

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

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

Plaintiffs,

v.

FIBERSTAR, INC.,

Defendant.

OPINION and ORDER

07-C-0161-C

In this civil action for patent infringement, plaintiffs Z Trim Holdings, Inc. and FiberGel Technologies, Inc. contend that defendant Fiberstar, Inc.'s product Citri-Fine infringes United States Patent No. 5,766,662 (the '662 patent), which is owned by the United States Department of Agriculture (USDA) and to which plaintiffs hold an exclusive license. Jurisdiction is present. 28 U.S.C. § 1331 and 1338(a).

Presently before the court is defendant's motion to have the USDA joined as a necessary party to this lawsuit. Defendant moves in the alternative for the court to dismiss plaintiffs' claim for failure to join an indispensable party. Because the Bayh-Dole Act allows plaintiffs to sue for patent infringement without joining the government, Nutrition 21 v.

Thorn Research, 930 F.2d 862 (Fed. Cir. 1991), defendant's motion will be denied.

From the complaint I draw the following facts.

FACTS

On June 16, 1998, the United States Patent and Trademark office issued to the United States Department of Agriculture (USDA) the United States Patent No. 5,766,662 (the '662 patent), titled "Dietary Fiber Gels for Calorie Reduced Foods and Method for Preparing the Same." On October 5, 2001, the United States Department of Agriculture (USDA) published in the Federal Register its intent to license the '662 patent to plaintiff FiberGel. The USDA executed the license nearly a year later.

The license agreement granted plaintiff FiberGel an exclusive license to make and sell the patented noncaloric, gellable substances. Dkt. 20, Art. § 1.1, 2.1. The agreement specifies that the USDA is not obligated to enforce the patent against potential infringers, but grants the licensee the enforcement rights provided by statute in 35 U.S.C. 29. Id. at § 8.1-8.2. Under the license terms, before electing to enforce the patent against any alleged infringers, the licensee must submit a written request to the USDA. Id. at § 8.2. Without the USDA's approval, the licensee may not bring an enforcement action. Id. If the USDA does approve the proposed lawsuit, the licensee may enforce the patent against a specific party at its own expense and in its own name. Id.

On April 11, 2006, plaintiff FiberGel became aware that defendant was marketing fiber products that allegedly infringe the '662 patent. Plaintiff FiberGel notified the USDA that it was exercising its option to enforce the patent against defendant and requested the department's authorization to sue. The USDA responded by authorizing plaintiff FiberGel to enforce the '662 patent against defendant.

On February 2, 2007, plaintiff FiberGel assigned plaintiff Z Trim all of plaintiff FiberGel's rights to the '662 patent under the license agreement with the USDA with one exception: FiberGel retained the right to sue for past infringement. Plaintiff Z Trim wrote to the USDA to notify it of this assignment and to confirm that both Z Trim and FiberGel had approval to enforce the '622 patent against defendant Fiberstar. On March 3, 2007, the USDA acknowledged the assignment of the license agreement from plaintiff FiberGel to plaintiff Z Trim and both plaintiffs' right to enforce.

On March 21, 2007, plaintiffs filed a complaint alleging that defendant Fiberstar infringed the '662 patent directly and indirectly.

OPINION

Standing to sue is a threshold question, which the party bringing the action bears the burden of establishing. Sicom Systems v. Agilent Technologies, Inc., 427 F.3d 971, 975-76 (Fed. Cir. 2005). In a case alleging patent infringement, the plaintiff must own the patent-

in-suit; otherwise it lacks standing to sue. Lans v. Digital Equipment Corp., 252 F.3d 1320, 1328 (Fed. Cir. 2001). The general rule is that voluntary or involuntary joinder is required for any patent infringement suit brought by a licensee having fewer than all substantial rights to the patent. Independent Wireless Telegraph Co. v. Radio Corp. Of America, 269 U.S. 459, 468-69 (1926). Defendant maintains that because the USDA owns the '662 patent and retains substantial rights to it, the government is an indispensable party to plaintiffs' claims.

Although defendant is correct in stating that patent owners must be joined as plaintiffs in most patent infringement lawsuits, a different rule applies when the patent owner is the government. In 1980, Congress passed the Bayh-Dole Act (Public Law 96-517, Patent and Trademark Act Amendments of 1980) with the goal of creating a uniform and more effective patent policy among federal agencies funding research. One of the Act's provisions, codified as 35 U.S.C. § 207(a)(2), grants federal agencies the power to grant nonexclusive, partially exclusive and exclusive licenses to federally owned inventions to private companies. These licenses may include a right to enforce the patent. Id.

In Nutrition 21, 930 F.2d at 862, the Court of Appeals for the Federal Circuit examined the effect of the Bayh-Dole Act on the question of standing in patent suits. In that case, the plaintiff was a private corporation that held an exclusive license to a government-owned patent. Id. at 862. Suspecting that another company was infringing the patent,

Nutrition 21 filed a lawsuit against the alleged infringer. Id. at 863. Believing it necessary to join the patent owner as a plaintiff, Nutrition 21 named the government as an involuntary party to the suit. The government moved to be dismissed from the case, arguing that Nutrition 21 could maintain the suit without it as a party under the Bayh-Dole Act because of the license agreement gave Nutrition 21 the right to bring suit. Id.

In deciding whether the government was required to join as a plaintiff, the court of appeals considered both the terms of the license agreement between Nutrition 21 and the government and the authority given to federal agencies under the Bayh-Dole Act. Id. Focusing on the purpose behind the Act, the court held that when an exclusive license agreement allows a private licensee to bring suit for enforcement of a government-owned patent, the licensee does not need to join the government as a plaintiff. The court reasoned that if the government were required to make its limited litigation resources available any time one of its licensees sued for patent infringement, the Act's goal of minimizing the cost of administering government-owned patents would be compromised. Id. Accordingly, the court allowed Nutrition 21 to sue for infringement without joining the government as a party to the lawsuit. Id. at 867.

In its motion to dismiss, defendant attempts to distinguish the present case from Nutrition 21 by asserting that the enforcement provisions of plaintiffs' patent license are substantially different from those in Nutrition 21. (The court of appeals emphasized that

its holding rested on the “narrow facts” of that case. Id. at 865.) Defendant argues that the government’s license agreement with plaintiffs does not give them the unfettered, independent right to bring suit as did the license agreement in Nutrition 21. Because plaintiffs are required to obtain permission from the USDA before filing any infringement action, defendant asserts that the USDA has not turned over substantial responsibility for patent enforcement to a private party and therefore should not benefit from the exception carved out by Nutrition 21 permitting the government to avoid litigation costs.

Defendant is correct that differences exist between the license agreement at issue in Nutrition 21 and the license agreement between plaintiffs and the government in this case. For example, plaintiffs must submit a written request to the USDA and receive the government’s approval before bringing an enforcement action against any infringing party, Dkt. 20, Art. § 8.2, a step the Nutrition 21 plaintiff was not required to take. Nevertheless, defendant has not provided a persuasive reason why any of the differences between the license agreement at issue in this case and at issue in Nutrition 21 are significant enough to suggest that the holding in that case should not apply with equal force to this one.

The parties agree that the outcome of defendant’s motion is governed by Nutrition 21. Because defendant has not shown that Nutrition 21 is distinguishable, the defendant’s motion to dismiss the plaintiffs’ claim or to order joinder will be denied.

ORDER

IT IS ORDERED that the defendant's motion to order joinder or to dismiss for failure to join an indispensable party is DENIED.

Entered this 2d day of August, 2007.

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