint sets out in great detail VISX's tendency to sue its competitors for patent *897infringement.¹ Plaintiffs argue that one reasonable and warranted inference one could draw from VISX's litigation pattern is that VISX knew its patents were invalid and, consequently, engaged in an aggressive strategy of intimidation through litigation.

In effect, the best defense is a good offense. Since this inference is reasonable and warranted, the argument goes, the court should accept it, and refuse to consider any other equally plausible negative inferences that could be drawn from the same set of facts. Of course, it is equally if not more plausible that VISX consistently initiated litigation in defense of its patents because it and its officers believed the patents were valid, and recognized that the very survival of VISX's business model was contingent on the technology protected by these patents.

Consideration of this inference quite clearly impedes the plaintiffs' progress toward building the requisite strong inference of scienter. This is precisely why the plaintiffs cannot succeed in their argument. Such a result would allow all plaintiffs who engage in careful, measured pleading to demonstrate a strong inference of scienter, because district courts would only be allowed to consider reasonably drawn inferences that favor the plaintiffs.

Such an analysis would thwart Congress's basic purpose in raising the bar in the first place; namely, to eliminate abusive and opportunistic securities litigation and to put an end to the practice of pleading fraud by hindsight. See *Silicon Graphics*, 183 F.3d at 988.

Because we believe Congress made it crystal clear that the PSLRA's pleading requirements were put in place so that only complaints with particularized facts giving rise to a strong inference of

wrongdoing survive a motion to dismiss, we agree with the district court that when determining whether plaintiffs have shown a strong inference of scienter, the court must consider all reasonable inferences to be drawn from the allegations, including inferences unfavorable to the plaintiffs.

District courts should consider all the allegations in their entirety, together with any reasonable inferences that can be drawn therefrom, in concluding whether, on balance, the plaintiffs' complaint gives rise to the requisite inference of scienter. This approach is consistent with that currently being utilized in the Ninth Circuit. See *Ronconi*, 253 F.3d at 432 citing *Yourish v. California Amplifier*, 191 F.3d 983 (9th Cir.1999).

In *Yourish*, plaintiffs claimed that defendants' statement that it knew it was not going to repeat some very heavy shipments was an admission that its earlier statements projecting strong sales were false. *Yourish*, 191 F.3d at 996. There, the court rejected the argument because not repeating heavy shipments was not necessarily inconsistent with having strong sales.

See *Ronconi*, 253 F.3d at 432. In effect, the *Yourish* court took into consideration the existence of other plausible inferences; namely, that failure to repeat shipments may not necessarily affect sales at all. See also *Helwig v. Vencor, Inc.*, 251 F.3d 540, 553 (6th Cir.2001) (en banc), cert. dismissed, - U.S.-, 122 S.Ct. 2616, 153 L.Ed.2d 800 (2002) (PSLRA's strong inference requirement "means that plaintiffs are entitled only to the most plausible of competing inferences.").

E. Leave to Amend Additionally, plaintiffs argue it was error for the district court to dismiss *898their complaint without leave to amend. Denial of leave to amend is reviewed for an abuse of discretion. See *Coleman v. Quaker Oats Co.*, 232 F.3d 1271, 1295 (9th Cir.2000), cert. denied, 533 U.S. 950, 121 S.Ct. 2592, 150 L.Ed.2d 751 (2001). "Dismissal without leave to amend is improper unless it is clear, upon de novo review, that the complaint could not be saved by any amendment." *Polich v. Burlington Northern, Inc.*, 942 F.2d 1467, 1472 (9th Cir.1991).

The district court's dismissal with prejudice was not error. The district court repeatedly offered to postpone hearing VISX's motion to dismiss if plaintiffs wished leave to amend to include additional facts relevant to their complaint. Plaintiffs refused. Nevertheless, the district court carefully considered and incorporated into its analysis any facts offered by plaintiffs, even those beyond the complaint.

We agree with the district court that these extra facts do not contribute to a showing of scienter in any meaningful way, and that leave to amend would have been a futile exercise. See *Steckman v. Hart Brewing, Inc.*, 143 F.3d 1293, 1298 (9th Cir.1998) (leave to amend need not be granted when amendment would be futile). III. CONCLUSION For the reasons given above, we AFFIRM the district court's dismissal of the securities fraud class action against VISX and the individual defendants..

Indeed, plaintiffs' action is based in large part on VISX's suit against Nidek, a Japanese competitor and recent market entrant, in both federal court and the FTC, and the proceedings that stemmed therefrom.

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