IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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Z TRIM HOLDINGS, INC., and
FIBERGEL TECHNOLOGIES, INC.,

Plaintiffs,

ORDER

07-cv-161-bbc

v.

FIBERSTAR, INC.,

Defendant.

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In an order dated January 28, 2008, I granted defendant Fiberstar Inc.'s motion for summary judgment on plaintiffs Z Trim Holdings, Inc. and Fibergel Technologies, Inc.'s claims of infringement of U.S. Patent No. 5,766,662 (the '662 patent) and dismissed defendant's counterclaims of invalidity and inequitable conduct as moot. Now defendant has filed a motion to alter or amend the judgment under Fed. R. Civ. P. 59, contending that it should be allowed to proceed on those counterclaims because an ongoing controversy exists and because it may be entitled to seek fees under 35 U.S.C. § 285 if it can demonstrate inequitable conduct. I will deny defendant's motion, but amend the January 28, 2008 order to reflect that the defendants' counterclaims are properly dismissed as a

matter of discretion rather than for loss of subject matter jurisdiction.

At the time I decided that no ongoing case or controversy existed in this case, I did not distinguish between discretionary dismissals and dismissals for lack of subject matter jurisdiction. Since that ruling, I have discovered two things: first, a district court may dismiss as moot counterclaims of invalidity and inequitable conduct as a matter of discretion. Phonometrics, Inc. v. Northern Telecom Inc., 133 F.3d 1459, 1468 (Fed. Cir. 1998); Cardinal Chemical Co. v. Morton Int'l, Inc., 508 U.S. 83, 95 (1993) (in addressing motion for declaratory judgment district court has discretion in determining whether to exercise jurisdiction even when established). Second, federal circuit precedent is murky on the issue of when a case or controversy remains regarding patent validity and enforceability even after a finding of noninfringement. Compare Fort James Corp. v. Solo Cup Co., 412 F.3d 1340, 1348 (Fed. Cir. 2005) (holding that district court erred in determining that jury verdict of non-infringement divested district court of jurisdiction to hear unenforceability counterclaim) with Benitec Australia, Ltd. v. Nucleonics, Inc., 495 F.3d 1340, 1347 (Fed. Cir. 2007) (holding that district court correctly determined that it had been divested of jurisdiction to hear defendant's counterclaims for invalidity and unenforceability when plaintiff had voluntarily dismissed its infringement claims without prejudice before trial).

Until the Court of Appeals for the Federal Circuit or the Supreme Court untangles the present morass of federal circuit precedent on the issue, the proper approach is to

determine first whether dismissal is appropriate as a matter of discretion and then, if necessary, decide whether sufficient grounds exist to dismiss for lack of subject matter jurisdiction. Cardinal Chemical, 508 U.S. at 98 ("courts are entitled to presume, absent further information, that jurisdiction continues" over counterclaims for invalidity and unenforceability).

Thus, I turn to the question whether dismissal over defendant's counterclaims is appropriate as a matter of discretion. It is appropriate for a district court to dismiss as "moot" counterclaims of unenforceability and invalidity when non-infringement is clear and invalidity and unenforceability are not plainly evident. Phonometrics, 133 F.3d at 1468 (citing Leesona Corp. v. United States, 530 F.2d 896, 906 n.9 (Ct. Cl. 1976)). It is clear that defendant's products do not infringe on the '662 patent for multiple reasons laid out in the January 28, 2008 order. On the other hand, defendant's counterclaims for invalidity and unenforceability of the '662 patent are hardly a "slam dunk," contrary to defendant's assertions to the contrary. Therefore, it is appropriate to dismiss these counterclaims as moot.

Defendant cites Monsanto Co. v. Bayer Bioscience N.V., 514 F.3d 1229, 1242-43 (Fed. Cir. 2008) for the proposition that it should be entitled to put on a trial on the issue of inequitable conduct because it "retains a request for fees under [35 U.S.C.] § 285 and is entitled to attempt to prove circumstances that would allow it to recover such fees." Plt.'s

Br., dkt. #111, at 7-8. Monsanto held only that a district court retains jurisdiction over counterclaims of unenforceability in light of a related request for attorney fees under § 285. Id. at 1242-43. That ruling does not interfere with a court's discretion to dismiss counterclaims of unenforceability as moot in light of a finding of noninfringement. Moreover, dismissal of defendant's unenforceability counterclaim does not stand in its way to requesting attorney fees under § 285 because a defendant whose unenforceability and invalidity counterclaims are dismissed as "moot" upon a finding of noninfringement is still the "prevailing party" under § 285. Inland Steel Co. v. LTV Steel Co., 364 F.3d 1318, 1320 (Fed. Cir. 2004) (defendant whose invalidity counterclaims were dismissed as moot was nonetheless "prevailing party" because it received favorable judgment on issue of infringement).

To the extent the issue of inequitable conduct is relevant to a request for attorney fees, defendant may raise it in the context of a § 285 motion. I note, however, that even though inequitable conduct may form a basis for the award of attorney fees under § 285 in proper cases, Pharmacia & Upjohn Co. v. Mylan Pharms., Inc., 182 F.3d 1356, 1359 (Fed. Cir. 1999), defendant's theory is far shakier: it is that plaintiffs knew or believed that *someone else* had been alleged to have engaged in inequitable conduct but proceeded to file the present lawsuit. It is hard to see why, except in the most egregious of cases, a plaintiff would not be entitled to assert an infringement suit and allow the court to determine whether a

defendant's allegations of inequitable conduct by a third party are true.

ORDER

IT IS ORDERED that defendant Fiberstar, Inc.'s motion to alter or amend the judgment entered on January 30, 2008 (dkt. #108) is DENIED.

FURTHER, IT IS ORDERED that the January 28, 2008 opinion and order is AMENDED. The phrase "as moot" is DELETED from the end of paragraph 4 of the order and the phrase "in the court's discretion" is ADDED to the end of paragraph 4 of the order. The clerk of court is directed to enter an amended judgment accordingly.

Entered this 10th day of April, 2008.

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