IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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Z TRIM HOLDINGS, INC. (f/k/a CIRCLE GROUP HOLDINGS, INC.), an Illinois Corporation,

Plaintiff,

v.

FIBERSTAR, INC., a Minnesota Corporation,

Defendant.

OPINION and ORDER

06-C-361-C

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In this patent infringement suit, the issue is whether defendant Fiberstar, Inc. infringed plaintiff Z Trim Holdings, Inc.'s United States Patent No. 5,766,662 (the '662 patent). Before that issue can be resolved, however, plaintiff must establish that it has standing to sue. Defendant has moved to dismiss the suit, contending that plaintiff lacks standing because plaintiff is not a licensee of the '662 patent. Although plaintiff's wholly-owned subsidiary holds a license to the '662 patent, plaintiff does not. Consequently, plaintiff does not have a sufficient legal interest to confer standing.

From the complaint and the documents the parties have submitted in connection with

their briefing on the motion to dismiss, I draw the following facts.

JURISDICTIONAL FACTS

A. Parties

Plaintiff Z Trim Holdings, Inc. is an Illinois corporation, known formerly by the name Circle Group Holdings, Inc. Defendant Fiberstar, Inc. is a Minnesota corporation. (Throughout this opinion, I will refer to the parties as plaintiff or defendant, without reference to the name by which each was known at any given time.)

B. License to the '662 Patent

On August 27, 2002, the United States Department of Agriculture (USDA) issued an exclusive territorial license to the '662 patent to FiberGel Technologies, Inc. The license agreement contained the following provisions relating to transfer of the license agreement:

> 12.1 This agreement shall not be transferred or assigned by FGT to any party other than a successor or assignee of the entire business interest of FGT relating to the Licensed Patent. . . . FGT shall notify USDA in writing prior to any transfer or assignment.
>
> 12.3 Neither party may waive or release its rights or interest in this Agreement except in writing. . . .

In addition, the license contains the following provision related to suits for infringement of the '662 patent:

> 8.2 FGT is granted the first option at its own expense, in its own name, to enforce the Licensed Patent against a specific party who may be infringing the Licensed Patent, subject to the following conditions:
>
> (a) The right of enforcement granted under this Paragraph 8.2 shall constitute the rights provided under Title 35, Chapter 29, of the U.S. Code.
>
> (b) If FGT elects the option against a specific party, the Government shall not be entitled to bring an enforcement action against such party except if it chooses to join with FGT.
>
> (c) Prior to enforcement against a specific party, FGT shall submit a written request to elect the option, and USDA must approve the election before FGT may bring an enforcement action against such party.
>
> * * *

On the same day that the USDA assigned FiberGel Technologies its license, plaintiff acquired all outstanding shares in FiberGel Technologies from FiberGel's parent corporation, UTEK, for $700,000 in stock and warrants. Plaintiff purchased FiberGel Technologies for the sole purpose of acquiring rights to the '662 patent.

The purchase contract between UTEK and plaintiff refers to the '662 patent in section 2.01(j), titled "Intellectual Property." This section states in full:

> 1. The U.S. Government as represented by the U.S. Department of Agriculture, Agricultural Research Service (hereinafter referred to as the "USDA") owns the Technology and has all right, power, authority and ownership and entitlement to file, prosecute and maintain in effect the Patent application with respect to the Invention listed in Exhibit A hereto, and
>
> 2. The Technology was invented by George E. Inglett ("Inventor"). The Inventor has assigned all of his rights, title and interests in the Technology to

the USDA, and

> 3. The License Agreement between the USDA and FGTI covering the Invention is legal, valid, binding and enforceable in accordance with its terms as contained in Exhibit A.
>
> 4. Except as otherwise set forth in the Agreement, [plaintiff] understands that FGTI and UTEK make no representations and provide no assurances that the rights to the Technology and Intellectual Property contained in the License Agreement do not, and will not in the future, infringe or otherwise violate the rights of third parties, and
>
> 5. Except as otherwise expressly set forth in this Agreement, FGTI and UTEK make no representations and extend no warranties of any kind, either express or implied, including, but not limited to warranties of merchantability, fitness for a particular purpose, non-infringement and validity of the Technology.

The agreement makes no further reference to the '662 patent and does not contain any provision transferring the patent license from FiberGel Technologies to plaintiff.

Plaintiff maintains a 100% interest in FiberGel Technologies. FiberGel Technologies has only two officers, both of whom are employed by plaintiff. FiberGel Technologies has no employees, board of directors, or independent offices. Plaintiff controls all FiberGel Technologies' business. Plaintiff pays taxes on FiberGel Technologies' behalf and conducts all of its marketing and fundraising efforts.

The day after plaintiff purchased from UTEK, Kurt Steinmann, one of UTEK's directors, wrote to the USDA. In relevant part, the letter read:

> This letter is to inform you of the acquisition of our Fiber Gel Technologies, Inc. (FGTI) subsidiary, containing the USDA/ARS Dietary Fiber Gels

> technology license #08/563-601, by Circle Group Internet, Inc.
>
> All future communications and business transactions regarding the technology license should be directed to:
>
> Gregory J. Halpern
> Chairman and CEO
> Circle Group Internet, Inc.
>
> * * *
>
> Thank you for making this technology transfer possible.

On September 5, 2005, Marlon Coleman, a USDA employee, responded to Steinmann's letter, stating:

> This letter is to acknowledge that I am in receipt of your correspondence dated August 29, 2002, notifying USDA of UTEK's [sic] acquisition of Fiber Gel Technologies. As a result of this acquisition, it is our understanding that the technology license agreement between USDA and Fiber Gel Technologies has been assigned in its entirety to UTEK Corporation [sic] and is consistent with the terms specified in section 12.1 of the license agreement.

Plaintiff paid patent licensing fees and reported directly to the USDA on its development of the products utilizing the '662 patent's technology. Plaintiff received confirmation of its payments directly from the USDA in 2002, 2003, 2004, 2005 and 2006.

In September 2004, May 2005, August 2005, December 2005, May 2006, the USDA wrote to plaintiff, requesting reimbursement for foreign prosecution and maintenance costs for the '662 patent's technology. The letters each state, "Based on your license agreement, your remittance is due within 30 days after receipt of this notice." The letters make no

reference to FiberGel.

In March 2005, the USDA wrote to plaintiff, returning a refund check. The letter refers to the "annual license maintenance fee paid by FGT," but acknowledges that the refund is being sent to plaintiff, who overpaid the licensing fees.

On April 11, 2006, plaintiff's vice president wrote to the USDA, asking for permission to bring suit against defendant pursuant to the license agreement between FiberGel Technologies and the USDA. In relevant part, the letter stated:

> I am writing in reference to License #08/563,834-601 (the "License Agreement") between the United States Government and Fiber-Gel Technologies, Inc, a subsidiary of Circle Group Holdings, Inc. Specifically, Circle Groups Holdings hereby requests, pursuant to § 8.2 of the above-referenced license, the USDA to approve Circle Group Holdings' election to enforce United States patent number 5,766,662 against Fiberstar, Inc. . . . Circle Group Holdings, Inc. believes that this matter cannot be settled without resort to legal enforcement of Patent No. 5,766,662. Circle Group, therefore, formally seeks approval from the USDA to file a complaint alleging patent infringement against Fiberstar, Inc.

On July 1, 2006, plaintiff received a response from the USDA stating:

> Your company has submitted a written request to the U.S. Department of Agriculture, Agricultural Research Service (USDA) to elect the option to enforce U.S. Patent Number 5,766,662, pursuant to Article VIII of the above referenced license agreement between the USDA and FiberGel Technologies, Inc. (FGT). I am writing to notify you that USDA hereby grants FGT the right to enforce the licensed patent against Fiberstar, Inc. . . . This enforcement action shall be at FGT's own expense and in FGT's own name.

On July 6, 2006, plaintiff filed this lawsuit.

OPINION

Defendant's motion to dismiss presents one question: Does plaintiff have standing to bring suit against defendant for its alleged infringement of the '662 patent? Standing is a threshold question that must be resolved before proceeding to the merits of a case. Warth v. Seldin, 422 U.S. 490, 517-18 (1975) ("The rules of standing . . . are threshold determinants of the propriety of judicial intervention."). Standing must be present at the inception of the lawsuit. Lujan v. Defenders of Wildlife, 504 U.S. 555, 570 n.5 (1992) (plurality opinion) ("[S]tanding is to be determined as of the commencement of suit."); Schreiber Foods, Inc. v. Beatrice Cheese, Inc., 402 F.3d 1198, 1203 (Fed. Cir. 2005) ("The initial standing of the original plaintiff is assessed at the time of the original complaint, even if the complaint is later amended.").

Although plaintiff has opposed defendant's motion, the parties agree on the relevant facts (as set forth above) and the legal standard to be applied. That standard, as summarized recently by the Court of Appeals for the Federal Circuit, is this:

> "A patentee" is entitled to bring a civil action "for infringement of his patent." 35 U.S.C. § 281. The term "patentee" includes "not only the patentee to whom the patent was issued but also the successors in title to the patentee." Id. § 100(d). Those provisions of the Patent Act have been interpreted to require that a suit for infringement of patent rights ordinarily be brought by a party holding legal title to the patent. Even if the patentee does not transfer formal legal title, the patentee may effect a transfer of ownership for standing

> purposes if it conveys all substantial rights in the patent to the transferee. In that event, the transferee is treated as the patentee and has standing to sue in its own name.

Propat International Corp. v. Rpost, Inc., 2007 WL 14688, *1-2 (Fed. Cir. Jan. 4, 2007).

Although the parties dispute whether FiberGel Technologies was an exclusive licensee entitled to bring suit independently under the terms of its agreement with the USDA (a question for another day, perhaps), they agree that the license between FiberGel Technologies and the USDA gave FiberGel Technologies exclusive territorial rights to utilize the '662 patent and to bring suit against infringers with the USDA's permission. However, they do not agree whether FiberGel's rights under the license may be attributed to plaintiff.

Plaintiff contends that it possesses legal title to the patent by virtue of its purchase of FiberGel. According to plaintiff, the FiberGel Technologies purchase agreement "provides that [UTEK and plaintiff] intended to and did transfer the rights to the '662 patent." Dkt. #34, at 7. That is simply not true. Although the agreement refers to the existence of the '662 patent and to FiberGel's license with the USDA, it does not state that the license is or will be transferred from FiberGel Technologies to plaintiff.

Furthermore, although the appellate case law is sparse, federal district courts across the nation have held repeatedly that a parent corporation does not have standing to enforce right under its subsidiary's licensing agreement. Merial Ltd. v. Intervet Inc., 430 F. Supp. 2d 1357, 1362 (N.D. Ga. 2006); DePuy, Inc. v. Zimmer Holdings, Inc., 384 F. Supp. 2d

1237, 1239 (N.D. Ill. 2005) (dismissing case because corporate parent of patent owner lacked standing to sue for infringement); Beam Laser Systems, Inc. v. Cox Communications, Inc., 117 F. Supp. 2d 515 (E.D. Va. 2000) ("ownership of corporate stock does not create equitable title in that corporation's property."); Lans v. Gateway 2000, Inc., 84 F. Supp. 2d 112, 123 (D.D.C. 1999) (holding that plaintiff did not have standing to bring patent infringement action in his own name where he had assigned his rights in patent to company, even though he was managing director and sole shareholder of that company); Site Microsurgical Systems, Inc. v. Cooper Cos., Inc., 797 F. Supp. 333, 338 (D. Del. 1992) ("The Court is not convinced, and the plaintiff offers no authority, that a parent corporation effectively has the patent rights of owners, assignees, and licensees by virtue of its ownership of a subsidiary holding the patent.").

As an alternative to its assertion of legal title to the patent, plaintiff contends that holds "equitable title." Plaintiff points to three facts: (1) the amount of money it paid to acquire FiberGel (an amount that it decries as "grossly disparate" to FiberGel's worth had the purchase not included transfer of the license to plaintiff); (2) its correspondence with the USDA, which often omitted reference to FiberGel; and (3) the complete bureaucratic overlap between FiberGel Technologies and plaintiff.

The price plaintiff paid to acquire FiberGel Technologies is irrelevant to determining whether plaintiff possesses title to the '662 patent license. For better or worse, companies

are free to contract as they will. In all probability, plaintiff intended to acquire FiberGel's license along with FiberGel's stock, but that does not mean that it did so. The purchase contract makes no mention of any transfer of the license from the subsidiary to the parent and provides no ground for concluding that FiberGel Technologies transferred its license to plaintiff.

Plaintiff's correspondence with the USDA is equally unconvincing with respect to the purported license transfer. First, the correspondence is hardly clear with respect to the USDA's understanding of who held title to the '662 patent license. In its September 5, 2005 letter, the USDA stated that it was the department's "understanding that the technology license agreement between USDA and Fiber Gel Technologies ha[d] been assigned in its entirety"; however, the letter did not even properly identify the parties to the alleged transaction, mistakenly stating that UTEK had acquired, rather than sold, FiberGel. It is true that all USDA correspondence regarding the licensing agreement was addressed to plaintiff. However, that alone indicates nothing other than the practical, undisputed reality that plaintiff paid FiberGel's bills. Although some letters between the USDA and plaintiff contained no reference to FiberGel, others did. It is telling that, when plaintiff requested permission from the USDA to bring suit for infringement of the '662 patent under the license agreement, the USDA responded by "grant[ing] *F[iber]G[el] T[echnologies]* the right to enforce the licensed patent against Fiberstar, Inc . . . at FGT's own expense *and in FGT's*

own name." Dkt. #36, exh. BB (emphasis added). Instead, plaintiff took a risk and filed suit in its own name.

Most important, even if both the USDA and plaintiff "understood" the license to have been transferred, that does not mean it was. It is undisputed that FiberGel Technologies never assigned the license to plaintiff in writing, as would have been required by 35 U.S.C. § 261 and § 12.3 of the license agreement.

Plaintiff's final argument is that it possesses equitable title to the license because plaintiff manages all of FiberGel's business affairs, including payment of all licensing fees and costs. As defendants point out, "The properties of two corporations are distinct, though the same shareholders own or control both. A holding corporation does not own [its] subsidiary's property." Dole Food Co. v. Patrickson, 538 U.S. 468, 475 (2003) (citing 1 W. Fletcher, Cyclopedia of the Law of Private Corporations § 31 (rev. ed. 2006)). Although plaintiff paid the bills, that does not mean that FiberGel Technologies and plaintiff are one and the same. Why plaintiff has chosen to retain the corporate distinction between itself and FiberGel Technologies is unclear; what is clear is that the distinction remains. As long as it does, FiberGel Technologies must be treated as a distinct entity, however legally fictional that distinction may be.

Standing is a prerequisite to suit. Because plaintiff does not have a license to the '662 patent, it may not initiate an infringement suit, even on behalf of the patent's exclusive

licensee, FiberGel. Therefore, however hypertechnical the result may seem, the lawsuit must be dismissed.

ORDER

IT IS ORDERED that defendant Fiberstar, Inc.'s motion to dismiss for plaintiff's lack of standing is GRANTED. The case is DISMISSED and the clerk of court is directed to close the file.

Entered this 5th day of February, 2007.

BY THE COURT:
/s/
BARBARA B. CRABB
District Judge