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3 UNITED STATES DISTRICT COURT
4 FOR THE EASTERN DISTRICT OF CALIFORNIA
5

6 DELANO FARMS COMPANY, FOUR
7 STAR FRUIT, INC., and
8 GERAWAN FARMING, INC.,

9 Plaintiffs,

10 v.

11 THE CALIFORNIA TABLE GRAPE
12 COMMISSION, UNITED STATES OF
13 AMERICA, UNITED STATES
14 DEPARTMENT OF AGRICULTURE,
15 TOM VILSACK, SECRETARY OF
16 THE UNITED STATES DEPARTMENT
17 OF AGRICULTURE (IN HIS
18 OFFICIAL CAPACITY),

19 Defendants.

1:07-CV-1610 OWW SMS

MEMORANDUM DECISION AND
ORDER RE FEDERAL DEFENDANTS'
(DOC. 69) AND CALIFORNIA
TABLE GRAPE COMMISSION'S
(DOC. 67) MOTIONS TO
DISMISS.

20 I. INTRODUCTION

21 The United States, et al., ("Federal Defendants") and
22 the California Table Grape Commission ("Commission"),
23 separately move to dismiss Plaintiffs', Delano Farms Company
24 ("Delano"), Four Star Fruit, Inc. ("Four Star"), and Gerawan
25 Farming, Inc. ("Gerawan"), entire First Amended Complaint
26 ("FAC") pursuant to Federal Rules of Civil Procedure 12(b)(1)
27 and 12(b)(6), and 19. Federal Defendants argue (1) that the
28 court lacks subject matter jurisdiction over Plaintiffs'

1 claims because the federal government has not waived its
2 sovereign immunity; and, (2) alternatively, that Plaintiffs
3 have not stated valid claims against Federal Defendants under
4 the Administrative Procedure Act ("APA"). Doc. 69. The
5 Commission's motion, which substantially overlaps that of the
6 Federal Defendants, argues (1) the United States is a
7 necessary and indispensable party that is immune from suit;
8 and (2) Plaintiffs' remaining claims fail as a matter of law.
9 Doc. 67. Plaintiffs oppose both motions. Docs. 70 & 71.
10 Defendants' replies, Docs. 72 & 73, the Commission's notice
11 of supplemental authority, Doc. 76, as well as Plaintiffs'
12 notice of supplemental authority, Doc. 79, and related
13 responses and replies, Docs. 80-83, have also been
14 considered.
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17 II. FACTUAL BACKGROUND

18 A. Parties.

19 Plaintiff Delano is a corporation duly organized and
20 existing under the laws of the State of Washington, with its
21 principal place of business in Hoquiam, Washington. FAC ¶4.
22 Plaintiff Four Star is a corporation duly organized and
23 existing under the laws of the State of California, with its
24 principal place of business in Delano, California. FAC ¶5.
25 Plaintiff Gerawan is a corporation duly organized and
26 existing under the laws of the State of California, with its
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1 principal place of business in Sanger, California. FAC ¶6.
2 Plaintiffs are engaged in the business of growing, harvesting
3 and selling table grapes. FAC ¶7.

4 The Commission is a corporation of the State of
5 California, established by the 1967 Ketchum Act. Cal. Food &
6 Agric. Code §§ 65550-65551. The Commission's principal place
7 of business is Fresno, California. FAC ¶8. The stated
8 purpose of the Commission is to expand and maintain the
9 market for California table grapes for the benefit of the
10 State of California as well as the State's more than five
11 hundred table grape growers. The Commission is funded
12 primarily by assessments levied on each shipment of
13 California table grapes. No general revenues of the State
14 fund the Commission. FAC ¶9.

17 The United States Department of Agriculture ("USDA"), of
18 which Tom Vilsack is the Secretary, is an Executive Agency of
19 the United States. Among other things, USDA sponsors
20 agricultural research programs to develop new varieties of
21 agricultural commodities, and sometimes patents those
22 varieties and/or issues licenses to utilize those varieties.
23 See FAC ¶¶ 15-16.

25 B. USDA Research Program.

26 California table grape growers and shippers have funded
27 a USDA research program to develop new table grape varieties
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1 through assessment imposed by the Commission on each box of
2 table grapes shipped in California. FAC ¶15. Prior to 2002,
3 the USDA provided the new varieties under development to area
4 growers for evaluation of growing potential and commercial
5 marketability. *Id.* Once new varieties appeared commercially
6 viable, the USDA "released" the variety, and distributed
7 plant material of the variety to area growers free of charge.
8 *Id.* It is alleged that USDA did not charge California
9 growers for the new varieties because California growers and
10 shippers already paid for a large portion of the development.
11 *Id.*

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14 C. Patenting of Grape Varieties.

15 In the late 1990s, at the urging of the Commission, the
16 USDA agreed to begin patenting new table grape varieties.
17 FAC ¶16. The first three varieties the Commission referred
18 to the USDA for patenting, Sweet Scarlet, Autumn King, and
19 Scarlet Royal, had been under development for years. It is
20 alleged that at least one of the varieties, Sweet Scarlet,
21 had been distributed to growers for wide-scale commercial
22 evaluation and sale. FAC ¶¶ 19, 59. Patent applications for
23 Sweet Scarlet, Autumn King, and Scarlet Royal, were filed
24 with the United States Patent and Trademark Office ("USPTO")
25 on February 20, 2003 (Application No. 371,512), September 28,
26 2004 (Application No. 953,387), and September 28, 2004,
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1 (Application No. 953,124), respectively. Patents were issued
2 on July 26, 2005 (Patent No. PP15,891 ("891 Patent")),
3 February 21, 2006 (Patent No. PP16,284 ("284 Patent")), and
4 January 31, 2006 (Patent No. PP16,229 ("229 Patent")).

5 The USDA agreed to give the Commission an exclusive
6 license to all newly Patented Varieties, and to allow the
7 Commission to charge royalties when growers wished to obtain
8 the new varieties. *Id.* The USDA also agreed to give the
9 Commission exclusive enforcement powers over its new patent
10 rights. FAC ¶16.

11 The Commission then selected three nurseries to
12 exclusively sell all new patented table grape varieties
13 ("Licensed Nurseries"). FAC ¶17. Unlike the prior free
14 distribution, the nurseries would be allowed to sell new
15 varieties to growers. *Id.* In accordance with the agreement
16 between the Commission and the USDA, the Commission charges
17 nurseries who distribute Patented Varieties a \$5000.00
18 participation fee per patented variety and an additional
19 \$1.00 per production unit royalty. FAC ¶45. The Licensed
20 Nurseries are responsible for paying the royalty, but the
21 Licensed Nurseries are allowed to pass the royalty amount on
22 to the purchasing growers, which they do and have done. FAC
23 ¶17.

24 When a grower seeks to obtain a new variety from a
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1 nursery, it is required to enter into a "Domestic Grower
2 License Agreement" ("License Agreement") with the Commission.
3 Under the terms of the License Agreement, the grower cannot
4 propagate the variety beyond the plant purchased. FAC ¶18.
5 If the Commission believes the grower has violated the
6 License Agreement, it can void the License Agreement and
7 order that all purchased plants be destroyed. *Id.*

8
9 Recognizing that at least one of the new varieties
10 identified for patenting (and perhaps all three) had been
11 previously in public use and/or sold commercially, the
12 Commission created a so-called "amnesty program," allegedly
13 designed to hide the fact that valid patents could not be
14 obtained, and to "extort" funds from growers already in
15 possession of the varieties. FAC ¶20. Under the amnesty
16 program, the Commission widely disseminated notices to
17 growers and shippers stating that they were in violation of
18 the law if they possessed the varieties intended for
19 patenting. The notices also offered confidential
20 "settlements" to any growers who, within a narrow window,
21 agreed to license the varieties, pay a "penalty" to the
22 Commission, and accept the Commission's license restrictions
23 on further propagation. *Id.*

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26 Under its so-called "amnesty" program, a grower with
27 Sweet Scarlet could keep the vines reproduced, so long as the
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1 grower (i) admitted to possession prior to July 2004, (ii)
2 paid \$2 per vine reproduced, (iii) paid \$2 per box of Sweet
3 Scarlet grapes previously shipped, and (iv) agreed to no
4 further propagation of the Sweet Scarlet variety from the
5 plants possessed. FAC ¶65. In July 2004, the Commission
6 sent another notice to all California table grape growers and
7 shippers extending the "amnesty" time period for one month,
8 and extending the "amnesty" to include Autumn King and
9 Scarlet Royal varieties. FAC ¶66.

11 In both notices, the Commission threatened to sue
12 growers who did not come forward, and to seek money damages
13 and injunctions. Yet, it is alleged that at the time of the
14 second notice, the USDA patent application on Sweet Scarlet
15 not only remained un-issued, but had been rejected by the
16 USPTO. Moreover, the USDA had not even applied for a patent
17 on either Autumn King or Scarlet Royal. The USDA had no
18 patent rights, and the Commission lacked any enforcement
19 rights. FAC ¶¶ 66-67.

21
22 D. Prior Use.

23 Plaintiffs allege that USDA knew that plant material for
24 varieties under development frequently entered the public
25 domain prior to release and/or patenting. See FAC ¶50-56.
26 The varieties underwent several growing cycles before 2002,
27 at which time the Commission recommended the release of Sweet
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1 Scarlet. Moreover, prior to seeking patent protection, USDA
2 displayed and discussed the varieties at public meetings and
3 kept two fully developed varieties at an unsecured, and
4 easily accessible facility at California State University at
5 Fresno. FAC ¶56.

6
7 In early 2002, more than two years before any patent
8 applications for Autumn King or Scarlet Royal, a grower in
9 Delano, J&J Farms, owned by Jim and Jack Ludy, obtained
10 "sticks" of the new varieties. This grower in turn provided
11 some of the plant material to their cousin, Lawrence Ludy,
12 who owned and operated an adjacent farm. With these sticks,
13 both J&J Farms and Lawrence Ludy produced Autumn King and
14 Scarlet Royal on their farms in 2002. FAC ¶¶ 61-62. In
15 addition, in response to the amnesty program, seventeen
16 growers confirmed possession of the varieties and agreed to
17 pay the penalties demanded by the Commission.

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19 Plaintiffs maintain that under patent law, public use or
20 sale of an invention more than one year prior to filing a
21 patent application bars patentability. FAC ¶64.

22
23 E. Plaintiffs' License Agreements

24 Plaintiffs are in possession of the Autumn King, Sweet
25 Scarlet and Scarlet Royal varieties, which they purchased
26 through Licensed Nurseries. FAC ¶35. Plaintiffs paid the
27 royalties imposed by the Commission on each purchased plant.
28

1 *Id.* Plaintiffs have entered into a License Agreement with
2 the Commission for each of the Patented Varieties. FAC ¶¶
3 36-37. In consideration for this limited, nonexclusive
4 license, Plaintiffs have paid a license fee to a Licensed
5 Nursery. *Id.* Under the terms of this agreement, Plaintiffs
6 have a limited, nonexclusive license to grow the Patented
7 Varieties and sell the fruit produced. *Id.* Plaintiffs
8 cannot propagate the grapevines or distribute the vines to
9 third parties. *Id.* Further, Plaintiffs are obligated to
10 destroy all Patented Varieties' plant material upon
11 termination of the agreement. *Id.*

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14 **F. Original Complaint and February 20, 2009 Decision.**

15 Plaintiffs' original complaint named only the Commission
16 as a defendant, alleging (at claims 1-3) the patents for all
17 three varieties should be declared invalid, Doc. 1 at ¶¶ 66-
18 86; (at claim 4) the patent for the Sweet Scarlet variety
19 should be declared unenforceable because neither the
20 Commission nor USDA disclosed to the USPTO that the three
21 varieties had been in public use prior to February 2002, *id.*
22 at ¶¶ 87-85; (at claim 5) the Commission violated the Sherman
23 and Clayton Acts by illegally monopolizing the market for
24 table grapes, *id.* at ¶¶ 96-103; (at claim 6) the Commission
25 misused the patents "in violation of antitrust laws and in a
26 manner that attempts to extend [the] patents beyond their
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1 lawful scope, *id.* at ¶¶ 104-109; (at claim 7) unfair
2 competition, *id.* at ¶¶ 110-114; (at claim 8) unjust
3 enrichment, *id.* at ¶¶ 115-117; and (at claim 9) constructive
4 trust, *id.* at ¶¶ 118-121. The Commission moved to dismiss,
5 arguing the United States is a necessary and indispensable
6 party that is immune from suit and that all of the claims in
7 the case were without legal foundation.
8

9 As to the issue of joinder, the February 20, 2009
10 Decision emphasized that because Plaintiffs' substantive
11 causes of action sought to invalidate patents held by the
12 United States, the United States is a necessary party under
13 Federal Rule of Civil Procedure Rule 19(a). Doc. 42 at 22-
14 34. Once it has been determined that an absent party to the
15 suit is "necessary" under Rule 19(a), the inquiry is whether
16 that party, the United States, can be joined in the action.
17 *Dawavendewa v. Salt River Project Agr. Imp. and Power Dist.*,
18 276 F.3d 1150, 1159 (9th Cir. 2002). "Absent a waiver,
19 sovereign immunity shields the Federal government and its
20 agencies from suit." *F.D.I.C. v. Meyer*, 510 U.S. 471, 475
21 (1994). A waiver of sovereign immunity must be unequivocally
22 expressed. *Department of Army v. Blue Fox, Inc.*, 525 U.S.
23 255, 261 (1999). The February 20, 2009 Decision then applied
24 this framework to the claims in the original complaint:
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27 A declaratory judgment seeking invalidity of a U.S.-
28 owned patent squarely implicates sovereign immunity.
Further, property owners are generally necessary

1 parties to actions that could affect their property
2 interests adversely. The United States, as owner of
3 the Patented Varieties, is no exception....

4 ***

5 Under the only patent-related waiver of sovereign
6 immunity, 28 U.S.C. § 1498 permits private parties
7 to bring patent infringement suits in United States
8 Federal Claims Court to seek money damages only. 28
9 U.S.C. § 1498. "In waiving its own immunity from
10 patent infringement actions in 28 U.S.C. § 1498(a)
11 (1994) ed. and Supp. III)," the United States did
12 not consent to treble damages nor injunctive relief,
13 and permitted reasonable attorney's fees in a narrow
14 class of specified instances. *Florida Prepaid
15 Postsecondary Educ. Expense Bd. v. College Sav.
16 Bank*, 527 U.S. 627, 648, n.11 (1999). This suit
17 must be brought in Federal Claims Court against the
18 United States and by its plain terms 28 U.S.C.
19 § 1498 does not cover declaratory judgments seeking
20 to invalidate a patent. Further, the federal
21 statute covering declaratory relief actions, the
22 Declaratory Judgment Act, 28 U.S.C. §2201, standing
23 alone, does not waive sovereign immunity. *Wyoming
24 v. United States*, 279 F.3d 1214, 1225 (10th Cir.
25 2002) (the declaratory judgment statute, 28 U.S.C.
26 §2201, itself does not confer jurisdiction on a
27 federal court where none otherwise exists). "It is
28 well settled, however, that said Act [Declaratory
Act] does not of itself create jurisdiction; it
merely adds an additional remedy where the district
court already has jurisdiction to entertain the
suit." *Wells v. United States*, 280 F.2d 275, 277
(9th Cir. 1960).

The United States cannot be joined absent a clear
waiver of sovereign immunity. Plaintiffs have not
shown such a waiver exists. The United States
cannot be joined.

Doc. 42 at 35-38.

Plaintiffs argued that APA section 702, 5 U.S.C. § 702,
constitutes a sufficient waiver of sovereign immunity. After
discussing the APA's waiver of sovereign immunity and
relevant Ninth Circuit authority, the February 20, 2009

1 decision concluded:

2 Plaintiffs have cited no case where the APA § 702
3 was invoked as an asserted waiver of sovereign
4 immunity for purposes of bringing a patent
5 invalidity case against the United States. However,
6 if Plaintiff can amend the Complaint to adequately
7 state a § 702 APA claim against the United States,
8 it may.

9 Doc. 42 at 41.

10 Because the United States was a necessary party that
11 could not be joined, the February 20, 2009 Decision
12 considered whether the United States was "indispensable."
13 See Fed. R. Civ. P. 19(b). "A party is indispensable if in
14 'equity and good conscience,' the court should not allow the
15 action to proceed in its absence." *Dawavendewa*, 276 F.3d at
16 1161, quoting Fed. R. Civ. P. 19(b). Rule 19(b) sets out
17 four factors to determine whether a case must be dismissed:

18 (1) prejudice to any party or to the absent party;

19 (2) whether relief can be shaped to lessen
20 prejudice;

21 (3) whether an adequate remedy, even if not
22 complete, can be awarded without the absent party;
23 and

24 (4) whether there exists an alternative forum.

25 *Kescoli v. Babbitt*, 101 F.3d 1304, 1310-11 (9th Cir. 1996).

26 However, where the absent party cannot be joined in light of
27 sovereign immunity, "there may be very little need for
28 balancing ... because immunity itself may be viewed as the
compelling factor." *Id.* at 1311.

These factors were applied as follows:

1 The first factor weighs in favor of
2 dismissal....Plaintiffs seek to invalidate and
3 declare unenforceable patents owned by the United
4 States. The validity of the USDA's patent has been
5 challenged. If invalidated ... the Patents, would
6 be destroyed, Patented Varieties would be freely
7 marketed, and the USDA would lose royalties. The
8 patents would be declared invalid under claims one
9 through three of the Complaint and unenforceable
10 under claim four for inequitable conduct and claim
11 six for patent misuse.

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13 The second factor, whether prejudice can be lessened
14 by shaping the relief provided, also weighs in favor
15 of dismissal. No declaratory, injunctive or
16 compensatory relief would be granted under the
17 Complaint if the patent's validity were not
18 challenged. "Any measures to lessen these
19 prejudices would necessarily dilute the efficacy of
20 the judgment sought." *Messerschmitt-Boelkow-Blohm
21 GmgH v. Hughes Aircraft*, 483 F. Supp. 49, 53
22 (S.D.N.Y. 1979). Although the Complaint is brought
23 against the Commission alone, granting declaratory
24 relief requires finding that the Commission had no
25 authority to enforce an invalid patent, that the
26 patent is invalid and unenforceable, a patent which
27 is owned by the USDA, a branch of the United States.
28 Here, any judgment cannot be tailored to eliminate
the prejudice to the United States. A finding for
Plaintiffs would declare invalid patents owned by
the United States, abrogating the United States'
interest in the patents, not only depriving the
United States of royalties under the patents, but
ending the United States' ability to license the
patents.

21 The third factor, adequacy of remedy, also favors
22 dismissal. "[A]dequacy' refers not to satisfaction
23 of [Plaintiffs'] claims, but to the 'public stake in
24 settling disputes by wholes, whenever possible.'" *Republic of Philippines*, 128 S.Ct. at 2183, citing
25 *Provident Tradesmens Bank & Trust Co. v. Patterson*,
26 390 U.S. 102, 111 (1968). As in *Republic of
27 Philippines*, "[g]oing forward with the action in
28 the absence of" the United States, "would not
further this public interest because they could not
be bound by a judgment to which they were not
parties." *Id.* The Court held the University had
not waived its Eleventh Amendment immunity.

The fourth factor is whether there is an available

1 alternative forum. First is the Court of Federal
2 Claims, expressly authorized by statute. Plaintiffs
3 have an opportunity to raise the defense of patent
4 invalidity and unenforceability in an action brought
5 against them for patent infringement brought by the
6 United States or the Commission. See 35 U.S.C.
7 § 282. [Footnote] However, to require Plaintiffs to
8 violate the license and wait to see whether the
9 patent owner sues for infringement creates an
10 unfavorable situation as damages could be
11 exacerbated. Where "no alternative forum exists,
12 the district court should be 'extra cautious' before
13 dismissing an action." *Kescoli v. Babbitt*, 101 F.3d
14 1304, 1311 (9th Cir. 1996). But just as the courts
15 have held in actions involving tribal immunity and
16 state immunity, sovereign immunity of the United
17 States can justify dismissal for inability to join
18 an indispensable party, despite the fact that no
19 alternative forum is available. "If the necessary
20 party is immune from suit, there may be very little
21 need for balancing Rule 19(b) factors because
22 immunity itself may be viewed as the compelling
23 factor." *Id.* at 1311 (internal citations and
24 quotations omitted). The latest Supreme Court case,
25 *Republic of Philippines v. Pimentel*, 128 S. Ct. 2180
26 (2008), to address Rule 19, held as to immunity
27 barring an action from proceeding without the
28 sovereign party:

The analysis of the joinder issue in those cases was somewhat perfunctory, but the holdings were clear: A case may not proceed when a required-entity sovereign is not amenable to suit. These cases instruct us that where sovereign immunity is asserted, and the claims of the sovereign are not frivolous, dismissal of the action must be ordered where there is a potential for injury to the interests of the absent sovereign. 128 S.Ct. at 2190-91. In this context, dismissal is appropriate even if Plaintiffs have no alternative forum for their claim. See *Dawavendewa*, 276 F.3d at 1162.

Because the proceedings in this case threaten both the property and sovereign immunity of the United States, the United States' failure to waive its immunity from suit strongly supports dismissing this litigation in its absence.

Doc. 42 at 42-47. All of the claims relating to patent invalidity, inequitable conduct, and patent misuse were

1 dismissed on the ground that the United States is a necessary
2 and indispensable party.

3 The Commission's separate motion to dismiss the anti-
4 trust claim was granted with leave to amend because
5 Plaintiffs did not adequately allege each of the Patented
6 Varieties constitutes its own relevant market. *Id.* at 62.
7 The misuse claim was likewise dismissed. *Id.* Plaintiffs'
8 misuse claim rested in part on allegations that the
9 Commission illegally monopolized interstate and foreign
10 commerce in bad faith by enforcing alleged patent rights, as
11 the exclusive licensee of the patents, and collecting royalty
12 fees on the Patented Varieties under its "amnesty" program.
13 The amnesty program was rejected as a basis for a misuse
14 claim:
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17 As to the first theory, there is no viable claim for
18 the "amnesty program" as the Commission could not
19 have misused patents that did not exist and at most
20 were inventions in the pre-issuance stage. License
21 agreements entered into after a patent application
22 has been filed but before the patent issues are not
23 necessarily unenforceable. *Aronson v. Quick Point*
24 *Pencil Co.*, 440 U.S. 257, 264-65 (1979). The "key
25 inquiry is whether, by imposing conditions that
26 derive their force from the patent, the patentee has
27 impermissibly broadened the scope of the patent
28 grant with anticompetitive effect." *C.R. Bard, Inc.*
v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir.
1998). Pre-issuance, there is no patent right to
impermissibly broaden. The doctrine of patent
misuse could not be brought into play in *Aronson*,
which concerned a license agreement entered into
before issuance of the patent, but after patent
application submitted. 440 U.S. at 264-65; see also
Technology Licensing Corp. v. Genum Corp., No. 01-
04204, 2007 WL 1319528, at *23 (N.D. Cal. May 4,
2007) ("As to Genum's argument that TLC's
interactions with Ross Video constituted misuse of

1 the '250 patent, it is a peculiar notion that a
2 party could "misuse" a patent that is not in
3 existence. While it has been called patent misuse
4 where a patentee seeks to collect royalties after
5 the expiration of the patent term, it appears that
6 in such cases the patentee and licensor have
7 typically entered into the royalty agreement at a
8 time when the patent is in force. Again, to the
9 extent a party demands royalties or demands that
10 another cease using a product where no patent has
11 yet issued, the other party is not put to the type
12 of choice that patent misuse doctrine normally
13 guards against. The other party is free to ignore
14 the demands.")

15 Doc. 42 at 65-66.

16 The Commission's motion to dismiss the unfair
17 competition claim was denied to the extent that the
18 allegations extended beyond the dismissed anti-trust
19 allegations. *Id.* at 67-71. Because the unfair competition
20 claim survived, the claims for unjust enrichment and
21 constructive trust, which are purely derivative of other
22 claims in the case, survived as well. *Id.* at 71.

23 G. Claims in the FAC.

24 The first cause of action, arising under the APA,
25 5 U.S.C. § 702, alleges Federal Defendants acted arbitrarily,
26 capriciously, and otherwise not in accordance with applicable
27 laws and regulations by undertaking the following "discrete
28 and final agency action[s]":

• "[D]eciding and agreeing to engage in a
patenting program with the Commission with respect
to the Patented Varieties and ... cooperating with
the Commission in connection with that patenting
program," FAC ¶74;

- 1 • "[D]eciding, approving and cooperating in the
2 filing and prosecution of patent applications for
the Patented Varieties," FAC ¶75;
- 3 • "[E]ngaging in inequitable conduct before the
4 USPTO with respect to the application for the '891
patent," FAC ¶76;
- 5 • "[P]rocurring, accepting the issuance, and
6 maintaining the '284, '891 and '229 patents," FAC
¶77;
- 7 • "[G]ranting the Commission an exclusive license
8 in the '284, '891 and '229 patents," FAC ¶78;
- 9 • "[A]pproving, allowing and cooperating with the
Commission's amnesty program, licensing program and
10 enforcement program with respect to the Patented
Varieties," FAC ¶79;
- 11 • "[A]llowing the Commission to collect royalties
12 for the Patented Varieties from farmers who had
funded the USDA's research program that led to the
13 development of the Patented Varieties, where prior
USDA policy was to allow such farmers to benefit
14 from the USDA's research free of charge," FAC ¶80;
and
- 15 • "[C]ooperating, encouraging and acting in
16 concert with the Commission in the collection of
royalties for the Patented Varieties and by
17 receiving a portion of those royalties from the
Commission," *id.*

18 The second, third, and fourth causes of action, brought
19 against all defendants, seek to have the patents declared
20 invalid. FAC ¶¶ 103-138. The fifth cause of action against
21 all defendants, seeks a declaration that the 891 Patent is
22 unenforceable due to Defendants' inequitable conduct. FAC ¶¶
23 139-152. The sixth cause of action alleges that the
24 Commission violated the Sherman and Clayton acts by
25 monopolizing the national market for grapevine plant
26 material. FAC ¶¶ 153-165. The seventh cause of action seeks
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1 to have the exclusive license agreements between the United
2 States and the Commission invalidated under the patent laws
3 of the United States and the APA. FAC ¶¶ 166-176. The
4 eighth claim seeks to have the exclusive licenses declared
5 void under state law. FAC ¶¶ 177-185. The ninth claim,
6 against the Commission only, is for unfair competition in
7 violation of California Business and Professions Code § 17200
8 and California common law. FAC ¶¶ 186-190. Finally, the
9 tenth and eleventh claims are against the Commission alone
10 for unjust enrichment, FAC ¶¶ 191-93, and constructive trust,
11 FAC ¶¶ 194-97.
12

13 14 III. STANDARDS OF DECISION

15 A. Rule 12(b)(1).

16 Rule 12(b)(1) of the Federal Rules of Civil Procedure
17 allows a motion to dismiss for lack of subject matter
18 jurisdiction. It is a fundamental precept that federal
19 courts are courts of limited jurisdiction. Limits upon
20 federal jurisdiction must not be disregarded or evaded.
21 *Owen Equipment & Erection Co. v. Kroger*, 437 U.S. 365, 374
22 (1978). The plaintiff has the burden to establish that
23 subject matter jurisdiction is proper. *Kokkonen v. Guardian*
24 *Life Ins. Co.*, 511 U.S. 375, 377 (1994). This burden, at
25 the pleading stage, must be met by pleading sufficient
26 allegations to show a proper basis for the court to assert
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1 subject matter jurisdiction over the action. *McNutt v.*
2 *General Motors Acceptance Corp.*, 298 U.S. 178, 189 (1936);
3 Fed. R. Civ. P. 8(a)(1). When a defendant challenges
4 jurisdiction *facially*, all material allegations in the
5 complaint are assumed true, and the question for the court
6 is whether the lack of federal jurisdiction appears from the
7 face of the pleading itself. *Doe v. Holy See*, 557 F.3d
8 1066, 1073 (9th Cir. 2009).

10
11 B. Rule 12(b)(6).

12 A motion to dismiss brought under Federal Rule of Civil
13 Procedure 12(b)(6) "tests the legal sufficiency of a claim."
14 *Navarro v. Block*, 250 F.3d 729, 732 (9th Cir. 2001). To
15 survive a motion to dismiss, a complaint must "contain
16 sufficient factual matter, accepted as true, to 'state a
17 claim to relief that is plausible on its face.'" *Ashcroft v.*
18 *Iqbal*, 129 S. Ct. 1937, 1949 (May 18, 2009) (quoting *Bell*
19 *Atl. Corp v. Twombly*, 550 U.S. 544, 570 (2007)).

20
21 A claim has facial plausibility when the plaintiff
22 pleads factual content that allows the court to draw
23 the reasonable inference that the defendant is
24 liable for the misconduct alleged. The plausibility
25 standard is not akin to a "probability requirement,"
26 but it asks for more than a sheer possibility that
27 defendant has acted unlawfully. Where a complaint
28 pleads facts that are "merely consistent with" a
defendant's liability, it "stops short of the line
between possibility and plausibility of 'entitlement
to relief.'"

Id. (citing *Twombly*, 550 U.S. 556-57). Dismissal also can be

1 based on the lack of a cognizable legal theory. *Balistreri*
2 *v. Pacifica Police Dep't*, 901 F.2d 696, 699 (9th Cir. 1990).

3 In deciding whether to grant a motion to dismiss, the
4 court "accept[s] all factual allegations of the complaint as
5 true and draw[s] all reasonable inferences" in the light most
6 favorable to the nonmoving party. *Rodriguez v. Panayiotou*,
7 314 F.3d 979, 983 (9th Cir. 2002). A court is not, however,
8 "required to accept as true allegations that are merely
9 conclusory, unwarranted deductions of fact, or unreasonable
10 inferences." *Manufactured Home Cmty's. Inc. v. City of San*
11 *Jose*, 420 F.3d 1022, 1035 (9th Cir. 2005) (quoting *Sprewell*
12 *v. Golden State Warriors*, 266 F.3d 979, 988 (9th Cir. 2001)).
13
14

15 IV. ANALYSIS.

16 A. MedImmune Does Not Overcome the Need to Identify a 17 Waiver of the United States' Sovereign Immunity.

18 The February 20, 2009 Decision dismissed the original
19 complaint on the ground that the United States is a necessary
20 and indispensable party that is immune from suit. In the
21 FAC, Plaintiffs suggest that a recent Supreme Court case,
22 *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007),
23 stands for the proposition that the United States' immunity
24 does not bar declaratory relief claims against it for patent
25 invalidity. Federal district courts have "original
26 jurisdiction [over] any civil action arising under any Act of
27 Congress relating to patents, plant variety protection,
28

1 copyrights and trademarks." 28 U.S.C. § 1338. This includes
2 suits brought by patent holders against alleged patent
3 infringers under 35 U.S.C. § 281. In response to such a
4 suit, an alleged infringer may raise patent invalidity as a
5 defense. § 282.

6
7 Under certain circumstances, when faced with an imminent
8 threat that a patentholder may sue for patent infringement,
9 the alleged infringer may preemptively seek a declaratory
10 judgment of patent invalidity. In *MedImmune*, for example,
11 *MedImmune* entered into a license agreement with Genentech,
12 which permitted *MedImmune's* use of a particular, patented
13 drug manufacturing process in exchange for the payment of
14 royalties to Genentech. 549 U.S. at 121. Several years
15 later, Genentech sent *MedImmune* a letter expressing its
16 belief that one of *MedImmune's* products was covered by the
17 licensed patent and that *MedImmune* owed royalties on that
18 product under the licensing agreement. *Id.* *MedImmune*
19 "considered the letter to be a clear threat to enforce the []
20 patent, terminate the [] license agreement, and sue for
21 patent infringement if [*MedImmune*] did not make royalty
22 payments as demanded." *Id.* at 122.

23
24
25 If respondents were to prevail in a patent
26 infringement action, petitioner could be ordered to
27 pay treble damages and attorney's fees, and could be
28 enjoined from selling [the product, which] has
accounted for more than 80 percent of its revenue
from sales since 1999. Unwilling to risk such

1 serious consequences, petitioner paid the demanded
2 royalties under protest and with reservation of all
3 of its rights.

4 *Id.* (internal citations and quotations omitted).

5 Acknowledging that "[t]here is no dispute" that
6 exercising jurisdiction under the declaratory judgment act
7 would be appropriate if MedImmune "had taken the final step
8 of refusing to make royalty payments under the [] license
9 agreements," the Supreme Court inquired whether MedImmune's
10 own acts, in deciding to continue making royalty payments,
11 "causes the dispute no longer to be a case or controversy
12 within the meaning of Article III?" *Id.* at 128. The Supreme
13 Court concluded that, so long as the facts allege that there
14 is a substantial controversy between the parties of
15 "sufficient immediacy and reality," judicial review over the
16 declaratory judgment claim is permissible. *Id.* at 127-28.

17 Plaintiffs argue that, just as the plaintiffs in
18 *MedImmune* could bring a preemptive declaratory relief action
19 for patent invalidity against a private patent holder where
20 there is a sufficiently immediate and real controversy
21 between the parties, so too can Plaintiffs bring a
22 declaratory relief action for patent invalidity against the
23 United States. But, this ignores the legal effect of the
24 immunity afforded the United States as a sovereign.

25 *MedImmune* expands the circumstances in which an Article III
26 27

1 "case or controversy" is deemed to exist, but it says nothing
2 about the United States' immunity or susceptibility to suit
3 over a U.S. owned patent.

4 Sovereign immunity shields the United States from patent
5 infringement lawsuits brought under § 281. "Absent a waiver,
6 sovereign immunity shields the Federal government and its
7 agencies from suit." *Hargen v. Dept. of Labor*, 569 F.3d 898,
8 904 (9th Cir. 2009) (citing *Dep't of Army v. Blue Fox, Inc.*,
9 525 U.S. 255, 260 (1999)). "A waiver of sovereign immunity
10 must be unequivocally expressed ... and will not be implied.
11 *Id.* (citing *Lane v. Pena*, 518 U.S. 187, 192 (1996)).

12 "Further, a waiver of immunity will be strictly construed, in
13 terms of its scope, in favor of the sovereign." *Id.*
14 (internal quotation omitted).

15 A limited waiver of sovereign immunity is found in 28
16 U.S.C. § 1498,¹ which permits private parties to bring patent

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19
20 ¹ 28 U.S.C. § 1498 provides, in pertinent part:

21 Whenever an invention described in and covered by a patent of the
22 United States is used or manufactured by or for the United States
23 without license of the owner thereof or lawful right to use or
24 manufacture the same, the owner's remedy shall be by action against
25 the United States in the United States Court of Federal Claims for
26 the recovery of his reasonable and entire compensation for such use
27 and manufacture. Reasonable and entire compensation shall include
28 the owner's reasonable costs, including reasonable fees for expert
witnesses and attorneys, in pursuing the action if the owner is an
independent inventor, a nonprofit organization, or an entity that
had no more than 500 employees at any time during the 5-year period
preceding the use or manufacture of the patented invention by or for
the United States. Notwithstanding the preceding sentences, unless
the action has been pending for more than 10 years from the time of
filing to the time that the owner applies for such costs and fees,
reasonable and entire compensation shall not include such costs and
fees if the court finds that the position of the United States was

1 infringement suits against the United States for money
2 damages in the United States Court of Federal Claims. A
3 prior order in this case held that § 1498 did not operate as
4 a waiver:

5 "In waiving its own immunity from patent
6 infringement actions in 28 U.S.C. § 1498(a) (1994
7 ed. and Supp. III)," the United States did not
8 consent to treble damages nor injunctive relief, and
9 permitted reasonable attorney's fees in a narrow
10 class of specified instances. *Florida Prepaid*
11 *Postsecondary Educ. Expense Bd. v. College Sav.*
12 *Bank*, 527 U.S. 627, 648, n.11 (1999). This suit
13 must be brought in Federal Claims Court against the
14 United States and by its plain terms 28 U.S.C. §
15 1498 does not cover declaratory judgments seeking to
16 invalidate a patent. Further, the federal statute
17 covering declaratory relief actions, the Declaratory
18 Judgment Act, 28 U.S.C. §2201, standing alone, does
19 not waive sovereign immunity. *Wyoming v. United*
20 *States*, 279 F.3d 1214, 1225 (10th Cir. 2002) (the
21 declaratory judgment statute, 28 U.S.C. §2201,
22 itself does not confer jurisdiction on a federal
23 court where none otherwise exists). "It is well
24 settled, however, that said Act [Declaratory Act]
25 does not of itself create jurisdiction; it merely
26 adds an additional remedy where the district court
27 already has jurisdiction to entertain the suit."
28 *Wells v. United States*, 280 F.2d 275, 277 (9th Cir.
1960).

Doc. 42 at 36-37.

Alternatively, the United States can waive its immunity
through affirmative action, by invoking the jurisdiction of a
particular court in a particular lawsuit. For example, the
United States, as the holder of a patent, could sue a private
party for patent infringement under 35 U.S.C. § 281, to which
the alleged infringer may raise patent invalidity as a
defense under § 282. However, such a waiver is limited in

substantially justified or that special circumstances make an award
unjust.

1 nature. See *Tegic Communications Corp. v. Board of Regents*
2 *of Univ. of Texas Sys.*, 458 F.3d 1335, 1342-43 (9th Cir.
3 2006) (State's filing of suit in district court waives
4 Eleventh Amendment immunity as to that suit in that court as
5 well as to any compulsory counterclaims filed by consumer
6 defendants, but not as to suit in another district court by
7 manufacturer).

8
9 Here, Plaintiffs correctly point out that as part of its
10 "amnesty program," the Commission sent out notices in which
11 it threatened to sue growers who did not come forward to
12 acknowledge possession of the Patented Varieties and pay
13 royalties. But, the Commission's issuance of this notice is
14 far from an unequivocal waiver of sovereign immunity by the
15 United States. *Hargen*, 569 F.3d at 904 ("A waiver of
16 sovereign immunity must be unequivocally expressed ... and
17 will not be implied."). In the Eleventh Amendment context,
18 for example, waiver is generally found "either when the state
19 makes a 'clear declaration' that it intends to waive
20 immunity, such as by statute," or "when the state voluntarily
21 invokes federal jurisdiction" by becoming party to a suit.
22 *Tegic*, 458 F.3d at 1341. Here, the United States has not
23 made a clear declaration that it intends to waive immunity,
24 nor did it voluntarily invoke federal jurisdiction. It did
25 not sue any grower, nor has it invoked the jurisdiction of
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1 any court to enforce any patent in dispute.

2 Plaintiffs emphasize the following passage, and cases
3 cited, from *MedImmune*:

4 Our analysis must begin with the recognition that,
5 where threatened action by government is concerned,
6 we do not require a plaintiff to expose himself to
7 liability before bringing suit to challenge the
8 basis for the threat—for example, the
9 constitutionality of a law threatened to be
10 enforced. The plaintiff's own action (or inaction)
11 in failing to violate the law eliminates the
12 imminent threat of prosecution, but nonetheless does
13 not eliminate Article III jurisdiction. For example,
14 in *Terrace v. Thompson*, 263 U.S. 197 (1923), the
15 State threatened the plaintiff with forfeiture of
16 his farm, fines, and penalties if he entered into a
17 lease with an alien in violation of the State's
18 anti-alien land law. Given this genuine threat of
19 enforcement, we did not require, as a prerequisite
20 to testing the validity of the law in a suit for
21 injunction, that the plaintiff bet the farm, so to
22 speak, by taking the violative action. *Id.*, at 216.
23 See also, e.g., *Village of Euclid v. Ambler Realty*
24 *Co.*, 272 U.S. 365 (1926); *Ex parte Young*, 209 U.S.
25 123 (1908). Likewise, in *Steffel v. Thompson*, 415
26 U.S. 452 (1974), we did not require the plaintiff to
27 proceed to distribute handbills and risk actual
28 prosecution before he could seek a declaratory
judgment regarding the constitutionality of a state
statute prohibiting such distribution. *Id.*, at 458-
460. As then-Justice Rehnquist put it in his
conurrence, "the declaratory judgment procedure is
an alternative to pursuit of the arguably illegal
activity." *Id.*, at 480. In each of these cases, the
plaintiff had eliminated the imminent threat of harm
by simply not doing what he claimed the right to do
(enter into a lease, or distribute handbills at the
shopping center). That did not preclude subject-
matter jurisdiction because the threat-eliminating
behavior was effectively coerced. See *Terrace*,
supra, at 215-216, 44 S.Ct. 15; *Steffel*, *supra*, at
459. The dilemma posed by that coercion—putting the
challenger to the choice between abandoning his
rights or risking prosecution—is "a dilemma that it
was the very purpose of the Declaratory Judgment Act

1 to ameliorate." *Abbott Laboratories v. Gardner*, 387
2 U.S. 136, 152 (1967).

3 *Id.* at 129 (parallel citations omitted).

4 Despite the seemingly helpful holding that "where
5 threatened action by government is concerned," a plaintiff is
6 not required "to expose himself to liability before bringing
7 suit to challenge the basis for the threat..." this passage
8 has no bearing whatsoever on the issue of sovereign immunity,
9 as sovereign immunity was not an issue in any of the cited
10 cases. *Ex Parte Young* carved out an exception to a State's
11 Eleventh Amendment immunity for suits against officials
12 acting unconstitutionally on behalf of a state. 209 U.S.
13 123. *Terrace* applied the *Ex Parte Young* doctrine to permit
14 an anticipatory suit for injunctive relief against a state
15 official who threatened to apply an allegedly
16 unconstitutional statute. 263 U.S. 197. *Village of Euclid*,
17 272 U.S. 365, and *Steffel*, 415 U.S. 452, follow *Terrace*,
18 permitting anticipatory suits for injunctive relief to
19 challenge the threatened application of allegedly
20 unconstitutional state and local laws. Because of *Ex Parte*
21 *Young*, sovereign immunity was not an issue in either *Village*
22 *of Euclid* or *Steffel*.

23 In sum, while *MedImmune* might support a preemptive
24 declaratory judgment lawsuit here if the patent holder was a
25 private party, it does not provide jurisdiction to overcome
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27
28

1 the United States' sovereign immunity.

2
3 B. APA Claims.

4 1. Section 701's Limitation on Section 702's Waiver of
5 Sovereign Immunity.

6 Plaintiffs advance the APA as an alternative source for
7 a waiver of sovereign immunity. APA section 702 provides, in
8 pertinent part:

9 A person suffering legal wrong because of agency
10 action, or adversely affected or aggrieved by agency
11 action within the meaning of a relevant statute, is
12 entitled to judicial review thereof. An action in a
13 court of the United States seeking relief other than
14 money damages and stating a claim that an agency or
an officer or employee thereof acted or failed to
act in an official capacity or under color of legal
authority shall not be dismissed nor relief therein
be denied on the ground that it is against the
United States or that the United States is an
indispensable party.

15 5 U.S.C. § 702.

16 Congress' waiver of the federal government's sovereign
17 immunity under APA § 702 is limited by § 701(a), which
18 provides:

19 (a) This chapter applies, according to the
20 provisions thereof, except to the extent that--

21 (1) statutes preclude judicial review; or

22 (2) agency action is committed to agency
23 discretion by law.

24 5 U.S.C. § 701(a). *Heckler v. Chaney*, 470 U.S. 821, 828
25 (1985) (before bringing a claim under § 702, "a party must
26 first clear the hurdle of § 701(a)").
27
28

1 a. The Patent Act Precludes Judicial Review of
2 Plaintiffs' Patent-Related APA Claims.

3 APA § 702's waiver of sovereign immunity does not apply
4 where a particular statute "precludes judicial review."
5 § 701(a)(1)²; *Heckler*, 470 U.S. at 828. "Whether and to what
6 extent a particular statute precludes judicial review is
7 determined not only from its express language, but also from
8 the structure of the statutory scheme, its objectives, its
9 legislative history, and the nature of the administrative
10 action involved." *Block v. Comty. Nutrition Inst.*, 467 U.S.
11 340, 345 (1984). While "[a]ccess to judicial review should
12 be limited only upon a showing of clear and convincing
13 evidence of a contrary legislative intent," *Eisinger v. Fed.*
14 *Lab. Rel. Auth.*, 218 F.3d 1097, 1103 (9th Cir. 2000), this
15 standard is not applied in a "strict evidentiary sense," so
16 long as "congressional intent to preclude judicial review is
17 fairly discernible in the statutory scheme," *Block*, 467 at
18 351 (internal quotation omitted).
19
20

21 In a complex statutory scheme, the provision of judicial
22 review for a particular class of plaintiffs may evidence
23 Congressional intent to foreclose others from participating.
24 *Block*, 467 U.S. at 347-49 ("[W]hen a statute provides a
25 detailed mechanism for judicial consideration of particular
26

27 ² Relatedly, 5 U.S.C. § 702(2) provides that nothing in the APA "confers
28 authority to grant relief if any other statute that grants consent to
suit expressly or impliedly forbids the relief which is sought."

1 issues at the behest of particular persons, judicial review
2 of those issues at the behest of other persons may be found
3 to be impliedly precluded."). This is the case even where
4 the statute generally alludes to the excluded class'
5 interests. *Id.* at 347. Whether judicial review is precluded
6 for certain classes of plaintiffs "turns ultimately on
7 whether Congress intended for that class to be relied upon to
8 challenge agency disregard of the law." *Id.* "Preclusion of
9 such suits does not pose any threat to realization of the
10 statutory objectives; it means only that those objectives
11 must be realized through the specific remedies provided by
12 Congress and at the behest of the parties directly affected
13 by the statutory scheme." *Id.* at 352-53.

16 The Patent Act "reveals Congress's intent to preclude
17 judicial review of USPTO examination decisions at the behest
18 of third parties protesting the issue or reissue of a
19 patent." *Hitachi Metals, Ltd. v. Quigg*, 776 F. Supp. 3, 7
20 (D.D.C. 1991). The district court in *Hitachi* succinctly
21 summarized the operation of the Patent Act and its judicial
22 review provisions:

24 The Patent Statute is addressed to patent owners and
25 patent applicants. The patent examination process is
26 an *ex parte* proceeding, not an adversarial one, and
the Patent Statute's judicial review provisions
contain no gaps requiring the Court to exercise its
power. [FN8]

27 [FN8] Congress has explicitly designated other
28 PTO proceedings as *inter partes*, including

1 patent interferences, 35 U.S.C. § 135(a), and
2 trademark oppositions and cancellations, 15
3 U.S.C. §§ 1063, 1064, 1067. In contrast, the
4 provisions governing the patent application and
5 examination process prescribe an ex parte
6 proceeding. 35 U.S.C. §§ 131, 132, 133, 134,
7 141, and 145. See also *Williams Mfg. Co. v.*
8 *United Shoe Machinery Corp.*, 121 F.2d 273, 277
9 (6th Cir.1941) ("[T]he granting of a patent is
not, except when an interference is declared,
the result of an adversary proceeding.");
Godtfredsen v. Banner, 503 F. Supp. 642, 646
(D.D.C. 1980) ("It may well be desirable as a
matter of policy to permit an individual to
protest the grant of a patent other than by an
infringement action, ... that is a decision for
the Congress.").

10 The Patent Statute explicitly authorizes patent
11 owners to apply for reissue of a patent, 35 U.S.C. §
12 251, and confers on those applicants the right to
13 seek administrative and judicial review of PTO
14 examination decisions. See 35 U.S.C. § 131
15 (administrative appeal of examiner's decision to the
16 Board of Patent Appeals and Interferences); 35
17 U.S.C. § 134 (direct appeal of Board decisions to
18 the Federal Circuit); 35 U.S.C. § 145 (judicial
19 review by civil action in this court); 35 U.S.C. §
20 251 (the provisions governing original patent
21 applicants also govern reissue applicants). In
22 contrast, Title 35 contains no provision expressly
23 authorizing administrative or judicial review of a
24 PTO decision at the behest of a third-party
25 protestor.

26 *Hitachi*, 776 F. Supp. at *8. *Hitachi* rejected plaintiff's
27 argument that its suit only challenged the procedure used by
28 the USPTO, and was not an action to review the validity or
enforceability of the patent:

23 [P]laintiff's distinction is a superficial one.
24 Plaintiff's suit is precluded by the Patent Statute,
25 because plaintiff's action, a suit brought by a
26 third-party protestor, seeks to overturn the PTO's
27 decision to grant a reissue patent to [defendant].
28 Although plaintiff states "that plaintiff does not
here seek a determination of the validity or
enforceability of the patent," in the same
memorandum plaintiff also requests an injunction

1 requiring [defendant] to surrender its reissue
2 patent... Furthermore, the ultimate source of
3 Hitachi's alleged injuries is not the alleged
4 procedural violation by the Commissioner, but the
5 existence of [defendant's] reissue patent.

6 *Id.* at *9. See also *Syntex v. U.S. Patent and Trademark*
7 *Office*, 882 F.2d 1570, 1573-74 (Fed. Cir. 1989) (affirming
8 dismissal of complaint, including APA claim, for lack of
9 jurisdiction because third-party requester of reexamination
10 could not collaterally attack the USPTO's reexamined decision
11 in favor of patent owner, as the Patent Act does not provide
12 for such a challenge); *Hallmark Cards Inc., v. Lehman*, 959 F.
13 *Supp* 539, 542-43 (D.D.C. 1997) (rejecting third party's
14 attempt to directly challenge the USPTO's decision to issue a
15 certificate of correction because the Patent Act precludes
16 judicial review of such an action unless issue is raised as
17 defense to an infringement suit).

18 Plaintiffs attempt to distinguish these cases on the
19 ground that they involved causes of action against the USPTO,
20 and not directly against the patent owner. But, whether a
21 cause of action operates as a collateral attack does not turn
22 upon the parties named to the lawsuit. For example, *Heck v.*
23 *Humphrey*, 512 U.S. 477, 486 (1994), bars civil rights claims
24 for damages that would operate to collaterally attack an
25 underlying criminal conviction, even though the parties to
26 the underlying criminal case may not be the same as those
27
28

1 involved in the civil rights action. See, e.g., *Anderson v.*
2 *Smith*, 2009 WL 2139311 (E.D. Cal. Jul. 10, 2009).

3 Plaintiffs assert that the USDA's reliance on *Hitachi*
4 and its assertion that Plaintiffs claims are collateral
5 attacks "defies logic" because "if the USDA's definition of a
6 'collateral attack' were accepted, all invalidity claims
7 would constitute 'collateral attacks on the PTO's decision to
8 grant the patents,' even those between private parties or
9 those raised as counterclaims in an infringement suit brought
10 by the government." Doc. 70 at 8. But, the law permits
11 patents to be attacked in certain suits between private
12 parties and in counterclaims brought against infringement
13 suits initiated by the government. Such attacks, where
14 permitted by law, are, by their very nature, not
15 impermissible "collateral" attacks. This does not address
16 the United States' argument that the APA cannot be used to
17 create new ways to attack a patent where such mechanisms are
18 not otherwise permitted by law. That is the purpose of
19 section 701(a)(1) and *Block's* prohibition against using the
20 APA to carve out new avenues for judicial review where a
21 comprehensive statutory scheme already exists.³
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23
24

25
26 ³ Plaintiffs argue that their claims are not "collateral attacks," but,
27 instead, amount to "direct action against the patent owner under the APA
28 for acting contrary to law in obtaining, maintaining, licensing, and
enforcing the grapevine patents." Doc. 70 at 8. There is little
practical difference between a collateral attack on the patent itself and
a claim that the patent was obtained unlawfully

1 Here, many of Plaintiffs allegations are direct attacks
2 on the validity of the patents themselves. Plaintiffs'
3 allege that the USDA acted unlawfully by: "deciding and
4 agreeing to engage in a patenting program with the Commission
5 with respect to the Patented Varieties and ... cooperating
6 with the Commission in connection with that patenting
7 program," FAC ¶74; "deciding, approving and cooperating in
8 the filing and prosecution of patent applications for the
9 Patented Varieties," FAC ¶75; "engaging in inequitable
10 conduct before the USPTO with respect to the application for
11 the '891 patent," FAC ¶76; and "procuring, accepting the
12 issuance, and maintaining the '284, '891 and '229 patents,"
13 FAC ¶77. These APA claims are barred under § 701 because the
14 Patent Act precludes judicial review of such claims.
15
16

17 Plaintiffs also allege that USDA acted unlawfully by:
18 "granting the Commission an exclusive license in the '284,
19 '891 and '229 patents," FAC ¶78; "approving, allowing and
20 cooperating with the Commission's amnesty program, licensing
21 program and enforcement program with respect to the Patented
22 Varieties," FAC ¶79; "allowing the Commission to collect
23 royalties for the Patented Varieties from farmers who had
24 funded the USDA's research program that led to the
25 development of the Patented Varieties, where prior USDA
26 policy was to allow such farmers to benefit from the USDA's
27
28

1 research free of charge," FAC ¶80; and "cooperating,
2 encouraging and acting in concert with the Commission in the
3 collection of royalties for the Patented Varieties and by
4 receiving a portion of those royalties from the Commission,"
5 *id.* In part, these license-related claims depend on
6 Plaintiffs' assertion that the patents are unenforceable,
7 see, e.g., FAC ¶91 (USDA's "action in granting the Commission
8 an exclusive license to the '891 patent is arbitrary,
9 capricious, and otherwise not in accordance with laws and
10 regulations, because the patent is unenforceable.").

11
12 Any APA claims in the FAC based upon the invalidity of
13 the patents must be dismissed because the APA does not waive
14 sovereign immunity where a particular statute, in this case
15 the Patent Act, precludes judicial review.⁴ Defendants'
16 motion to dismiss all patent-related claims (e.g., those that
17
18

19 ⁴ To the extent that Plaintiffs' challenge the United States' title
20 to the patents, the Quiet Title Act also impliedly forbids Plaintiffs'
21 Claims. 5 U.S.C. § 702(2) provides that nothing in the APA "confers
22 authority to grant relief if any other statute that grants consent to
23 suit expressly or impliedly forbids the relief which is sought.
24 Plaintiffs' claims, which challenge the United States' interest in
25 property, implicate the Quiet Title Act, 28 U.S.C. § 2409a(a), which
26 waives sovereign immunity for claims disputing the United States' title
27 to real property. A related waiver applies to certain claims involving
28 "real or personal property on which the United States has or claims a
mortgage or lien." 28 U.S.C. § 2410(a). Patents, however, "have the
attributes of personal property." 35 U.S.C. § 261. The United States
has not waived its sovereign immunity with respect to personal property
in which the United States claims a title interest, as opposed to a lien
interest. *Dunn & Black, P.S. v. United States*, 492 F.2d 291, 292 (9th
Cir. 1973). The absence of any waiver of sovereign immunity with respect
to challenges to a federal agency's rights to personal property impliedly
forbids similar relief under the APA. To the extent that Plaintiffs' APA
claims challenge the United States' right to possess, manage, and dispose
of the patents, such challenges are barred.

1 challenge the validity of the patent and/or the methods by
2 which the patent was obtained) is GRANTED WITHOUT LEAVE TO
3 AMEND.
4

5 b. The Bayh-Dole Act Does not Commit Action With
6 Respect to Licensing to Agency Discretion.

7 In addition to challenging the validity of the Patents
8 themselves, Plaintiffs allege that the USDA's licensing
9 activities violate provisions of the Bayh-Dole Act, 35 U.S.C.
10 § 200 et seq. Defendants argue that these licensing claims
11 are barred by Section 701(a)(2) of the APA, which precludes
12 application of the APA to any "agency action [that] is
13 committed to agency discretion by law." 5 U.S.C. §
14 701(a)(2). Defendants maintain that the Bayh-Dole act
15 commits the acts of licensing to agency discretion.
16

17 Agency action is committed to agency discretion by law
18 when the statute which authorizes the agency's action is
19 "drawn in such broad terms that in a given case there is no
20 law to apply." *Citizens to Preserve Overton Park v. Volpe*,
21 401 U.S. 402, 410 (1971), overruled on other grounds, see
22 *Califano v. Sanders*, 430 U.S. 99 (1977); see also *Webster v.*
23 *Doe*, 486 U.S. 592, 600 (1988). Applying § 701(a)(2)
24 "requires careful examination of the statute on which the
25 claim of agency illegality is based." *Webster*, 486 U.S. at
26 600.
27

28 In *Heckler v. Chaney*, 470 U.S. 821, 828 (1985), the Food

1 and Drug Administration's ("FDA") decision not to undertake
2 an enforcement proceeding against the use of certain drugs in
3 administering the death penalty was not subject to judicial
4 review under the APA because the statute conferring power on
5 the FDA to prohibit the unlawful misbranding or misuse of
6 drugs provided no substantive standards on which a court
7 could base a review of the challenged conduct. "The Act's
8 enforcement provisions thus commit complete discretion to the
9 [FDA] to decide how and when they should be exercised." *Id.*
10 at 835.
11

12 In contrast, in *Overton Park*, APA § 701(a)(2) did not
13 bar judicial review of the Department of Transportation's
14 ("DOT") release of federal funds to complete a segment of
15 expressway that ran through a city park. 401 U.S. at 413-
16 14. The relevant statutes, which provided that DOT "shall
17 not approve any program or project that requires the use of
18 any public parkland unless (1) there is no feasible and
19 prudent alternative to the use of such land, and (2) such
20 program includes all possible planning to minimize harm to
21 such park . . .," provided "clear and specific directives."
22
23 *Id.*
24

25 In general, the Bayh-Dole Act authorizes federal
26 agencies to apply for, obtain, and maintain patents:

27 Each Federal agency is authorized to apply for,
28 obtain, and maintain patents . . . in the United
States . . . on inventions in which the Federal

1 Government owns a right, title, or interest.

2 35 U.S.C. § 207(a)(1).

3 Many of Plaintiffs' APA allegations directly implicate
4 the authorization granted by the Bayh-Dole Act. Plaintiffs'
5 allege that the USDA acted unlawfully by "deciding and
6 agreeing to engage in a patenting program with the
7 Commission...", FAC ¶74; "filing and prosecut[ing] of patent
8 applications for the Patented Varieties," FAC ¶75; "engaging
9 in inequitable conduct before the USPTO...", FAC ¶76; and
10 "procuring, accepting the issuance, and maintaining the '284,
11 '891 and '229 patents," FAC ¶77. Other allegations
12 indirectly implicate the Bayh Dole Act's authorization, such
13 as those involving USDA's "granting the Commission an
14 exclusive license in the '284, '891 and '229 patents," FAC
15 ¶78; "approving, allowing and cooperating with the
16 Commission's amnesty program, licensing program and
17 enforcement program with respect to the Patented Varieties,"
18 FAC ¶79; "allowing the Commission to collect royalties for
19 the Patented Varieties...", FAC ¶80; and "cooperating,
20 encouraging and acting in concert with the Commission in the
21 collection of royalties for the Patented Varieties and by
22 receiving a portion of those royalties from the Commission,"
23 *id.*

24 As to all these patenting activities, Plaintiffs
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28

1 identify no "clear and specific directives" contained in the
2 Bayh-Dole Act (or any other statute or regulation) against
3 which USDA's conduct can be measured. Plaintiffs assert that
4 the Bayh-Dole act in fact "contains a comprehensive statutory
5 scheme for government agencies to follow when seeking to
6 patent inventions, grant exclusive licenses, and collect
7 royalties" and "leaves virtually nothing in these areas to
8 agency discretion." Doc. 70 at 11. To support this
9 assertion, Plaintiffs note only that the Bayh-Dole Act
10 expressly limits the government's ability to seek patent
11 protection to "inventions in which the Federal Government
12 owns a right, title, or interest." 35 U.S.C. § 207(a)(1).
13 "Inventions" is defined as "any invention or discovery which
14 is or may be patentable." § 201(d). Plaintiffs argue "the
15 Bayh-Dole Act expressly limits a government agency's
16 discretion to seek patent protection to subject matter that
17 meets the conditions of patentability set forth elsewhere in
18 the Patent Act." Doc. 70 at 11. The Patent Act is the
19 source of substantive law that underpins any such Bayh-Dole
20 act claim, but the latter contains no substantive standards
21 to aid judicial review of the disputed patenting activities.

22
23
24
25 Plaintiffs note that UDSA's licensing activities are
26 subject to "clear and specific directives" contained in
27 section 209(a), which provides:
28

1 Authority.--A Federal agency may grant an exclusive
2 or partially exclusive license on a federally owned
3 invention under section 207(a)(2) only if--

4 (1) Granting the license is a reasonable and
5 necessary incentive to--

6 (A) call forth the investment capital and
7 expenditures needed to bring the invention to
8 practical application; or

9 (B) otherwise promote the invention's
10 utilization by the public;

11 (2) the Federal agency finds that the public will be
12 served by the granting of the license, as indicated
13 by the applicant's intentions, plans, and ability to
14 bring the invention to practical application or
15 otherwise promote the invention's utilization by the
16 public, and that the proposed scope of exclusivity
17 is not greater than reasonably necessary to provide
18 the incentive for bringing the invention to
19 practical application, as proposed by the applicant,
20 or otherwise to promote the invention's utilization
21 by the public;

22 (3) the applicant makes a commitment to achieve
23 practical application of the invention within a
24 reasonable time, which time may be extended by the
25 agency upon the applicant's request and the
26 applicant's demonstration that the refusal of such
27 extension would be unreasonable;

28 (4) granting the license will not tend to
substantially lessen competition or create or
maintain a violation of the Federal antitrust laws;
and

(5) in the case of an invention covered by a foreign
patent application or patent, the interests of the
Federal Government or United States industry in
foreign commerce will be enhanced.

35 U.S.C. § 209(a).

The FAC specifically invokes § 209(a)(4), alleging that
"USDA's action in granting the Commission an exclusive

1 license to [the Patented Varieties violates the APA]
2 because... the exclusive license is in violation of ... [35
3 U.S.C.] § 209(a)(4), in that the exclusive license
4 substantially lessens competition in the distribution,
5 production, and reproduction of the Patented Varieties and
6 either creates or maintains a violation of the Federal
7 Antitrust laws as alleged in the Sixth and Ninth Claims for
8 Relief." FAC ¶90. Section 209(a)(4)'s requirement that an
9 exclusive or partially exclusive license must "not tend to
10 substantially lessen competition or create or maintain a
11 violation of the Federal antitrust laws," is a "clear and
12 specific directive" that may be enforced by way of the APA's
13 judicial review provisions.
14
15

16 In addition, although no such violation is alleged in
17 the FAC, at oral argument Plaintiffs invoked § 209(a)(1),
18 arguing that granting the license was not a "reasonable and
19 necessary incentive" to either "call forth the investment
20 capital and expenditures needed to bring the invention to
21 practical application"; or "otherwise promote the invention's
22 utilization by the public." This too is a "clear and
23 specific directive" that may be enforced by a court.
24

25 Defendants' motion to dismiss Plaintiffs' license-
26 related APA claims pursuant to section 701(a)(2)'s limitation
27 on section 702's waiver of sovereign immunity is DENIED. As
28

1 to these remaining licensing claims brought under section
2 209(a) of the Bayh-Dole Act, Defendants advance a number of
3 alternative arguments for dismissal.
4

5 2. Standing.

6 Defendants argue that Plaintiffs do not have standing to
7 bring APA licensing claims against the Federal Defendants.
8 To maintain an action in federal court, Plaintiffs must have
9 Article III standing. See *Lujan v. Nat'l Wildlife Fed'n*, 497
10 U.S. 871, 872 (1990). "[T]o satisfy Article III's standing
11 requirements, a plaintiff must show (1) [he] has suffered an
12 'injury in fact' that is (a) concrete and particularized and
13 (b) actual or imminent, not conjectural or hypothetical; (2)
14 the injury is fairly traceable to the challenged action of
15 the defendant; and (3) it is likely, as opposed to merely
16 speculative, that the injury will be redressed by a favorable
17 decision." *Friends of the Earth v. Laidlaw Env'tl. Servs.*
18 *(TOC), Inc.*, 528 U.S. 167, 180-81 (2000). In addition to the
19 Article III requirements, plaintiffs bringing suit under the
20 APA, 5 U.S.C. § 706, must establish that they fall within the
21 "zone of interest" of the statute under which they bring
22 their lawsuit. See *City of Sausalito v. O'Neill*, 386 F.3d
23 1186, at 1199 (9th Cir.2004).
24
25

26 The burden of establishing the elements of standing
27 falls upon the party asserting federal jurisdiction. *Lujan*
28

1 v. *Defenders of Wildlife*, 504 U.S. 555, 561 (1992). "[E]ach
2 element of Article III standing 'must be supported in the
3 same way as any other matter on which the plaintiff bears the
4 burden of proof, i.e., with the manner and degree of evidence
5 required at the successive stages of the litigation.'" *Bennett v. Spear*, 520 U.S. 154, 167 (1997) (quoting *Lujan*,
6 504 U.S. at 561).
7
8

9 a. Injury in Fact; Causation; Redressibility.

10 To satisfy the "injury in fact" requirement, Plaintiffs
11 must provide evidence of either actual or threatened injury.
12 See *United States v. Ensign*, 491 F.3d 1109, 1116-17 (9th Cir.
13 2007). Causation requires that the injury be "fairly
14 traceable" to the challenged action of the defendant, and not
15 be "the result of the independent action of some third party
16 not before the court." *Tyler v. Cuomo*, 236 F.3d 1124, 1132
17 (9th Cir. 2000). The causation element is lacking where an
18 "injury caused by a third party is too tenuously connected to
19 the acts of the defendant." *Citizens for Better Forestry v.*
20 *U.S. Dept. of Agric.*, 341 F.3d 961, 975 (9th Cir. 2003).
21 Finally, redressibility requires that plaintiff show it is
22 "likely that a favorable court decision will redress the
23 injury to the plaintiff." *Lujan*, 504 U.S. at 560.
24 "Redressibility requires an analysis of whether the court has
25 the power to right or to prevent the claimed injury."
26
27
28

1 *Gonzales v. Gorsuch*, 688 F.2d 1263, 1267 (9th Cir. 1982).

2 The United States does not challenge plaintiffs' ability
3 to satisfy the Article III requirements. However, the
4 Commission maintains that, with respect to the allegations
5 that the licenses granted to the Commission by the USDA
6 should be declared void, Plaintiffs "have not, and cannot
7 allege, any injury fairly traceable to the challenged action
8 of the USDA." Doc. 67 at 20 (internal quotation omitted).
9 Specifically, the Commission asserts that "[f]ar from
10 injuring plaintiffs, the USDA's decision to license the use
11 of its patented grape varieties presents an opportunity to
12 plaintiffs that would not otherwise exist. Indeed, if the
13 Court were to invalidate the licenses, which provide the
14 authority for plaintiffs' sub-licenses, then plaintiffs would
15 have no way to use the Patented Varieties short of infringing
16 the USDA's patents." *Id.* Plaintiffs do not respond to this
17 argument.
18
19

20 The Commission's view of causation and redress is too
21 narrow. If, for example, the entire licensing program was
22 declared invalid because the USDA failed to satisfy the terms
23 of section 209(a) of the Bayh-Dole Act, the licensing program
24 would likely be remanded to USDA and the Commission for
25 further consideration and/or findings. In that event, in
26 order to comply with 209(a), the licensing program might have
27
28

1 to be redesigned in ways that would benefit Plaintiffs.

2 Plaintiffs have satisfied the Article III standing
3 requirements with respect to their licensing-related APA
4 claims.

5
6 b. Zone of Interest.

7 "For a plaintiff to have prudential standing under the
8 APA, the interest sought to be protected by the complainant
9 must be arguably within the zone of interests to be protected
10 or regulated by the statute in question." *Nat'l Credit Union*
11 *Admin. v. First Nat'l Bank & Trust Co.*, 522 U.S. 479, 488
12 (1998) (citation omitted). In determining whether a
13 plaintiff has asserted an interest within the "zone of
14 interests" protected by a statute, the relevant provision is
15 the "statutory provision whose violation forms the legal
16 basis for [the plaintiffs'] complaint." *Lujan*, 497 U.S. at
17 883. A court is permitted to look beyond the individual
18 statutory provision on which the complaint is based and may
19 focus on the objective of the entire statute in order to
20 better understand its purpose. See *Clarke v. Securities*
21 *Indus. Ass'n*, 479 U.S. 388, 401 (1987) (stating that a court
22 is "not limited to considering the statute under which
23 respondents sued, but may consider any provision that helps
24 us to understand Congress's overall purposes" behind the
25 relevant statute); *Air Courier Conference v. Am. Postal*
26
27
28

1 *Workers Union*, 498 U.S. 517, 528 (1991) (citing *Clarke*);
2 *Westlands Water Dist. v. U.S. Dep't of Interior*, 850 F. Supp.
3 1388, 1425 (E.D. Cal. 1994) (same).

4 Plaintiffs remaining APA claims arise under the Bayh-
5 Dole Act. In *Service Engineering Corporation v. U.S. Dep't*
6 *of Agriculture*, 1999 U.S. Dist. LEXIS 21952 (D. Md. March 30,
7 1999), corporate plaintiffs were denied a patent license
8 because the federal government issued an exclusive license to
9 another corporation. The district court concluded that
10 plaintiffs lacked prudential standing under the Bayh-Dole
11 Act, because "Congress's primary policy and objective in
12 adopting the Act was to promote the utilization of inventions
13 arising from federally supported research and development."
14 *Id.* at *13-14 (quoting 35 U.S.C. § 200).

17 The court does not agree with Plaintiffs' position
18 that the Act was intended to protect individuals,
19 including corporations, from the anticompetitive
20 effects of government licensing policies. Indeed,
21 the Act clearly anticipates, even encourages, such
22 anticompetitive effects since it permits the
23 exclusive licensing of patented government
24 inventions. While it is true that Congress directed
25 federal agencies not to grant exclusive or partially
26 exclusive licenses where doing so would be
27 inconsistent with the antitrust laws, nothing in the
28 Act indicates that Congress intended to protect the
specific economic interests of parties in
competition with government licensees.

24 *Id.* at * 14-15 (citations omitted). The *Service Engineering*
25 plaintiffs had no prudential standing to challenge the USDA's
26 grant of an exclusive license to another entity because their
27 "interests [fell] outside the zone of interests protected by
28

1 the Bayh-Dole Act." *Id.* at *16.

2 The reasoning of *Service Engineering* on the issue of the
3 anticompetitive effects of licensing is not persuasive.
4 Section 209(a)(4)'s prohibition of granting exclusive or
5 partially exclusive licenses that will "tend to substantially
6 lessen competition or create or maintain a violation of the
7 Federal antitrust laws..." is a direct expression of
8 Congressional intent to control the anticompetitive effects
9 of exclusive licensing programs. Who else but parties in
10 competition with government licensees would have the
11 incentive to ensure that this provision is enforced? The
12 connection between Plaintiffs' alleged injury -- that they
13 are restricted from freely growing, selling, distributing,
14 reproducing, propagating or otherwise freely using plant
15 material and the fruit from the Patented Varieties without
16 acquiring a license and paying royalties to the Commission --
17 and this protection against anticompetitive licensing
18 programs is less clear. Plaintiffs allege that some growers
19 lawfully acquired the Patented Varieties before they were
20 patented. If an invention is known or used by the public
21 before it was patented, the patent may be void, 35 U.S.C §
22 102(b), but Plaintiffs cannot challenge the patent in this
23 lawsuit. It is not clear whether and to what extent
24 Plaintiffs can frame a cause of action under the Bayh-Dole
25
26
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28

1 Act based on anticompetitive effect of the licensing program
2 without challenging the underlying Patent. Plaintiffs will
3 be afforded an opportunity to amend their complaint, to state
4 such a claim, although it seems doubtful an amendment can be
5 made consistent with Rule 11.

6
7 Plaintiffs' also invoke 35 U.S.C. § 209(a)(1), which
8 requires that any exclusive or partially exclusive license be
9 a "reasonable and necessary incentive to-- (A) call forth the
10 investment capital and expenditures needed to bring the
11 invention to practical application; or (B) otherwise promote
12 the invention's utilization by the public." Again, it is not
13 clear how Plaintiffs have been harmed in any way that
14 implicates this provision. Do Plaintiffs assert that the
15 licensing program was a not "reasonable and necessary"
16 incentive to call forth investment capital and/or otherwise
17 promote the invention's utilization by the public because
18 growers were already contributing to research and development
19 programs without the existence of the licensing program? It
20 is not possible to fully evaluate Plaintiffs' claim under the
21 zone of interest test because Plaintiffs' complaint does not
22 include sufficient allegations.
23
24

25 Defendants' motion to dismiss the licensing-related
26 claims for lack of standing is GRANTED WITH LEAVE TO AMEND.
27
28

1 3. Section 704's Final Agency Action Requirement.

2 Alternatively, Defendants assert that Plaintiffs' APA
3 claims fail to satisfy the "final agency action" requirement.
4 The Supreme Court held that "agency action" is a prerequisite
5 to bringing a claim under § 702:
6

7 This provision contains two separate requirements.
8 First, the person claiming a right to sue must
9 identify some "agency action" that affects him in
10 the specified fashion; it is judicial review
11 "thereof" to which he is entitled. The meaning of
12 "agency action" for purposes of § 702 is set forth
13 in 5 U.S.C. § 551(13), see 5 U.S.C. § 701(b)(2)
14 ("For the purpose of this chapter ... 'agency
15 action' ha[s] the meanin[g] given ... by section 551
16 of this title"), which defines the term as "the
17 whole or a part of an agency rule, order, license,
18 sanction, relief, or the equivalent or denial
19 thereof, or failure to act," 5 U.S.C. § 551(13).

20 *Lujan*, 497 U.S. at 882. "When, as here, review is sought not
21 pursuant to specific authorization in the substantive
22 statute, but only under the general review provisions of the
23 APA, the 'agency action' in question must be 'final agency
24 action.'" *Id.* (citing 5 U.S.C. § 704 ("Agency action made
25 reviewable by statute and final agency action for which there
26 is no other adequate remedy in a court are subject to
27 judicial review.")).

28 Plaintiffs cite a number of cases, including *Jaffe v.*
29 *United States*, 592 F.2d 712 (3d Cir. 1979) and *Guerrero v.*
30 *Stone*, 970 F.2d 626, 627-28 (9th Cir. 1992), for the
31 proposition that APA § 702 waives sovereign immunity for any

1 equitable civil action invoking a district court's federal
2 question jurisdiction. But, Supreme Court precedent, such as
3 *Lujan*, 497 U.S. at 882, and *Heckler v. Chaney*, 470 U.S. at
4 828, make it clear that § 702's waiver is conditioned upon
5 overcoming § 701 and 704's requirements.⁵
6

7 a. Agency Action.

8 The APA offers a right of judicial review for equitable
9 relief for "[a] person suffering legal wrong because of
10

11 ⁵ The Ninth Circuit still recognizes the existence of an intra-circuit
12 split concerning the relationship of § 704 to § 702's waiver of sovereign
13 immunity. For example, *The Presbyterian Church (U.S.A.) v. U.S.*, 870
14 F.2d 518, 525 (9th Cir. 1989), held that Congress did not limit § 702's
15 sovereign immunity waiver to those acts listed in § 551(13), which
16 defines agency action to "include[] the whole or a part of an agency
17 rule, order, license, sanction, relief, or the equivalent or denial
18 thereof, or failure to act."

19 However, shortly after *The Presbyterian Church* was decided, *Lujan*,
20 497 U.S. at 882, held that "agency action" is a requirement of § 702; see
21 also *Rattlesnake Coalition v. EPA*, 509 F.3d 1095, 1103 (9th Cir. 2007);
22 *Gallo Cattle Co. v. U.S. Dept. of Agriculture*, 159 F.3d 1194 (9th Cir.
23 1998). It is not at all clear how any aspect of *The Presbyterian*
24 *Church's* "agency action" holding survives *Lujan* and related Ninth Circuit
25 precedent. See *Veterans for Common Sense v Peake*, 563 F. Supp. 2d 1049,
1058 (N.D. Cal. 2008) (noting that *Lujan* "made clear that waiver of
sovereign immunity under § 702 is constrained by the provisions contained
in § 704").

Nevertheless, the Ninth Circuit continues to recognize an "intra-
circuit" split. *Gros Ventre Tribe v. United States*, 469 F.3d 801, 808-
809 (9th Cir. 2006), noted without resolving the conflict between *Gallo*
Cattle, 159 F.3d at 1198, which specifically stated that "the APA's
waiver of sovereign immunity contains several limitations," including §
704's "final agency action" requirement, and *The Presbyterian Church*,
which held that § 702's waiver is not conditioned on the APA's "agency
action" requirement. See also *Siskiyou Regional Educ. Project v. U.S.*
Forest Serv., 565 F.3d 545, 554 n.8 (2009) ("In light of our
determination that [plaintiff] challenges final agency action, we need
not address the 'intra-circuit split' that we have recognized exists on
the question whether the 'final agency action' requirement of the APA is
jurisdictional.).

Siskiyou suggests that one way to reconcile *The Presbyterian Church*
and *Lujan* may be to recognize that there is an intra-circuit split as to
whether or not the "agency action" requirement is jurisdictional, or
merely an element of an APA claim. In this case, this is a distinction
without a difference. After *Lujan* it cannot seriously be argued that an
APA claim can survive unless "agency action," as that term is defined in
5 U.S.C. 551(13), is alleged.

1 agency action, or adversely affected or aggrieved by agency
2 action within the meaning of a relevant statute....”
3 5 U.S.C. § 702. APA § 551(13) defines agency action to
4 “include[] the whole or a part of an agency rule, order,
5 license, sanction, relief, or the equivalent or denial
6 thereof, or failure to act.” 5 U.S.C. § 551(13) (emphasis
7 added). “All of those categories involve circumscribed,
8 discrete agency actions, as their definitions make clear: ‘an
9 agency statement of future effect designed to implement,
10 interpret, or prescribe law or policy’ (rule); ‘a final
11 disposition in a matter other than rule making’ (order); a
12 ‘permit or other form of permission’ (license); a
13 ‘prohibition or taking of other compulsory or restrict
14 action’ (sanction); or a ‘grant of money, assistance,
15 license, authority,’ etc., or ‘recognition of a claim, right,
16 immunity,’ etc., or ‘taking of other action on the
17 application or petition of, and beneficial to a person’
18 (relief). *Norton v. S. Utah Wilderness Alliance*, 542 U.S.
19 55, 62 (2004) (citing 5 U.S.C. §§ 551(4), (6), (8), (10),
20 (11)).

21
22
23
24 USDA’s decision to grant exclusive licenses to the
25 Commission is the only action about which plaintiffs complain
26 that even arguably falls with the definition of “agency
27 action.” USDA’s decisions to engage in or cooperate in a
28

1 patenting program with the Commission, to file and prosecute
2 patent applications, and to procure, accept, and maintain
3 issued patents do not qualify.
4

5 b. Final Agency Action.

6 By its terms, the APA permits review only of "agency
7 action made reviewable by statute and final agency action for
8 which there is no other adequate remedy in a court...."
9 5 U.S.C. § 704. Where, as here, no specific statutory
10 judicial review provision exists, the APA only applies to
11 "final agency action." *Id.*; *Lujan*, 497 U.S. at 882. An
12 agency action is deemed "final" for purposes of APA when it
13 meets the following two criteria:
14

15 (1) The action must mark the "consummation" of
16 the agency's decisionmaking process—it must not be
17 of a merely tentative or interlocutory nature; and

18 (2) The action must be one by which "rights or
19 obligations have been determined," or from which
20 "legal consequences will flow."

21 *Bennett v. Spear*, 520 U.S. 154, 177-78 (1997).

22 The USDA's acts of pursuing patent protection for the
23 Patented Varieties, as well as its efforts to cooperate with
24 the Commission in a patenting program, do not constitute
25 "final" agency action. Until the USPTO grants a patent, the
26 application for the patent and its prosecution do not
27 determine any rights or obligations from which legal
28 consequences will flow. There appears to be no dispute that

1 the USDA's decision to engage in the licensing program was a
2 "final agency action."

3 With the exception of the issuance of exclusive licenses
4 to the Commission, all of Plaintiffs' APA allegations fail to
5 state a claim under the APA because they are not "final
6 agency actions." Defendants' motion to dismiss the APA
7 claims because an adequate alternative remedy exists is
8 DENIED as to the exclusive license claims and GRANTED as to
9 all other claims.
10

11
12 4. Section 704's No Adequate Alternative Remedy Requirement.

13 Additionally, "[s]ection 704 of the Administrative
14 Procedure Act bars review of agency action by the district
15 court when there is an adequate remedy in another forum."
16 *Marshall Leasing, Inc. v. United States*, 893 F.2d 1096, 1100
17 (9th Cir. 1990).
18

19 Defendants assert that Plaintiffs have an adequate
20 alternative forum for review of the validity and
21 enforceability of the government's patents in response to any
22 infringement suit brought by the government or authorized to
23 be brought by the Commission against the Plaintiffs. See
24 *Hallmark*, 959 F. Supp. at 543 (finding "the "Congressional
25 framework [of the Patent Act] precludes the right of third
26 parties to file a civil action in the case of the issuance of
27 a Certificate of Correction; the third party's recourse for
28

1 the alleged errors made by the PTO is to raise the issue as a
2 defense in an infringement suit."); *Hitachi*, 776 F. Supp. at
3 10 ("Instead of providing third-party protestors with the
4 right to judicial review of examination proceedings, Congress
5 authorized them to raise allegations of patent invalidity as
6 a defense to an infringement action.").

7
8 In response, Plaintiffs again invoke *MedImmune*, which
9 arguably recognizes that the remedy of a counterclaim to an
10 infringement suit is not always adequate, holding that where
11 a plaintiff is threatened with government action, Plaintiff
12 is not required "to expose himself to liability before
13 bringing suit to challenge the basis for the threat...." 549
14 U.S. at 128-29. Because *MedImmune* does not, of its own
15 accord, permit anticipatory suit by Plaintiffs against the
16 United States, Plaintiffs lack an adequate alternative remedy
17 with respect to the patent related claims, but these have
18 been dismissed on other grounds.
19

20 As to the license-related claims, Defendants point to no
21 alternative remedy. Defendants' motion to dismiss the
22 licensing-related claims because an adequate alternative
23 remedy exists is DENIED.
24

25 5. Exhaustion of Administrative Remedies.

26 Defendants argue that the APA allegations should be
27 dismissed because Plaintiffs' failed to raise them before the
28

1 agency during administrative proceedings. Exhaustion may be
2 imposed either by statute or the courts:

3 Of paramount importance to any exhaustion inquiry is
4 congressional intent." *McCarthy v. Madigan*, 503
5 U.S. 140, 144 (1992) (citing *Patsy v. Board of*
6 *Regents of Florida*, 457 U.S. 496 (1982) (internal
7 quotation marks omitted)), superceded by statute as
8 stated in *Booth v. Churner*, 532 U.S. 731, 732
9 (2001).[] "Where Congress specifically mandates,
10 exhaustion is required." *Id.* (citing *Coit*
11 *Independence Joint Venture v. FSLIC*, 489 U.S. 561,
12 579 (1989); *Patsy*, 457 U.S. at 502 n. 4). "But
13 where Congress has not clearly required exhaustion,
14 sound judicial discretion governs." *McCarthy*, 503
15 U.S. at 144 (citing *McGee v. United States*, 402 U.S.
16 479, 483 n. 6 (1971)). To discern the intent of
17 Congress, "[w]e look first to the plain language of
18 the statute, construing the provisions of the entire
19 law, including its object and policy.'" *United*
20 *States v. \$493,850.00 in U.S. Currency*, 518 F.3d
21 1159, 1167 (9th Cir. 2008) (quoting *Carson Harbor*
22 *Vill., Ltd. v. Unocal Corp.*, 270 F.3d 863, 877 (9th
23 Cir. 2001)).

24 *Cassirer v. Kingdom of Spain*, 580 F.3d 1048, 1059-60 (9th
25 Cir. 2009).

26 Here, although the Bayh-Dole Act does not explicitly
27 impose an exhaustion requirement, it does provide for a
28 notice and comment period:

Public notice.--No exclusive or partially exclusive
license may be granted under section 207(a)(2)
unless public notice of the intention to grant an
exclusive or partially exclusive license on a
federally owned invention has been provided in an
appropriate manner at least 15 days before the
license is granted, and the Federal agency has
considered all comments received before the end of
the comment period in response to that public
notice. This subsection shall not apply to the
licensing of inventions made under a cooperative
research and development agreement entered into
under section 12 of the Stevenson-Wydler Technology
Innovation Act of 1980 (15 U.S.C. 3710a).

1 35 U.S.C. § 209(e).

2
3 The Eleventh Circuit has read an exhaustion requirement
4 into this notice and comment period. *Southern Research Inst.*
5 *v. Griffin Corp.*, 938 F.2d 1249, 1252-53 (11th Cir. 1991).
6 In *Southern Research*, a company challenged the government's
7 grant of an exclusive patent license to another entity. The
8 Eleventh Circuit affirmed dismissal of the action, holding
9 that by failing to raise objections during the prescribed
10 comment period, the company had waived its right to challenge
11 the licensing decision. *Id.* at 1252-53. The court explained
12 that because "[t]he licensing scheme under 35 U.S.C. §§ 207
13 and 209 and the applicable regulations provided an avenue of
14 administrative appeal of which [the plaintiff] failed to
15 avail itself," judicial review of the licensing decision was
16 precluded. *Id.* at 1253. Plaintiff offers no persuasive
17 argument why the reasoning of *Southern Research* should not
18 apply here to impose an exhaustion requirement on plaintiffs
19 challenging licensing decisions under the Bayh-Dole Act.
20
21

22 Here, in accordance with 35 U.S.C. § 209(e), the USDA
23 issued a notice in the Federal Register on April 29, 2003,
24 explaining the agency's intent to grant an exclusive license
25 to the Commission for the Sweet Scarlet variety. 68 Fed.
26 Reg. 22671 (April 29, 2003).⁶ On December 23, 2004, the USDA
27

28 ⁶ Plaintiffs argue that the USDA improperly offers evidence
56

1 issued two notices in the Federal Register of its intent to
2 grant exclusive licenses for the Scarlet Royal and Autumn
3 King varieties to the Commission. 69 Fed. Reg. 76902 (Dec.
4 23, 2004). All three notices informed the public that the
5 proposed licenses would be granted within ninety days unless
6 the USDA received "written evidence and argument which
7 establishes that the grant of the license would not be
8 consistent" with the Bayh-Dole Act and applicable
9 regulations. Plaintiffs failed to present any evidence or
10 argument during the prescribed comment period.
11

12 The Ninth Circuit recognizes a number of exceptions to
13 judicially imposed exhaustion requirements. For example, a
14 court "may decide an issue not raised in an agency action if
15 the agency lacked either the power or the jurisdiction to
16 decide it." *Reid v. Engen*, 765 F.2d 1457, 1461 (9th Cir.
17 1985) (internal citations and quotations omitted). Another
18 exception permits a court to "decide issues over which an
19 agency has power and jurisdiction when exceptional
20 circumstances warrant such review, notwithstanding the
21 petitioner's failure to present them to the agency." *Id.* at
22 1461-62.
23
24

25 regarding its compliance with the notice and comment requirements. These
26 notices, published in the Federal Register, are properly the subject of
27 judicial notice. See 44 U.S.C. § 1507 (contents of the Federal Register
28 shall be judicially noticed). Moreover, 44 U.S.C. § 1507 provides that,
unless otherwise prohibited by statute, publication of notice in the
Federal Register creates a rebuttable presumption that proper notice was
issued.

1 Plaintiffs argue for the application of one or more of
2 these exceptions, asserting that they could not have been
3 aware of certain facts necessary to object to the USDA's
4 Federal Register notices. Specifically, Plaintiffs argue:

5 At the time of the notice and comment periods,
6 Plaintiffs could not have known that (1) the USDA
7 obtained a patent on Sweet Scarlet through
8 inequitable conduct; (2) the Patented Varieties had
9 already been in public use and on sale more than a
10 year prior to the filing of the patent applications;
11 (3) the USDA and the Commission would seek to
12 enforce, license, and collect royalties on invalid
13 and unenforceable patents, and (4) the USDA would
14 allow the Commission to limit distribution to a
15 small number of nurseries, including nurseries with
16 family ties to Commission board members. Indeed,
17 nothing in the notices regarding the USDA's intent
18 to exclusively license the Patented Varieties to the
19 Commission provided the details regarding the
20 planned royalty program.

21 Doc. 70 at 19-20.

22 The first three purportedly unknown facts all concern
23 the validity of the patents. Although these arguably
24 implicate the exception for matters outside of the agency's
25 power or jurisdiction, these patent-related arguments cannot
26 be adjudicated here because of sovereign immunity. The
27 fourth purportedly unknown fact -- that the USDA would allow
28 the Commission to limit distribution to a small number of
nurseries, including nurseries with family ties to Commission
board members -- is arguably relevant to a claim that the
Commission failed to comply with 35 U.S.C. § 209(a), but it
is not clear why this fact alone, in light of all other known

1 facts, would have caused Plaintiffs to comment on the
2 licensing proceeding. Plaintiffs have not demonstrated that
3 exhaustion should be excused in this case. Defendants'
4 motion to dismiss for failure to exhaust is GRANTED WITH
5 LEAVE TO AMEND. Plaintiffs shall be afforded the opportunity
6 to amend on this issue and shall allege their excuse-from-
7 exhaustion theory in any amended complaint.
8

9
10 C. Patent Invalidation Claims (Second, Third, & Fourth Claims
for Relief).

11 The Second, Third, and Fourth Claims For Relief against
12 all Defendants request declarations that the three patents
13 are unlawful and invalid under the Declaratory Judgment Act
14 and the APA. These claims fail for the same reasons that the
15 APA claims fail. The United States is an indispensable party
16 to these claims that cannot be joined.
17

18 D. Declaration of Unenforceability for Inequitable Conduct
19 Regarding the '891 Patent (Fifth Claim For Relief).

20 The Fifth Claim for Relief against all Defendants
21 requests a declaration that the '891 patent is unenforceable
22 because Defendants failed to fully disclose to the USPTO that
23 the Sweet Scarlet variety was in the public domain prior to
24 the filing of the patent application. Because this claim
25 concerns the enforceability of a patent held by the United
26 States, this claim must be DISMISSED WITH PREJUDICE because
27 the United States cannot be joined as a party.
28

1 E. Antitrust Claim (Sixth Claim For Relief).

2 Plaintiffs allege that the Commission violated federal
3 antitrust laws by "enforcing patent rights ... and collecting
4 royalties ... while knowing that the patent on Sweet Scarlet
5 could not be enforced due to prior public use and inequitable
6 conduct." FAC ¶155. This claim would require plaintiffs to
7 demonstrate the unenforceability of the Sweet Scarlet patent.
8 Accordingly, the antitrust claim must be dismissed under Rule
9 19 as well. Plaintiffs' argument that their antitrust claim
10 "do[es] not request that the Court enter any judgment
11 regarding the validity or enforceability of any government
12 property," Doc. 71 at 9, is unpersuasive, as the claim
13 explicitly depends on the allegation that the "patent on
14 Sweet Scarlet could not be enforced due to prior public use
15 and inequitable conduct." FAC ¶155.
16
17

18 Moreover, to establish the type of monopoly Plaintiffs
19 allege, a "Walker Process" violation, it is "necessary to
20 appraise the exclusionary power of the illegal patent claim
21 in terms of the relevant market for the product involved."
22 See *Walker Process*, 382 U.S. at 177-78. It has previously
23 been recognized that it is "dubious" whether each of the
24 Patented Varieties could constitute its own relevant market,
25 Doc. 42 at 61, but plaintiffs were afforded leave to amend to
26 attempt to adequately allege "that no other substitutes for
27
28

1 each Patented Variety exist," *id.* at 61-62. The FAC contains
2 no such allegations; instead it asserts the relevant markets
3 can be defined by the attributes for each patented variety
4 described in the relevant patent. The FAC also alleges that
5 each patented variety has "unique characteristics" and other
6 varieties are not "reasonably interchangeable" with and do
7 not provide "effective substitutes to" the Patented
8 Varieties. FAC ¶¶ 159-61.

9
10 The Commission argues that Plaintiffs' allegations are
11 inadequate to satisfy evolving pleading standards. "To
12 survive a motion to dismiss, a complaint must contain
13 sufficient factual matter, accepted as true, to 'state a
14 claim to relief that is plausible on its face.'" *Iqbal*, 129
15 S. Ct. at 1949 (quoting *Twombly*, 550 U.S. at 570). Courts
16 define markets based on "interchangeability of use or the
17 cross-elasticity of demand." *Todd v. Exxon Corp.*, 275 F.3d
18 191, 200 (2d Cir. 2001); *Newcal Indus., Inc. v. Ikon Office*
19 *Solution*, 513 F.3d 1038, 1045 (9th Cir. 2008). The relevant
20 inquiry is whether growers -- the consumers of grapevines --
21 regard other varieties (or other crops) as reasonable
22 economic substitutes for the Patented Varieties. *Newcal*, 513
23 F.3d at 1045; *Apple, Inc. v. Psystar Corp.*, 586 F. Supp. 2d
24 1190, 1196 (N.D. Cal. 2008).

25
26
27 Plaintiffs allege no plausible basis to conclude that
28

1 growers regard the Patented Varieties as irreplaceable, nor
2 do they allege that growers would not substitute other crops
3 for the Patented Varieties. See, e.g., *United States v. E.I.*
4 *DuPont de Nemours, Inc.*, 351 U.S. 377, 394 (1956) (rejecting
5 argument cellophane was in different market from other
6 wrapping materials even though "each of these wrapping
7 materials is distinguishable").

8
9 Plaintiffs have twice been granted leave to amend this
10 claim. The Commission's motion to dismiss the antitrust
11 claim is GRANTED WITH PREJUDICE.

12
13 F. Exclusive License Claims (Seventh & Eighth Claims For
14 Relief).

15 The Seventh Claim for Relief seeks a declaration that
16 the Commission's exclusive license agreements for the
17 Patented Varieties are void and unlawful under federal law on
18 the ground that the patents are invalid and/or were obtained
19 through inequitable conduct. This claim must be dismissed
20 pursuant to Rule 19, as it challenges the validity of a
21 patent held by the United States, which cannot be joined to
22 the lawsuit.

23 The Eighth Claim for Relief against the Commission seeks
24 a declaration that the exclusive license agreements for the
25 Patented Varieties are void and unlawful under state law on
26 the grounds that the patents are invalid and/or were obtained
27 through inequitable conduct. The Commission argues that this
28

1 state law challenge to the license agreements between the
2 Commission and the USDA is preempted by federal law. It is
3 unnecessary to engage in a preemption analysis because, state
4 law cannot be used to challenge a contract entered into
5 pursuant to federal law where the government is a party. See
6 *O'Neill v. United States*, 50 F.3d 677, 682 (9th Cir. 1995)
7 ("Federal law governs the interpretation of contracts entered
8 into pursuant to federal law where the government is a
9 party.").

11 Defendants' motions to dismiss the Seventh and Eighth
12 Claims for Relief are GRANTED WITHOUT LEAVE TO AMEND.

14 G. Unfair Competition Claim.

15 The Commission initially sought dismissal of Plaintiffs'
16 § 17200 claim in light of plaintiffs' inability to state a
17 predicate antitrust claim. Doc. 20 at 27-28. The February
18 20, 2009 Decision rejected this argument, concluding that the
19 unfair competition claim also encompassed the allegation that
20 the Commission "collect[ed] patent royalties from growers who
21 paid for the research and development of the Patented
22 Varieties through assessment fees." Doc. 42 at 69-71.

24 As a threshold matter, the portion of the Unfair
25 Competition claim that relies upon the Commission's
26 enforcement of an allegedly "fraudulently" procured patent
27 must be dismissed under Rule 19.
28

1 The Commission also argues that Plaintiffs' alternative,
2 "double payment" theory finds no support in the law, as there
3 is no authority for the proposition that it is unlawful or
4 unfair under § 17200 for an entity created under state law to
5 require growers to both fund research into the development of
6 new grapevine varieties, and then force those same growers to
7 pay again for their use. But, California's Unfair
8 Competition law is meant to permit judicial review of a
9 "broad" and "sweeping" range of business activities. *McKell*
10 *v. Wash. Mut. Inc.*, 142 Cal. App. 4th 1457, 1471 (2006); *Cal-*
11 *Tech Commc'n, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal.
12 4th 163, 180 (1999). The "unlawful" criteria encompasses the
13 violation of "any law, civil or criminal, statutory or
14 judicially made, federal, state or local." *McKell*, 142 Cal.
15 App. 4th at 1474. The "unfair" prong is satisfied "even if
16 not specifically proscribed by some other law" so long as it
17 "offends an established public policy or ... is immoral,
18 unethical, oppressive, unscrupulous or substantially injurious
19 to consumers." *Korea Supply Co v. Lockheed Martin Corp.*, 29
20 Cal. 4th 1134, 1143 (2003); *Heighly v. J.C. Penny Life Ins.*
21 *Co.*, 257 F. Supp. 2d 1241, 1259 (C.D. Cal. 2003).
22 Plaintiffs' allegations concerning the "double payment"
23 requirement arguably meet the definition of "unfair," at
24 least for pleading purposes.
25
26
27
28

1 The Commission suggests, in the alternative, that the
2 Unfair Competition claim is preempted by federal law, as it
3 would take away the Commission's and USDA's federal right to
4 assert patents against any California table grape grower.
5 Doc. 67 at 25. But, the Commission does not develop this
6 argument or address any of the requirements for federal
7 preemption.
8

9 The Commission's motion to dismiss the Unfair
10 Competition claim is DENIED WITHOUT PREJUDICE.

11
12 H. Unjust Enrichment & Constructive Trust Claims.

13 Plaintiffs' unjust enrichment and constructive trust
14 claims are "dependent upon Plaintiffs' substantive ...
15 antitrust claims and unfair competition claims." Doc 42 at
16 71; see also *McBride v. Boughton*, 123 Cal. App. 4th 379, 387
17 (2004); *PCO Inc. v. Christensen, Miller, Fink, Jacobs,*
18 *Glaser, Weil & Shapiro, LLP*, 150 Cal. App. 4th 384, 398
19 (2007). If either survives, so do the unjust enrichment and
20 constructive trust claims.
21

22 I. Reconsideration of Determination that United States is
23 an Indispensable Party Under Rule 19.

24 Plaintiffs also seek reconsideration of the
25 determination that the United States is an indispensable
26 party under Rule 19(b). Plaintiffs cite a recent unpublished
27 decision from the Northern District of Illinois, *SourceOne*
28

1 *Global Partners, LLC v. KGK Synergize, Inc.*, 2009 WL 1346250
2 (N.D. Ill. May 13, 2009).⁷ *SourceOne* considered whether
3 plaintiffs could challenge the validity of a government-owned
4 patent in a declaratory relief suit against the patent's co-
5 owner and exclusive licensee without joining the United
6 States. The court concluded that it had subject matter
7 jurisdiction over plaintiffs' declaratory relief claim under
8 *MedImmune*, because the named defendant sent plaintiff a cease
9 and desist letter claiming that plaintiff's product infringed
10 on the patent held jointly by the named defendant and the
11 United States. *Id.* at *3-4. The parties agreed that the
12 government had not waived its sovereign immunity and
13 therefore that joinder was not feasible. *Id.* at *4. The
14 district court then turned to the question of whether
15 dismissal was required under Rule 19(b).

18 Examining the first Rule 19(b) factor, "the extent to
19 which a judgment rendered in the party's absence might
20 prejudice that person or the existing parties," *SourceOne*
21 considered "whether the interests of the absent party are
22 'adequately protected by those who are present.'" *Id.* at *6.
23 *SourceOne* relied heavily on *Dainippon Screen Mfg. Co. v.*
24 *CFMT, Inc.*, 142 F.3d 1266, 1272 (Fed. Cir. 1998):

26 In *Dainippon*, plaintiff sued CFMT and CFM for a
27 declaratory judgment of noninfringement and

28 ⁷ A district court decision from another circuit has no binding effect on another district court.

1 invalidity of a patent that CFMT owned and licensed
2 on an exclusive basis to its parent, CFM. That
3 license reserved to CFMT the exclusive right to
4 further sublicense the patent, and to take legal
5 action in the event of infringement. The trial court
6 dismissed CFMT for lack of personal jurisdiction,
7 and then dismissed the claim against CFM on the
8 ground that under Rule 19 the case could not proceed
9 in the absence of CFMT.

10 On appeal, the Federal Circuit reversed. The appeals
11 court held that the trial court erred in concluding
12 that it lacked jurisdiction over CFMT, and further
13 held that even if CFMT could not be sued, the trial
14 court abused its discretion in concluding that CFMT
15 was an indispensable party. The Federal Circuit
16 found that CFMT's owners[h]ip interest would be
17 adequately protected by CFM, "a party that owns CFMT
18 in its entirety ... and that has manifested its
19 obvious concern over the maintenance of CFMT's
20 patents." Dainippon, 142 F.3d at 1272. The court
21 reasoned that even in its absence, CFMT's interests
22 would be protected because CFMT and CFM "share the
23 common goal of assuring that the [] patent not be
24 held invalid or be infringed by Dainippon" Id.

25 2009 WL 1346250 at *6 (footnote omitted) (emphasis added).

26 The *SourceOne* court then reasoned, "[a]s in *Dainippon*, the
27 Rule 19(b)(1) factor weighs strongly in favor of allowing the
28 claims on the '125 Patent to proceed in the absence of the
29 Government":

30 The Government argues that it will suffer prejudice
31 if its rights under the '125 Patent are adjudicated
32 in its absence because if the patent is declared
33 invalid, the Government will have "lost substantive
34 rights without an opportunity to defend its rights
35 to t h e claimed inventions of the patent" (Gov't
36 Stmt. at 4-5). However, we have been offered no
37 evidence that KGK and the Government have any
38 conflicting interests with respect to the '125
39 Patent, and no reason to believe that KGK is unable
40 to vigorously assert and protect its mutual interest
41 with the Government in asserting the validity of the
42 '125 Patent and challenging any alleged infringement
43 of it. To the contrary, KGK has demonstrated its
44 willingness to champion the validity of the '125
45 Patent and to attack any alleged infringement of it,
46 as shown by the cease and desist letters it sent to

1 SourceOne and its customers and associates. The
2 Government has not asserted any dissatisfaction with
3 SourceOne's actions in doing so. KGK's defense of
4 its commercial interests based in the '125 Patent
5 will adequately protect the Government's interests
6 as well.

7 We also consider this factor to be of special
8 importance in this case, due to the fact that the
9 absent party is the Government. In *Pimental*, the
10 Supreme Court stated that under Rule 19, "dismissal
11 of the action must be ordered where there is a
12 potential for injury to the interests of the absent
13 sovereign." 128 S.Ct. at 2191. Conversely, the
14 absence of prejudice to the Government in this case,
15 due to the ability of KGK to protect the
16 Government's interests, weighs strongly in favor of
17 allowing the case to proceed.

18 *Id.* (footnote omitted).

19 The principal case relied upon in *SourceOne, Dainippon*
20 *Screen Manufacturing Co. v. CMFT, Inc.*, 142 F.3d 1266 (Fed.
21 Cir. 1998), was extensively discussed and distinguished by
22 the February 20, 2009 Decision.

23 Plaintiffs cite *Dainippon Screen Mfg. Co., Ltd. v.*
24 *CFMT*, 142 F.3d 1266 (Fed. Cir. 1998), to support
25 their argument that in an action challenging the
26 validity of a patent, the action can proceed without
27 the patent owner. Here, however, unlike in
28 *Dainippon*, there is no unity of ownership or
29 interest between the patent owner and licensee. The
30 facts of *Dainippon* are instructive. The patent owner
31 in the suit was not an indispensable party because
32 the suit was brought by a competitor against the
33 parent company, who held an exclusive license from
34 its wholly-owned subsidiary. *Dainippon* found no
35 indispensability in part because the patent holder
36 was the parent company's holding company for patents
37 and held an identity of interest and ownership with
38 the subsidiary. *Id.* at 1273. As to the first 19(b)
39 factor, there was an adequacy of protection of the
40 subsidiary's interests, the patent owner, by the
41 parent company, the licensee. Further, the patent
42 owner could intervene at any time. *Id.* at 1272.

43 Doc. 42 at 43-44. As in *Dainippon*, where there was unity of
44 ownership between the patent owner and licensee, the named

1 defendant in *SourceOne* was a co-owner of the patent with the
2 United States. Here, in contrast, there is no such unity of
3 ownership, and no guarantee that the Commission would fully
4 protect the government's interests. There is no way to
5 assure that the government and the Commission's interests and
6 objectives coincide in implementing and continuing the
7 licensing program and related uses of the patents.
8

9 On the second factor, *SourceOne* reasoned:

10 Turning to the second consideration set forth in
11 Rule 19(b), the Court does not see how it would be
12 able to lessen any alleged prejudice to the
13 Government through protective provisions in the
14 judgment, shaping relief, or other measures.
15 However, that factor carries little weight in this
16 case for two reasons. First, as we have explained,
17 the potential prejudice to the Government is already
18 adequately addressed by the ability of KGK to fully
19 advocate and protect the Government's interests.
20 Second, the Federal Circuit has held that "the
21 court's ability to shape relief to avoid prejudice[
22] is of little relevance in the context of a patent
23 declaratory judgment suit because the relief sought
24 in such a suit does not depend on the patentee's
25 presence in court." *Dainippon*, 142 F.3d at 1272-73.

18 2009 WL 1346250 at *7. This reasoning depends on the ability
19 of the present defendant to represent the absent defendants'
20 interests. In the absence of unity of ownership, there is no
21 guarantee that the potential prejudice to the government
22 would be adequately addressed by the Commission's ability to
23 advocate and protect the government's interests.
24

25 *SourceOne* determined that the third factor favored
26 maintaining the suit:
27
28

1 The third factor set forth in Rule 19(b), whether a
2 judgment rendered in the absence of the missing
3 party would be adequate, "refers to the public stake
4 in settling disputes by wholes, whenever possible."
5 Pimentel, 128 S.Ct. at 2193 (internal quotations and
6 citations omitted)...[T]he Federal Circuit noted,
7 the third factor may favor maintenance of a
8 declaratory judgment suit because it does not
9 require an affirmative act by the absent party.
10 *Dainippon*, 142 F.3d at 1273. A declaration of
11 invalidity or noninfringement would resolve the case
12 as a whole as to SourceOne and the '125 Patent. *Id.*

13 2009 WL 1346250 at *7 (emphasis added). Plaintiffs do not
14 explain why this reasoning, which relies on *Dainippon*, a case
15 already considered by the February 20, 2009 Decision,
16 justifies reconsideration:

17 The third factor, adequacy of remedy, also favors
18 dismissal. "[A]dequacy' refers not to satisfaction
19 of [Plaintiffs'] claims, but to the 'public stake in
20 settling disputes by wholes, whenever possible.'" *Republic of Philippines*, 128 S.Ct. at 2183, citing
21 *Provident Tradesmens Bank & Trust Co. v. Patterson*,
22 390 U.S. 102, 111 (1968). As in *Republic of*
23 *Phillippines*, "[g]oing forward with the action in
24 the absence of" the United States, "would not
25 further this public interest because they could not
26 be bound by a judgment to which they were not
27 parties." *Id.* The Court held the University had
28 not waived its Eleventh Amendment immunity.

Doc. 42 at 45.

SourceOne differs from the February 20, 2009 Decision's
evaluation of the alternative forum factor:

... Rule 19(b)(4) ... requires us to consider
whether the plaintiff would have an adequate remedy
if the action were dismissed for nonjoinder. This
factor favors dismissal if there exists another
forum in which all parties could be joined in the
suit. *Dainippon*, 142 F.3d at 1273. Here, KGK's only
suggestion for an alternative forum is the Court of
Federal Claims (KGK Mem. at 3). However, 28 U.S.C. §
1498(a) permits private parties to bring patent

1 infringement suits against the United States in the
2 Court of Federal Claims for certain money damages
3 only, and thus it would not provide an adequate
4 forum for SourceOne's declaratory judgment claims.

5 Thus, KGK and the Government are unable to point to
6 any adequate remedy that SourceOne would have, if
7 Counts V and VI are dismissed, to receive judicial
8 guidance on whether the '125 Patent blocks its
9 efforts to market and sell Cholesstrinol. That
10 factor weighs heavily in favor of allowing Counts V
11 and VI to proceed.

12 KGK and the Government are therefore reduced to
13 arguing, at bottom, that those are the breaks for
14 SourceOne: that this absence of any other remedy for
15 SourceOne is simply "the inevitable effect" of the
16 United States' ability to assert sovereign immunity
17 (KGK Mem. at 6; Gov't Stmt. at 8). Apparently, KGK
18 and the Government see no unfairness in requiring
19 SourceOne to wait until they together decide to sue
20 SourceOne for infringement before SourceOne can
21 raise its invalidity and noninfringement defenses
22 (KGK Mem. at 6), while KGK is left free to continue
23 threatening SourceOne or its business associates and
24 customers with suit for infringement of the '125
25 Patent.

26 We do not share KGK's and the Government's comfort
27 with that approach. We view the Rule 19(b) factors
28 through the prism of "equity and good conscience."
In so doing, we cannot dismiss as lightly as do KGK
and the Government the prejudice that SourceOne
would suffer if its declaratory judgment claims
against KGK were dismissed. The approach urged by
KGK (and the Government) would allow KGK to threaten
legal action against SourceOne (or others) with
impunity. For those who gave into those threats, KGK
would receive the benefit of the patent (a cessation
of the alleged infringing conduct and perhaps
compensation) without the need to do anything more.
For those who might rear up and seek a judicial
resolution, KGK could retreat behind the
Government's cloak of immunity and prevent the
infringement or validity of the '125 Patent from
ever being tested in court. That result not only
would create prejudice to SourceOne in this case,
but also would disserve the broader public. We fail

1 to see how the public interest is advanced by
2 allowing a private patentee such as KGK that kind of
3 unreviewable sway in exercising its patent rights.

4 WL 1346250 at *7-8.

5 In contrast, the February 20, 2009 Decision relied on
6 Ninth Circuit and Supreme Court authority suggesting that
7 immunity alone may be viewed as a compelling factor in the
8 Rule 19 balance:

9 The fourth factor is whether there is an available
10 alternative forum. First is the Court of Federal
11 Claims, expressly authorized by statute. Plaintiffs
12 have an opportunity to raise the defense of patent
13 invalidity and unenforceability in an action brought
14 against them for patent infringement brought by the
15 United States or the Commission. See 35 U.S.C.
16 § 282. [Footnote] However, to require Plaintiffs to
17 violate the license and wait to see whether the
18 patent owner sues for infringement creates an
19 unfavorable situation as damages could be
20 exacerbated. Where "no alternative forum exists,
21 the district court should be 'extra cautious' before
22 dismissing an action." *Kescoli v. Babbitt*, 101 F.3d
23 1304, 1311 (9th Cir. 1996). But just as the courts
24 have held in actions involving tribal immunity and
25 state immunity, sovereign immunity of the United
26 States can justify dismissal for inability to join
27 an indispensable party, despite the fact that no
28 alternative forum is available. "If the necessary
party is immune from suit, there may be very little
need for balancing Rule 19(b) factors because
immunity itself may be viewed as the compelling
factor." *Id.* at 1311 (internal citations and
quotations omitted). The latest Supreme Court case,
Republic of Philippines v. Pimentel, 128 S.Ct. 2180
(2008), to address Rule 19, held as to immunity
barring an action from proceeding without the
sovereign party:

The analysis of the joinder issue in those
cases was somewhat perfunctory, but the
holdings were clear: A case may not proceed
when a required-entity sovereign is not
amenable to suit. These cases instruct us that
where sovereign immunity is asserted, and the
claims of the sovereign are not frivolous,
dismissal of the action must be ordered where

1 there is a potential for injury to the
2 interests of the absent sovereign. 128 S.Ct. at
3 2190-91. In this context, dismissal is
4 appropriate even if Plaintiffs have no
5 alternative forum for their claim. See
6 *Dawavendewa*, 276 F.3d at 1162.

7 Because the proceedings in this case threaten both
8 the property and sovereign immunity of the United
9 States, the United States' failure to waive its
10 immunity from suit strongly supports dismissing this
11 litigation in its absence.

12 Doc. 42 at 42-47.

13 SourceOne distinguished *Pimentel*:

14 We disagree with KGK and the Government that
15 *Pimentel* requires a different result. In that case,
16 Merrill Lynch filed an interpleader action to
17 determine the ownership of some \$35 million in funds
18 stemming from property allegedly stolen by Ferdinand
19 Marcos when he was President of the Republic of the
20 Philippines. Among the parties named in the
21 interpleader action were the Republic of the
22 Philippines and the Philippine Presidential
23 Commission on Good Governance. Both the Republic of
24 the Philippines and the Commission were dismissed
25 from the case based on their assertion of foreign
26 sovereign immunity. The trial court held, and the
27 appeals court agreed, that the case could proceed in
28 their absence. The trial court ultimately awarded
 the funds to the Pimental class, and the appeals
 court affirmed. Employing a Rule 19(b) analysis, the
 Supreme Court reversed. 128 S.Ct. at 2191-94.
 However, there are important factors that
 distinguish this case from the situation that the
 Supreme Court addressed in *Pimental*.

 First, the Supreme Court found that the Republic of
 the Philippines and the Commission would suffer real
 prejudice from the adjudication in their absence.
 128 S.Ct. at 2191-92. However, in that case, no
 other party was aligned with the interests of the
 Republic of the Philippines and the Commission, and
 thus no other party had the ability or incentive to
 protect their interests. Indeed, the interests of
 the foreign sovereigns and the other claimants were
 antagonistic: they all asserted competing claims to
 the funds. By contrast, in this case, KGK has a

1 common interest with the Government in protecting
2 the '125 Patent and has the ability and incentive to
3 fully protect their mutual interest.

4 *Second, in Pimental, the Supreme Court explained*
5 *that the fourth factor of Rule 19(b), whether the*
6 *plaintiff would have an adequate remedy if the case*
7 *were dismissed, weighed in favor of dismissal, In*
8 *reaching that conclusion, the Supreme Court held*
9 *that the plaintiff to consider under that factor was*
10 *Merrill Lynch, the stakeholder which had initiated*
11 *the action, and not the claimants to the funds. 128*
12 *S.Ct. at 2193. The Supreme Court stated that*
13 *dismissal would not cause prejudice to Merrill*
14 *Lynch, but in fact would serve some of the goals of*
15 *interpleader and would "protect Merrill Lynch in*
16 *some respects." Id. By contrast, the prejudice in*
17 *this case to SourceOne if Counts V and VI are*
18 *dismissed is real, and is significant.*

19 *Third, the Supreme Court found significant the*
20 *interests of the foreign sovereigns in "comity and*
21 *dignity," which in that case took the form of*
22 *"allowing a foreign state to use its own courts for*
23 *a dispute if it has a right to do so. The dignity of*
24 *a foreign state is not enhanced if other nations*
25 *bypass its courts without right or good cause." 128*
26 *S. Ct. at 2190. Those considerations are not present*
27 *in this case.*

28 2009 WL 1346250 at *8-9 (emphasis added). *SourceOne is not*
persuasive here, because there is no unity of ownership
between the Commission and the United States, and, although
the two parties possess overlapping interests, the United
States' interests will not be sufficiently protected by the
Commission, which has parochial interests in its oversight of
the California table grape industry implicating a myriad of
interests not of concern to the United States.

1 SourceOne does not warrant reconsideration of the
2 February 20, 2009 ruling on the indispensability of the
3 United States.
4

5 J. Rule 19 Indispensability Must Be Evaluated on a Claim-
6 by-Claim Basis.

7 Plaintiffs' rely on *E.E.O.C. v. Peabody Western Coal*
8 *Co.*, 400 F.3d 774, 781-82 (9th Cir. 2005), to argue a
9 district court may declare patents held by the United States
10 to be invalid without implicating sovereign immunity "so long
11 as Plaintiffs have properly joined the United States to this
12 case in any manner." Doc. 70 at 6. *Peabody* does not support
13 Plaintiffs' assertion. There, the Ninth Circuit held the
14 Navajo Nation was a necessary party, properly joined because
15 its tribal sovereign immunity did not apply in an suit
16 brought by the EEOC. 400 F.3d at 780-81. Even if the
17 government had no direct cause of action against the Navajo
18 Nation and was seeking no relief from the Navajo Nation, the
19 Nation may still be joined under Rule 19 because the
20 effectiveness of the relief would be impaired in its absence.
21 *Id.* at 783-84. Here, by contrast, the government has not
22 waived its sovereign immunity as to the patent claims, and
23 plaintiffs seek relief that would directly impair government
24 property interests.
25
26

27 Questions of joinder under Rule 19 must be decided on a
28 claim by claim basis. See *Bassett v. Mashantucket Pequot*

1 *Tribe*, 204 F.3d 343, 358-59 (2d Cir. 2000) (evaluating Rule 19
2 indispensability on a claim-by-claim basis); *Makah Indian*
3 *Tribe v. Verity*, 910 F.2d 555 (9th Cir. 1990) (finding absent
4 party necessary to some claims but not others). The motion
5 to reconsider the joinder decision on this ground is DENIED.
6

7
8 **V. CONCLUSION**

9 For the reasons set forth above, Defendants' Motions to
10 Dismiss:

11 (1) the patent-related APA claims is GRANTED WITHOUT
12 LEAVE TO AMEND on sovereign immunity grounds;

13 (2) the license-related APA claims is GRANTED WITH LEAVE
14 TO AMEND;

15 (3) the Third, Fourth, and Fifth Claims For Relief
16 (patent invalidity) is GRANTED WITHOUT LEAVE TO AMEND,
17 because the United States is an indispensable party to
18 these claims and cannot be joined due to its sovereign
19 immunity;
20

21 (4) the Fifth Claim for Relief (unenforceability and
22 inequitable conduct) is GRANTED WITHOUT LEAVE TO AMEND,
23 because the United States is an indispensable party to
24 these claims and cannot be joined due to sovereign
25 immunity;
26

27 (5) the Sixth Claim for Relief under the Antitrust laws
28 against the Commission, is GRANTED WITHOUT LEAVE TO

1 AMEND for failure to state a claim;

2 (6) the Seventh Claim for Relief (exclusive license
3 agreements void under federal law) is GRANTED WITHOUT
4 LEAVE TO AMEND because the United States is an
5 indispensable party to these claims and cannot be joined
6 due to sovereign immunity;

7
8 (7) the Eighth Claim for Relief (exclusive license
9 agreements void under state law) is GRANTED WITHOUT
10 LEAVE TO AMEND because the licenses between the
11 Commission and the United States are not subject to
12 state law regulation;

13 (8) the Unfair Competition Claim is DENIED; and

14 (9) the Unjust Enrichment and Constructive Trust claims
15 is DENIED.
16

17 In addition, Plaintiffs, motion for reconsideration of
18 the district court's prior determination that the United
19 States is an indispensable party under Rule 19 with respect
20 to the patent-related claims is DENIED.

21 Plaintiffs shall have twenty (20) days from electronic
22 service of this order to amend their complaint in conformity
23 with this memorandum decision and Rule 11.
24

25 SO ORDERED

26 Dated: October 27, 2009

27 /s/ Oliver W. Wanger
28 Oliver W. Wanger
United States District Judge