

1
2
3
4
5 UNITED STATES DISTRICT COURT
6 FOR THE EASTERN DISTRICT OF CALIFORNIA
7

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

10 Plaintiffs,

11 v.

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

18 Defendants.

1:07-CV-1610 OWW SMS

MEMORANDUM DECISION AND
ORDER GRANTING FEDERAL
DEFENDANTS AND CALIFORNIA
TABLE GRAPE COMMISSION'S
MOTIONS TO DISMISS THE
SECOND AMENDED COMPLAINT
(DOCS. 99 & 101); AND
DENYING AS MOOT PLAINTIFFS'
MOTION FOR CERTIFICATION OF
INTERLOCUTORY APPEAL (DOC.
93).

19
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 Second Amended Complaint
26 ("SAC") pursuant to Federal Rules of Civil Procedure
27 12(b)(6).
28

1 **Federal Defendants argue:**

2 (1) Plaintiffs have waived their Administrative
3 Procedure Act ("APA") claims concerning the grant of
4 exclusive licenses by failing to exhaust those
5 claims at the administrative level; and

6 (2) to the extent that Plaintiffs directly challenge
7 the enforceability of the patents held by Federal
8 Defendants, any such challenge should be rejected.

9
10 Doc. 100.

11 **The Commission's motion argues:**

12 (1) the APA challenge fails for lack of exhaustion;
13 (2) the unfair competition claim, Cal. Bus. & Prof.
14 Code § 17200 et seq., against the Commission must be
15 dismissed because it is:
16

17 (a) preempted by federal law;

18 (b) the Commission is not a proper defendant
19 under § 17200; and

20 (c) the cause of action fails to state a claim;
21 and

22 (3) the unjust enrichment and constructive trust
23 claims also fail to state valid claims.
24

25 Doc. 102.

26 Plaintiffs oppose both motions. Doc. 109. Defendants
27 replied. Docs. 111 & 113. The matter came on for hearing
28

1 June 29, 2010.

2
3 A. USDA Research Program.

4 California table grape growers and shippers have funded
5 a USDA research program to develop new table grape varieties
6 through assessment imposed by the Commission on each box of
7 table grapes shipped in California. SAC ¶18. Prior to 2002,
8 the USDA provided the new varieties under development to area
9 growers for evaluation of growing potential and commercial
10 marketability. *Id.* Once new varieties appeared commercially
11 viable, the USDA "released" the variety, and distributed
12 plant material of the variety to area growers free of charge.
13 *Id.* It is alleged that USDA did not charge California
14 growers for the new varieties because California growers and
15 shippers already paid for a large portion of the development.
16 *Id.*

17
18
19 B. Patenting of Grape Varieties.

20 In the late 1990s, at the urging of the Commission, the
21 USDA agreed to begin patenting new table grape varieties.
22 SAC ¶19. The first three varieties the Commission referred
23 to the USDA for patenting, Sweet Scarlet, Autumn King, and
24 Scarlet Royal, had been under development for years. It is
25 alleged that at least one of the varieties, Sweet Scarlet,
26 had been distributed to growers for wide-scale commercial
27 evaluation and sale. SAC ¶¶ 22-23. Patent applications for
28

1 Sweet Scarlet, Autumn King, and Scarlet Royal, were filed
2 with the United States Patent and Trademark Office ("USPTO")
3 on February 20, 2003 (Application No. 371,512), September 28,
4 2004 (Application No. 953,387), and September 28, 2004,
5 (Application No. 953,124), respectively. Patents were issued
6 on July 26, 2005 (Patent No. PP15,891 ("891 Patent")),
7 February 21, 2006 (Patent No. PP16,284 ("284 Patent")), and
8 January 31, 2006 (Patent No. PP16,229 ("229 Patent")). See
9 SAC ¶¶ 25-33.
10

11 The USDA agreed to give the Commission an exclusive
12 license to all newly Patented Varieties, and to allow the
13 Commission to charge royalties when growers wished to obtain
14 the new varieties. SAC at ¶41. The USDA also agreed to give
15 the Commission exclusive enforcement powers over its new
16 patent rights. SAC ¶19.
17

18 The Commission then selected three nurseries to
19 exclusively sell all new patented table grape varieties
20 ("Licensed Nurseries"). SAC ¶20. Unlike the prior free
21 distribution, the nurseries were authorized to sell new
22 varieties to growers. *Id.* In accordance with the agreement
23 between the Commission and the USDA, the Commission charges
24 nurseries who distribute Patented Varieties a \$5000.00
25 participation fee per patented variety and an additional
26 \$1.00 per production unit royalty. SAC ¶46. The Licensed
27
28

1 Nurseries are responsible for paying the royalty, but the
2 Licensed Nurseries may and do pass the royalty cost on to the
3 purchasing growers. SAC ¶¶ 20, 76.

4 When a grower seeks to obtain a new variety from a
5 nursery, it is required to enter into a "Domestic Grower
6 License Agreement" ("License Agreement") with the Commission.
7 Under the terms of the License Agreement, the grower cannot
8 propagate the variety beyond the plant purchased. SAC ¶21.
9 If the Commission believes the grower has violated the
10 License Agreement, it can void the License Agreement and
11 order that all purchased plants be destroyed. *Id.*

12 Recognizing that at least one of the new varieties
13 identified for patenting (and perhaps all three) had been
14 previously in public use and/or sold commercially, the
15 Commission created a so-called "amnesty program," allegedly
16 designed to hide the fact that valid patents could not be
17 obtained, and to "extort" funds from growers already in
18 possession of the varieties. SAC ¶23. Under the amnesty
19 program, the Commission widely disseminated notices to
20 growers and shippers stating that they were in violation of
21 the law if they possessed the varieties intended for
22 patenting. The notices also offered confidential
23 "settlements" to any growers who, within a narrow time
24 window, agreed to license the varieties, pay a "penalty" to
25
26
27
28

1 the Commission, and accept the Commission's license
2 restrictions on further propagation. *Id.*

3 Under its so-called "amnesty" program, a grower with
4 Sweet Scarlet could keep the vines reproduced, so long as the
5 grower: (i) admitted to possession prior to July 2004, (ii)
6 paid \$2 per vine reproduced, (iii) paid \$2 per box of Sweet
7 Scarlet grapes previously shipped, and (iv) agreed to no
8 further propagation of the Sweet Scarlet variety from the
9 plants possessed. SAC ¶55. In July 2004, the Commission
10 sent another notice to all California table grape growers and
11 shippers extending the "amnesty" time period for one month,
12 and extending the "amnesty" to include Autumn King and
13 Scarlet Royal varieties. SAC ¶56.

14
15
16 In both notices, the Commission threatened to sue
17 growers who did not come forward, and to seek money damages
18 and injunctions. Plaintiffs claim that at the time of the
19 second notice, the USDA patent application on Sweet Scarlet
20 had not been issued and had been rejected by the USPTO.
21 Moreover, the USDA had not even applied for a patent on
22 either Autumn King or Scarlet Royal. The USDA had no patent
23 rights, and the Commission lacked any enforcement rights in
24 either grape variety. SAC ¶57.

25
26 C. Plaintiffs' License Agreements

27 Plaintiffs are in possession of the Autumn King, Sweet
28

1 Scarlet and Scarlet Royal varieties, which they purchased
2 through Licensed Nurseries. SAC ¶60. Plaintiffs paid the
3 royalties imposed by the Commission on each purchased plant.
4 *Id.* Plaintiffs have entered into a License Agreement with
5 the Commission for each of the Patented Varieties. SAC ¶¶
6 60-63. In consideration for this limited, nonexclusive
7 license, Plaintiffs have paid a license fee to a Licensed
8 Nursery. *Id.* Under the terms of this agreement, Plaintiffs
9 have a limited, nonexclusive license to grow the Patented
10 Varieties and sell the fruit produced. *Id.* Plaintiffs
11 cannot propagate the grapevines or distribute the vines to
12 third parties. *Id.* Further, Plaintiffs are obligated to
13 destroy all Patented Varieties' plant material upon
14 termination of the agreement. *Id.*

17 D. Original Complaint and February 20, 2009 Decision.

18 Plaintiffs' original complaint named only the Commission
19 as a defendant, alleging (at claims 1-3) the patents for all
20 three varieties should be declared invalid, Doc. 1 at ¶¶ 66-
21 86; (at claim 4) the patent for the Sweet Scarlet variety
22 should be declared unenforceable because neither the
23 Commission nor USDA disclosed to the USPTO that the three
24 varieties had been in public use prior to February 2002, *id.*
25 at ¶¶ 87-85; (at claim 5) the Commission violated the Sherman
26 and Clayton Acts by illegally monopolizing the market for
27
28

1 table grapes, *id.* at ¶¶ 96-103; (at claim 6) the Commission
2 misused the patents "in violation of antitrust laws and in a
3 manner that attempts to extend [the] patents beyond their
4 lawful scope, *id.* at ¶¶ 104-109; (at claim 7) unfair
5 competition, *id.* at ¶¶ 110-114; (at claim 8) unjust
6 enrichment, *id.* at ¶¶ 115-117; and (at claim 9) constructive
7 trust, *id.* at ¶¶ 118-121. The Commission moved to dismiss,
8 arguing the United States is a necessary and indispensable
9 party that is immune from suit and that all of the claims in
10 the case were without legal foundation.
11

12 As to the issue of joinder, the February 20, 2009
13 Decision emphasized that because Plaintiffs' substantive
14 causes of action sought to invalidate patents owned by the
15 United States, the United States is a necessary party under
16 Federal Rule of Civil Procedure Rule 19(a). Doc. 42 at 22-
17 34. Once it has been determined that an absent party to the
18 suit is "necessary" under Rule 19(a), the inquiry is whether
19 that party, the United States, can be joined in the action.
20 *Dawavendewa v. Salt River Project Agr. Imp. and Power Dist.*,
21 276 F.3d 1150, 1159 (9th Cir. 2002). "Absent a waiver,
22 sovereign immunity shields the Federal government and its
23 agencies from suit." *F.D.I.C. v. Meyer*, 510 U.S. 471, 475
24 (1994). A waiver of sovereign immunity must be unequivocally
25 expressed. *Department of Army v. Blue Fox, Inc.*, 525 U.S.
26
27
28

1 255, 261 (1999). The February 20, 2009 Decision decided
2 sovereign immunity had not been waived:

3 A declaratory judgment seeking invalidity of a U.S.-
4 owned patent squarely implicates sovereign immunity.
5 Further, property owners are generally necessary
6 parties to actions that could affect their property
interests adversely. The United States, as owner of
the Patented Varieties, is no exception....

7 ***

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

23 ***

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

26
27 Doc. 42 at 35-38.

28 Plaintiffs argued that APA section 702, 5 U.S.C. § 702,

1 constitutes a sufficient waiver of sovereign immunity. After
2 discussing the APA's waiver of sovereign immunity and
3 relevant Ninth Circuit authority, the February 20, 2009
4 decision concluded:

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

10 Doc. 42 at 41.

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

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

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

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

1 balancing ... because immunity itself may be viewed as the
2 compelling factor." *Id.* at 1311.

3 These factors were applied as follows:

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

15 ***

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

24 The third factor, adequacy of remedy, also favors
25 dismissal. "[A]dequacy' refers not to satisfaction
26 of [Plaintiffs'] claims, but to the 'public stake in
27 settling disputes by wholes, whenever possible.'" *Republic of Philippines*, 128 S.Ct. at 2183, citing
28 *Provident Tradesmens Bank & Trust Co. v. Patterson*,
390 U.S. 102, 111 (1968). As in *Republic of
Philippines*, "[g]oing forward with the action in

1 the absence of" the United States, "would not
2 further this public interest because they could not
3 be bound by a judgment to which they were not
4 parties." *Id.* The Court held the University had
5 not waived its Eleventh Amendment immunity.

6 The fourth factor is whether there is an available
7 alternative forum. First is the Court of Federal
8 Claims, expressly authorized by statute. Plaintiffs
9 have an opportunity to raise the defense of patent
10 invalidity and unenforceability in an action brought
11 against them for patent infringement brought by the
12 United States or the Commission. See 35 U.S.C.
13 § 282. [Footnote] However, to require Plaintiffs to
14 violate the license and wait to see whether the
15 patent owner sues for infringement creates an
16 unfavorable situation as damages could be
17 exacerbated. Where "no alternative forum exists,
18 the district court should be 'extra cautious' before
19 dismissing an action." *Kescoli v. Babbitt*, 101 F.3d
20 1304, 1311 (9th Cir. 1996). But just as the courts
21 have held in actions involving tribal immunity and
22 state immunity, sovereign immunity of the United
23 States can justify dismissal for inability to join
24 an indispensable party, despite the fact that no
25 alternative forum is available. "If the necessary
26 party is immune from suit, there may be very little
27 need for balancing Rule 19(b) factors because
28 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:

19 The analysis of the joinder issue in those
20 cases was somewhat perfunctory, but the
21 holdings were clear: A case may not proceed
22 when a required-entity sovereign is not
23 amenable to suit. These cases instruct us that
24 where sovereign immunity is asserted, and the
25 claims of the sovereign are not frivolous,
26 dismissal of the action must be ordered where
27 there is a potential for injury to the
28 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

1 litigation in its absence.

2 Doc. 42 at 42-47. All of the claims relating to patent
3 invalidity, inequitable conduct, and patent misuse were
4 dismissed on the ground that the United States is a necessary
5 and indispensable party.

6 The Commission's separate motion to dismiss the anti-
7 trust claim was granted with leave to amend because
8 Plaintiffs did not adequately allege each of the Patented
9 Varieties constitutes its own relevant market. *Id.* at 62.
10 The misuse claim was likewise dismissed. *Id.* Plaintiffs'
11 misuse claim rested in part on allegations that the
12 Commission illegally monopolized interstate and foreign
13 commerce in bad faith by enforcing alleged patent rights, as
14 the exclusive licensee of the patents, and collecting royalty
15 fees on the Patented Varieties under its "amnesty" program.
16 The amnesty program was rejected as a basis for a misuse
17 claim:
18
19

20 As to the first theory, there is no viable claim for
21 the "amnesty program" as the Commission could not
22 have misused patents that did not exist and at most
23 were inventions in the pre-issuance stage. License
24 agreements entered into after a patent application
25 has been filed but before the patent issues are not
26 necessarily unenforceable. *Aronson v. Quick Point*
27 *Pencil Co.*, 440 U.S. 257, 264-65 (1979). The "key
28 inquiry is whether, by imposing conditions that
derive their force from the patent, the patentee has
impermissibly broadened the scope of the patent
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*,

1 which concerned a license agreement entered into
2 before issuance of the patent, but after patent
3 application submitted. 440 U.S. at 264-65; see also
4 *Technology Licensing Corp. v. Gennum Corp.*, No. 01-
5 04204, 2007 WL 1319528, at *23 (N.D. Cal. May 4,
6 2007) ("As to Gennum's argument that TLC's
7 interactions with Ross Video constituted misuse of
8 the '250 patent, it is a peculiar notion that a
9 party could "misuse" a patent that is not in
10 existence. While it has been called patent misuse
11 where a patentee seeks to collect royalties after
the expiration of the patent term, it appears that
in such cases the patentee and licensor have
typically entered into the royalty agreement at a
time when the patent is in force. Again, to the
extent a party demands royalties or demands that
another cease using a product where no patent has
yet issued, the other party is not put to the type
of choice that patent misuse doctrine normally
guards against. The other party is free to ignore
the demands.")

12 Doc. 42 at 65-66.

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

21 E. First Amended Complaint and October 27, 2009 Decision.

22 On March 19, 2009, Plaintiffs filed a first amended
23 complaint ("FAC"). The first cause of action, invoking the
24 APA, 5 U.S.C. § 702, alleges Federal Defendants acted
25 arbitrarily, capriciously, and otherwise not in accordance
26 with applicable laws and regulations by agreeing to engage in
27
28

1 a patenting program with the Commission and engaging in
2 activities to pursue that program. FAC ¶¶ 74-80. The
3 second, third, and fourth causes of action, brought against
4 all defendants, sought a declaration that the patents are
5 invalid. FAC ¶¶ 103-138. The fifth cause of action against
6 all defendants, sought a declaration that the 891 Patent is
7 unenforceable due to Defendants' inequitable conduct. FAC ¶¶
8 139-152. The sixth cause of action alleged the Commission
9 violated the Sherman and Clayton Acts by monopolizing the
10 national market for grapevine plant material. FAC ¶¶ 153-
11 165. The seventh cause of action sought to have the
12 exclusive license agreements between the United States and
13 the Commission invalidated under the patent laws of the
14 United States and the APA. FAC ¶¶ 166-176. The eighth
15 claim sought to have the exclusive licenses declared void
16 under state law. FAC ¶¶ 177-185. The ninth claim, against
17 the Commission only, was for unfair competition in violation
18 of California Business and Professions Code § 17200 and
19 California common law. FAC ¶¶ 186-190. Finally, the tenth
20 and eleventh claims were against the Commission alone for
21 unjust enrichment, FAC ¶¶ 191-93, and constructive trust, FAC
22 ¶¶ 194-97. Defendants moved to dismiss.

23
24
25
26 An October 27, 2009 Decision rejected Plaintiffs'
27 argument that *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S.
28

1 118 (2007), stands for the proposition that the United
2 States' immunity does not bar declaratory relief claims
3 against it for patent invalidity. Doc. 84 at 20-28. The
4 October 27, 2009 Decision next examined whether the APA's
5 waiver of sovereign immunity had been satisfied. APA § 702's
6 waiver of sovereign immunity does not apply where a
7 particular statute "precludes judicial review." §
8 701(a)(1)¹; *Heckler v. Chaney*, 470 U.S. 821, 828 (9th Cir
9 1985). The Patent Act precludes judicial review of any
10 direct challenges to the patents:
11

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

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

28 [FN8] Congress has explicitly designated
other PTO proceedings as *inter partes*,
including patent interferences, 35 U.S.C. §
135(a), and trademark oppositions and
cancellations, 15 U.S.C. §§ 1063, 1064,
1067. In contrast, the provisions governing
the patent application and examination
process prescribe an *ex parte* proceeding.

¹ Relatedly, 5 U.S.C. § 702(2) provides that nothing in the APA
"confers authority to grant relief if any other statute that grants
consent to suit expressly or impliedly forbids the relief which is
sought."

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

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

17 *Hitachi*, 776 F. Supp. at *8.

18 ***

19 Any APA claims in the FAC based upon the invalidity
20 of the patents must be dismissed because the APA
21 does not waive sovereign immunity where a particular
22 statute, in this case the Patent Act, precludes
23 judicial review. Defendants' motion to dismiss all
24 patent-related claims (e.g., those that challenge
25 the validity of the patent and/or the methods by
26 which the patent was obtained) is GRANTED WITHOUT
27 LEAVE TO AMEND.

25 Doc. 84 at 28-34.

26 The October 27, 2009 Decision next found that the Bayh-
27 Dole Act does not completely commit licencing action to
28

1 agency discretion, finding that certain directives in that
2 Act are enforceable:

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

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

Doc. 84 at 40-41.

21 The remaining APA challenges were dismissed with leave
22 to amend based on a finding that Plaintiffs lacked prudential
23 standing under the Bayh-Dole Act. Doc. 84 at 45-48.

24 Alternatively, the APA claim was dismissed with leave to
25 amend for failure to exhaust administrative remedies.

26 Plaintiff was instructed to specifically allege an excuse-
27 from-exhaustion theory in any amended complaint. Doc. 84 at
28

1 59.

2 **The Second, Third, and Fourth Claims For Relief**
3 requesting declarations that the three patents are unlawful
4 and invalid under the Declaratory Judgment Act and the APA,
5 the Fifth Claim for Relief requesting a declaration that the
6 '891 patent is unenforceable because Defendants failed to
7 fully disclose to the USPTO that the Sweet Scarlet variety
8 was in the public domain prior to the filing of the patent
9 application, and the Seventh Claim for Relief seeking a
10 declaration that the Commission's exclusive license
11 agreements for the Patented Varieties are void and unlawful
12 under federal law on the ground that the patents are invalid
13 and/or were obtained through inequitable conduct were
14 dismissed because the United States is an indispensable party
15 to these claims that cannot be joined. *Id.*

16
17
18 **The Sixth Claim for Relief, alleging that the Commission**
19 **violated federal antitrust laws by "enforcing patent rights**
20 **... and collecting royalties ... while knowing that the**
21 **patent on Sweet Scarlet could not be enforced due to prior**
22 **public use and inequitable conduct," was dismissed because**
23 **Plaintiffs failed to allege facts sufficient to allege a**
24 **"Walker Process" violation, namely that growers -- the**
25 **consumers of grapevines -- do not regard other varieties (or**
26 **other crops) as reasonable economic substitutes for the**
27
28

1 Patented Varieties. *Id.* at 60-62.

2 The Eighth Claim for Relief against the Commission
3 seeking a declaration that the exclusive license agreements
4 for the Patented Varieties are void and unlawful under state
5 law on the grounds that the patents are invalid and/or were
6 obtained through inequitable conduct was dismissed because
7 state law cannot be used to challenge a contract entered into
8 pursuant to federal law where the government is a party. *Id.*
9 at 62-63.

11 Finally, the Commission's motion to dismiss the
12 California Unfair Competition Claim was denied, as was their
13 motion to dismiss the derivative unjust enrichment and
14 constructive trust claims. *Id.* at 63-65.

16 II. STANDARD OF DECISION

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

26 A claim has facial plausibility when the plaintiff
27 pleads factual content that allows the court to draw
28 the reasonable inference that the defendant is
liable for the misconduct alleged. The plausibility

1 standard is not akin to a "probability requirement,"
2 but it asks for more than a sheer possibility that
3 defendant has acted unlawfully. Where a complaint
4 pleads facts that are "merely consistent with" a
5 defendant's liability, it "stops short of the line
6 between possibility and plausibility of 'entitlement
7 to relief.'"

8 *Id.* (citing *Twombly*, 550 U.S. 556-57). Dismissal also can be
9 based on the lack of a cognizable legal theory. *Balistreri*
10 *v. Pacifica Police Dep't*, 901 F.2d 696, 699 (9th Cir. 1990).

11 In deciding whether to grant a motion to dismiss, the
12 court "accept[s] all factual allegations of the complaint as
13 true and draw[s] all reasonable inferences" in the light most
14 favorable to the nonmoving party. *Two Rivers v. Lewis*, 174
15 F.3d 987, 991 (9th Cir. 1999). A court is not, however,
16 "required to accept as true allegations that are merely
17 conclusory, unwarranted deductions of fact, or unreasonable
18 inferences." *Manufactured Home Cmtys. Inc. v. City of San*
19 *Jose*, 420 F.3d 1022, 1035 (9th Cir. 2005) (quoting *Sprewell*
20 *v. Golden State Warriors*, 266 F.3d 979, 988 (9th Cir. 2001)).

21 III. ANALYSIS

22 A. Exhaustion of Administrative Remedies.

23 Federal Defendants and the Commission move to dismiss
24 the APA claim for failure to exhaust administrative remedies.
25 In accordance with 35 U.S.C. § 209(e), the USDA issued a
26 notice in the Federal Register on April 29, 2003, explaining
27 the agency's intent to grant an exclusive license to the
28

1 Commission for the Sweet Scarlet variety. 68 Fed. Reg. 22671
2 (April 29, 2003). On December 23, 2004, the USDA issued two
3 notices in the Federal Register of its intent to grant
4 exclusive licenses for the Scarlet Royal and Autumn King
5 varieties to the Commission. 69 Fed. Reg. 76902 (Dec. 23,
6 2004). All three notices informed the public that the
7 proposed licenses would be granted within ninety days unless
8 the USDA received "written evidence and argument which
9 establishes that the grant of the license would not be
10 consistent" with the Bayh-Dole Act and applicable
11 regulations. Plaintiffs failed to present any evidence or
12 argument during the prescribed comment period.
13

14
15 The October 27, 2009 Decision discussed the relevant
16 legal standards and dismissed the APA claim for failure to
17 exhaust, but granted Plaintiffs leave to amend to allege an
18 excuse-from-exhaustion theory in any amended complaint:

19 Defendants argue that the APA allegations should be
20 dismissed because Plaintiffs' failed to raise them
21 before the agency during administrative proceedings.
22 Exhaustion may be imposed either by statute or the
23 courts:

24 Of paramount importance to any exhaustion
25 inquiry is congressional intent." *McCarthy v.*
26 *Madigan*, 503 U.S. 140, 144 (1992) (citing *Patsy*
27 *v. Board of Regents of Florida*, 457 U.S. 496
28 (1982) (internal quotation marks omitted)),
superceded by statute as stated in *Booth v.*
Churner, 532 U.S. 731, 732 (2001).[] "Where
Congress specifically mandates, exhaustion is
required." *Id.* (citing *Coit Independence Joint*
Venture v. FSLIC, 489 U.S. 561, 579 (1989);

1 Patsy, 457 U.S. at 502 n. 4). "But where
2 Congress has not clearly required exhaustion,
3 sound judicial discretion governs." *McCarthy*,
4 503 U.S. at 144 (citing *McGee v. United States*,
5 402 U.S. 479, 483 n. 6 (1971)). To discern the
6 intent of Congress, "[w]e look first to the
7 plain language of the statute, construing the
8 provisions of the entire law, including its
9 object and policy." *United States v.*
10 *\$493,850.00 in U.S. Currency*, 518 F.3d 1159,
11 1167 (9th Cir. 2008) (quoting *Carson Harbor*
12 *Vill., Ltd. v. Unocal Corp.*, 270 F.3d 863, 877
13 (9th Cir. 2001)).

9 *Cassirer v. Kingdom of Spain*, 580 F.3d 1048, 1059-60
10 (9th Cir. 2009).

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

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

21 35 U.S.C. § 209(e).

22 The Eleventh Circuit has read an exhaustion
23 requirement into this notice and comment period.
24 *Southern Research Inst. v. Griffin Corp.*, 938 F.2d
25 1249, 1252-53 (11th Cir. 1991). In *Southern*
26 *Research*, a company challenged the government's
27 grant of an exclusive patent license to another
28 entity. The Eleventh Circuit affirmed dismissal of
the action, holding that by failing to raise
objections during the prescribed comment period, the
company had waived its right to challenge the
licensing decision. *Id.* at 1252-53. The court

1 explained that because "[t]he licensing scheme under
2 35 U.S.C. §§ 207 and 209 and the applicable
3 regulations provided an avenue of administrative
4 appeal of which [the plaintiff] failed to avail
5 itself," judicial review of the licensing decision
6 was precluded. *Id.* at 1253. Plaintiff offers no
7 persuasive argument why the reasoning of *Southern*
8 *Research* should not apply here to impose an
9 exhaustion requirement on plaintiffs challenging
10 licensing decisions under the Bayh-Dole Act.

11 Here, in accordance with 35 U.S.C. § 209(e), the
12 USDA issued a notice in the Federal Register on
13 April 29, 2003, explaining the agency's intent to
14 grant an exclusive license to the Commission for the
15 Sweet Scarlet variety. 68 Fed. Reg. 22671 (April
16 29, 2003). On December 23, 2004, the USDA issued
17 two notices in the Federal Register of its intent to
18 grant exclusive licenses for the Scarlet Royal and
19 Autumn King varieties to the Commission. 69 Fed.
20 Reg. 76902 (Dec. 23, 2004). All three notices
21 informed the public that the proposed licenses would
22 be granted within ninety days unless the USDA
23 received "written evidence and argument which
24 establishes that the grant of the license would not
25 be consistent" with the Bayh-Dole Act and applicable
26 regulations. Plaintiffs failed to present any
27 evidence or argument during the prescribed comment
28 period.

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

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

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

19 Doc. 70 at 19-20.

20 The first three purportedly unknown facts all
21 concern the validity of the patents. Although these
22 arguably implicate the exception for matters outside
23 of the agency's power or jurisdiction, these patent-
24 related arguments cannot be adjudicated here because
25 of sovereign immunity. The fourth purportedly
26 unknown fact -- that the USDA would allow the
27 Commission to limit distribution to a small number
28 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 facts, would
have caused Plaintiffs to comment on the licensing
proceeding. Plaintiffs have not demonstrated that
exhaustion should be excused in this case.

Defendants' motion to dismiss for failure to exhaust
is GRANTED WITH LEAVE TO AMEND. Plaintiffs shall be
afforded the opportunity to amend on this issue and
shall allege their excuse-from-exhaustion theory in
any amended complaint.

Doc. 84 at 54-59 (footnote omitted).

The October 27, 2009 Decision found that plaintiffs

1 offered "no persuasive argument" why the reasoning of
2 *Southern Research Institute v. Griffin Corp.*, 938 F.2d 1249
3 (11th Cir. 1991), which imposed an exhaustion requirement on
4 challenges to licensing decisions under the Bayh-Dole act,
5 should not apply here. Plaintiffs attempt to re-argue this
6 point, citing a number of cases for the proposition that
7 exhaustion is "discretionary." For example, Plaintiffs cite
8 *Marathon Oil Co v. United States*, 807 F.2d 759, 767 (9th Cir.
9 1986), which re-affirmed the general rule that a court "will
10 not consider issues not presented before an administrative
11 proceeding at the appropriate time." *Marathon* described
12 several exceptions to this rule:
13

14
15 We have recognized, however, a number of exceptions
16 to the general rule. "We may decide an issue not
17 raised in an agency action if the agency lacked
18 either the power or the jurisdiction to decide it."
19 *Reid*, 765 F.2d at 1461; see *Reese Sales Co. v.*
20 *Hardin*, 458 F.2d 183, 187 (9th Cir.1972). This type
21 of issue typically implicates the constitutionality
22 of a statute or regulation where the agency does not
23 have power to correct a claimed grievance. *Reid*, 765
24 F.2d at 1461; see, e.g., *Bagues-Valles v. INS*, 779
25 F.2d 483, 484 (9th Cir. 1985)....

26
27 Another exception permits us to "decide issues over
28 which an agency has power and jurisdiction when
'exceptional circumstances' warrant such review,
notwithstanding the petitioner's failure to present
them to the agency." *Reid*, 765 F.2d at 1461; see
Page v. Donovan, 727 F.2d 866, 868 (9th Cir.1984);
Getty Oil Co. v. Andrus, 607 F.2d 253, 255-56 (9th
Cir.1979). We have previously distinguished between
administrative exhaustion requirements that are
based on a statutory directive and those that are
judicially imposed. *Reid*, 765 F.2d at 1462;
Montgomery v. Rumsfeld, 572 F.2d 250, 252-53 (9th

1 Cir.1978) []. Statutory exhaustion requirements
2 implicate concerns of separation of powers and,
3 therefore, the failure to comply with the
4 requirements deprives us of jurisdiction. *Reid*, 765
5 F.2d at 1462; *Montgomery*, 572 F.2d at 252-53. We are
6 unaware of any statutory exhaustion requirements
7 that apply here. Thus, we may review Marathon's
8 contention that the Service waived authority to
9 administer one of the leases if exceptional
10 circumstances exist.

11 In determining whether exceptional circumstances
12 exist, we balance "the agency's interests 'in
13 applying its expertise, correcting its own errors,
14 making a proper record, enjoying appropriate
15 independence of decision and maintaining an
16 administrative process free from deliberate
17 flouting, and the interests of private parties in
18 finding adequate redress for their grievances.'"
19 *Litton Industries, Inc. v. FTC*, 676 F.2d 364, 369-70
20 (9th Cir. 1982), quoting *Montgomery*, 572 F.2d at
21 253.

22 *Id.* at 768.

23 Invoking the exceptional circumstances balancing test,
24 Plaintiffs argue that Defendants "have completely failed to
25 explain how the lack of objection in any way prejudices the
26 USDA in this litigation." Doc. 109 at 7. This ignores the
27 purpose of exhaustion, which is to afford the agency an
28 opportunity to address the issues raised in comments. If
29 Plaintiffs had raised their objections, the Commission could
30 have evaluated the licensing program in view of Plaintiffs'
31 concerns. In *Marathon*, the Ninth Circuit reasoned that
32 Marathon had presented "no reasons why it did not raise the
33 questions it had concerning the alleged waiver during the
34 agency proceedings," and that this "failure to raise the

1 issue precluded the Service from interpreting its own
2 regulation, particularly with respect to the timeliness,
3 form, and other requirements of the Secretary's finding."
4 *Id.* Likewise, here, the USDA has an interest in applying its
5 expertise to the efficacy of the patents and licensing
6 program, and in having an opportunity to independently
7 correct its own errors, if any are found to exist.
8

9 Plaintiffs maintain that dismissing the APA claim will
10 deprive Plaintiffs of any review of the USDA's actions in
11 this case. Doc. 109 at 7. This is not true. As previous
12 decisions in this case have discussed in great detail,
13 Plaintiffs have an opportunity to raise the defense of patent
14 invalidity and unenforceability in an action brought against
15 them for patent infringement brought by the United States or
16 the Commission. See 35 U.S.C. § 282. Even though Plaintiffs
17 would have to violate the license and wait to see whether the
18 patent owner sues for infringement creates, thereby risking
19 higher damages, they are not totally without legal recourse.
20 The United States' sovereign immunity precludes any other
21 form of action against the patents directly. Plaintiffs have
22 failed to cite any analogous cases in which "exceptional
23 circumstances" have been found.²
24
25

26
27 ² Plaintiffs cite *Sims v. Apfel*, 530 U.S. 103, 112 (2000), for the
28 proposition that judicially-imposed exhaustion is appropriate only in
limited circumstances involving adversarial proceedings. But, *Sims*
concerns issue exhaustion, "an analogy to the rule that appellate courts

1 1. Futility.

2 Exceptional circumstances warranting excuse from the
3 exhaustion requirement may be present where "objective and
4 undisputed evidence of administrative bias would render
5 pursuit of an administrative remedy futile." *Anderson v.*
6 *Babbitt*, 230 F.3d 1158, 1164 (9th Cir. 2000) (internal
7 citations and quotation omitted). Plaintiffs attempt to
8 invoke this exception, arguing that the USDA had
9 "predetermined that it would grant the Commission an
10 exclusive license to the patented varieties regardless of the
11 objections received." Doc. 109 at 17. Plaintiffs' argument
12 continues:
13

14 The Commission admits that prior to the comment
15 period for the patented varieties, the USDA had
16 already decided to give the Commission an exclusive
17 license to Sweet Scarlet and other patented
18 varieties to be chosen by the Commission. This is
19 demonstrated by the Memorandum of Understanding
20 between the USDA and the Commission and the private
21 meetings between the Commission and USDA that took
22 place before the comment period for Sweet Scarlet,
23 during which the Commission and the USDA decided
24 several issues relating to the patent licensing
25 program.

26 Moreover, Plaintiffs allege that Commission
27 effectively controlled the patenting licensing
28 program with the USDA. Specifically, the Commission
selected which plant varieties would be patented and
licensed to the Commission, and the USDA

will not consider arguments not raised before trial courts," which is wholly separate from the general requirement of exhaustion of administrative remedies. While it may only be appropriate to impose issue exhaustion where the parties could fully develop the issues in an adversarial proceeding, there is no such restriction on the more general requirement of exhaustion of administrative remedies.

1 consistently acquiesced to the Commission's
2 decisions. (SAC at ¶¶51-53.) Further, the USDA
3 received a significant portion of its research
4 funding for grape varieties from the Commission.
5 Under these circumstances, the USDA had a clear bias
6 towards granting the Commission an exclusive license
7 to the patented varieties and had predetermined that
8 the Commission would receive the exclusive licenses.
9 No objection by Plaintiffs would have changed that
10 result. Tellingly, Defendants do not even allege
11 that any objections would have altered the USDA's
12 decision-making process or that the absence of
13 objections in anyway prejudices the USDA in this
14 litigation.

15 Doc. 109 at 17-18.

16 This is not "objective and undisputed evidence of bias."
17 The Memorandum of Understanding upon which Plaintiffs rely
18 states only that the USDA would "[r]eview ... any license
19 application obtained from The Commission." See Doc. 111-1,
20 Ex. 14 at 2. See *United States v. Litton Industries, Inc.*,
21 462 F.2d 14, 18 (9th Cir. 1972) (administrative review not
22 futile because plaintiff's allegations of bias are purely
23 speculative).

24 Plaintiffs have not alleged facts that suggest that
25 exhaustion should be excused on the basis of futility.

26 2. Lack of Standing.

27 Plaintiffs next argue that exhaustion should be excused
28 because they lacked standing at the time of the comment
29 period. Plaintiffs maintain "at the time of each of the
30 comment periods for the patented varieties, no patent had
31 issued and no patent application had been published," and

1 that as a result, "Plaintiffs could not have been injured by
2 the USDA's granting the Commission a patent license." Doc.
3 109 at 9. Plaintiffs point out that the regulations
4 implementing the Bayh-Dole Act provide for administrative
5 appeal from licensing decisions if the party appealing can
6 "demonstrate to the satisfaction of the Federal agency that
7 such person may be damaged by the agency action." 37 C.F.R.
8 § 404.11(a)(3). But, the Commission correctly rejoins that
9 restrictions on the opportunity for administrative appeal did
10 not limit Plaintiffs' ability to file comments during the
11 notice and comment period. See 35 U.S.C. § 209(e); 37 C.F.R.
12 § 404.7.
13

14
15 3. Knowledge.

16 Plaintiffs also argue that exhaustion should be excused
17 because they lacked actual or constructive knowledge of any
18 violations of the Bayh-Dole Act during the comment period, at
19 least for Sweet Scarlet. The SAC contains the following
20 relevant allegations:
21

22 78. On April 29, 2003, the USDA published notice in
23 the Federal Register of its intent to grant an
24 exclusive license to the Commission for the Sweet
25 Scarlet patent. The Federal Register notice did not
26 state the terms of the license, and provided no
27 information on whether growers would be authorized
28 to reproduce or distribute the Sweet Scarlet
variety, whether growers would incur any costs to
obtain the Sweet Scarlet variety, or whether growers
would incur any royalty expenses for the Sweet
Scarlet variety. Indeed, the Federal Register notice
contained no information whatsoever regarding the

1 exclusive licensing terms and conditions that the
2 Commission had secretly negotiated with the USDA. In
3 or about 2003, the USDA entered into an exclusive
4 license with the Commission for the Sweet Scarlet
5 patent. On December 23, 2004, the USDA published
6 notice in the Federal Register of its intent to
7 grant an exclusive license to the Commission for the
8 Autumn King and Scarlet Royal patents. The Federal
9 Register notice did not state the terms of the
10 license, and provided no information on whether
11 growers would be authorized to reproduce or
12 distribute the Autumn King and Scarlet Royal
13 varieties, whether growers would incur any costs to
14 obtain the Autumn King and Scarlet Royal varieties,
15 or whether growers would incur any royalty expenses
16 for the Autumn King and Scarlet Royal varieties.
17 Indeed, the Federal Register notice contained no
18 information whatsoever regarding the exclusive
19 licensing terms and conditions that the Commission
20 had secretly negotiated with the USDA. In or about
21 June, 2005, the USDA entered into an exclusive
22 license with the Commission for the Autumn King and
23 Scarlet Royal patents.

24 79. At the time of these notices, Plaintiffs did
25 not know and could not have known that the USDA
26 authorized and that the Commission intended to
27 charge patent licensing royalties for the
28 distribution of the Patented Varieties from the same
grower who already paid for a significant portion of
their development costs. Plaintiffs also did not
know and could not have known that the Commission
intended to only allow three nurseries to distribute
plant material for the Patented Varieties.
Plaintiffs also did not know and could not have
known that the Commission intended include
restrictions on the distribution and propagation of
plant material by growers who obtained the Patented
Varieties. At the time of the notices, Plaintiffs
had every reason to believe that the distribution of
the Patented Varieties would continue to be free of
charge and restrictions to local growers (including
Plaintiffs), as had been the case for over a decade
with prior USDA-developed grapevine varieties.
Indeed, at the time of the notices, Plaintiffs
expected that the Patent Licensing program would be
used for its original intended purpose - to protect
Plaintiffs and other growers from foreign

1 competition. Plaintiffs did not know, and the USDA
2 did not advice [sic] in the Federal Register
3 notices, the USDA had agreed to allow the Commission
4 to use the Patent Licensing program and a way to
5 extract an additional tax from growers, and to
6 effectively usurp complete control over the
7 reproduction and distribution of new grapevine
8 varieties.

9
10 80. As such, Plaintiffs lacked information
11 necessary and sufficient to raise any objections to
12 the noticed licenses, including objections to the
13 licenses under the terms of the Bayh-Dole Act raised
14 in this SAC. Specifically [sic], at the time of the
15 notices, Plaintiffs did not have sufficient
16 information to determine or believe that the
17 exclusive license between the USDA and the
18 Commission for the Patented Varieties violated any
19 provisions of the Bayh-Dole Act. Because Plaintiffs
20 lacked the information needed to raise objections to
21 the exclusive license granted to the Commission for
22 the Patented Varieties at the time of the Federal
23 Register Notices, and because the Federal Register
24 notices lacked any information from which Plaintiffs
25 could have concluded that the exclusive licenses
26 violated provisions of the Bayh-Dole Act, any
27 exhaustion of Plaintiffs' rights resulting from a
28 purported failure to raise those objections at that
time of the Federal Register notices should be
excused.

Essentially, Plaintiffs allege that their exhaustion should
be excused because, although the Notices did announce the
USDA's intention to grant exclusive licenses to the
Commission, they did not contain the specific terms of those
exclusive licenses and specifically did not explain that the
Commission "intended to charge patent licensing royalties for
the distribution of the Patented Varieties from the same
grower who already paid for a significant portion of their
development costs." Rather, Plaintiffs allege that they "had

1 every reason to believe that the distribution of the Patented
2 Varieties would continue to be free of charge and
3 restrictions to local growers (including Plaintiffs), as had
4 been the case for over a decade with prior USDA-developed
5 grapevine varieties." SAC ¶79. This conflicts with the
6 record.
7

8 Plaintiffs are presumed as a matter of law to have been
9 aware of the content of the relevant Federal Register
10 Notices. See 44 U.S.C. § 1507. The entire Sweet Scarlet
11 Notice was approximately one page in length and provided:

12 ACTION: Notice of availability and intent.

13 SUMMARY: Notice is hereby given that the table grape
14 variety designated "Sweet Scarlet" is available for
15 licensing and that the U.S. Department of
16 Agriculture, Agricultural Research Service, intends
17 to grant to the California Table Grape Commission of
Fresno, California, an exclusive license to this
variety.

18 DATES: Comments must be received within ninety (90)
19 calendar days of the date of publication of this
notice in the Federal Register.

20 ADDRESSES: Send comments to: USDA, ARS, Office of
21 Technology Transfer, 5601 Sunnyside Avenue, Room 4-
1174, Beltsville, Maryland 20705-5131.

22 FOR FURTHER INFORMATION CONTACT: June Blalock of the
23 Office of Technology Transfer at the Beltsville
24 address given above; telephone: 301-504-5989.

25 SUPPLEMENTARY INFORMATION: The Federal Government's
26 patent rights to this invention are assigned to the
27 United States of America, as represented by the
28 Secretary of Agriculture. It is in the public
interest to so license this invention as the
California Table Grape Commission of Fresno,

1 California, has submitted a complete and sufficient
2 application for a license. The prospective exclusive
3 license will be royalty-bearing and will comply with
4 the terms and conditions of 35 U.S.C. 209 and 37 CFR
5 404.7. The prospective exclusive license may be
6 granted unless, within ninety (90) days from the
7 date of this published Notice, the Agricultural
8 Research Service receives written evidence and
9 argument which establishes that the grant of the
10 license would not be consistent with the
11 requirements of 35 U.S.C. 209 and 37 CFR 404.7.

12 Michael D. Ruff,

13 Assistant Administrator.

14 68 Fed. Reg. 22,671-01. The Notices for Autumn King and
15 Scarlet Royale were substantially the same. 69 Fed. Reg.
16 76,902. These notices were short, concise, and clearly
17 stated that it was the USDA's intent to grant the Commission
18 an exclusive "royalty bearing" license. This alone was
19 enough to put Plaintiffs on notice that they no longer "had
20 every reason to believe that the distribution of the Patented
21 Varieties would continue to be free of charge and
22 restrictions to local growers (including Plaintiffs), as had
23 been the case for over a decade with prior USDA-developed
24 grapevine varieties." It was incumbent upon Plaintiffs to
25 request information from the Commission about the terms of
26 the proposed licenses. They have proved themselves capable
27 of objecting to every revenue-producing activity of the
28 Commission for more than a decade.

These same Plaintiffs demonstrated their awareness of

1 the relevant facts by filing a lawsuit on February 10, 2005,
2 more than five weeks before the deadline for submission of
3 comments regarding the exclusive licenses for Autumn King and
4 Scarlet Royale, containing factual allegations describing the
5 royalty program in detail. Doc. 102, Ex. 11 ("2005
6 Compl.").³ For example, that complaint alleges that
7 "nurseries who wish to be sublicensees [must] pay an annual
8 \$5000.00 'participation fee' per variety and a one dollar
9 'per production unit royalty' to the Commission." *Id.* at
10 ¶14. It was also alleged that "the nurseries will charge ...
11 growers their regular nursery fees plus at least the \$1.00
12 fee per vine that said nurseries must pay to the Commission.
13 *Id.* at ¶16. At least with respect to Autumn King and Scarlet
14 Royale, this lawsuit affirmatively demonstrates Plaintiffs'
15 actual knowledge of the nature and terms of the royalty
16 program prior to the close of the comment periods for those
17 varietals.

20 The lawsuit post-dated the close of the comment period
21 for Sweet Scarlet. With respect to Sweet Scarlet,
22 Plaintiffs' claim that, although they may have imputed
23 knowledge that the license would be "royalty bearing" from
24 the Federal Register Notice prior to the close of the comment
25 period for Sweet Scarlett, they were ignorant of the nature

27
28 ³ This Complaint is a matter of public record, judicially noticeable
for its existence and content under Federal Rule of Evidence 201.

1 of the licensing program and therefore did not know that the
2 licensing program might harm their interests.

3 In response, the Commission points out that detailed
4 information about the licensing program was provided at open
5 meetings of the Commission before expiration of any of the
6 comment deadlines. See Doc. 102, Ex. 5 (Commission Executive
7 Committee Meeting, April 1, 2003) (explaining that state-
8 certified nurseries would distribute the stock, those
9 nurseries would be required to pay a \$5,000 per variety fee
10 and a \$1 per production unit royalty, and "growers would be
11 required to sign an agreement acknowledging that they are not
12 allowed to self-propagate, self-graft, sell, trade, or give
13 plant material away.") The meetings and agenda were posted
14 on the Commission's web site. *Id.*, Ex. 5 & 6. In addition,
15 on May 7, 2004, the Commission sent a letter to all
16 California growers and shippers about its patenting and
17 licensing program, explaining that there would be a plant
18 royalty to be paid upon purchase. See Doc. 102, Ex. 7.

19 Plaintiffs rejoin that the law does not impute knowledge
20 to Plaintiffs of the Commissions' meetings and that the
21 evidence offered by Defendants cannot be considered on a
22 motion to dismiss. This is, again, incorrect. In *Wyatt v.*
23 *Terhune*, 315 F.3d 1108, 1119-20 (9th Cir. 2003), the Ninth
24 Circuit held that in ruling on a dismissal motion based on
25
26
27
28

1 failure to exhaust nonjudicial remedies, the district court
2 "may look beyond the pleadings and decide disputed issues of
3 fact." Plaintiffs suggest that the Supreme Court's 2007
4 decision in *Jones v. Bock*, 549 U.S. 199 (2007), decided
5 January 22, 2007, undermines the reasoning of *Wyatt*. *Jones*
6 held that, under the Prison Litigation Reform Act of 1995,
7 failure to exhaust is an affirmative defense which defendant
8 has the burden of pleading and proving. *Id.* at 212. Relying
9 on *Jones*, an unpublished decision by Magistrate Judge Brennan
10 of this District, not binding authority on a district court,
11 concluded that, where a motion to dismiss for failure to
12 exhaust requires consideration of affidavits and exhibits, it
13 should be decided on summary judgment. See *Bryant v.*
14 *Sacramento County Jail*, 2008 U.S. Dist. LEXIS 10273, 6-7
15 (E.D. Cal. Feb. 12, 2008). However, numerous Ninth Circuit
16 decisions post-dating *Jones* have reaffirmed *Wyatt's* holding
17 that a court may look beyond the pleadings to decide a motion
18 to dismiss for failure to exhaust non-judicial remedies.
19 See, e.g., *O'Guinn v. Lovelock Correctional Center*, 502 F.3d
20 1056, 1059 (9th Cir. 2007) (decided in September 2007, more
21 than eight months after *Jones*) (applying the approach
22 articulated in *Wyatt* to a case brought under the PLRA);
23 *Battle v. Holly*, 2010 WL 737656, *1 (9th Cir. 2010) (same);
24 *Smith v. Hernandez*, 333 Fed. Appx. 309 (9th Cir. 2009) (same
25
26
27
28

1 as to claim brought under 42 U.S.C. § 1983). Jones has no
2 authoritative effect.

3 It is unnecessary to look to this extra record evidence
4 because the Federal Register Notice was sufficient.
5 Ignorance of the specific facts giving rise to injury does
6 not excuse exhaustion, if Plaintiffs were on notice of the
7 general terms of the of the licenses and the potential for
8 harm. See *Bicycle Trails Council of Marin v. Babbitt*, 1994
9 WL 508892 (N.D. Cal. Sept. 1, 1994). That case concerned a
10 rule promulgated by the National Park Service banning the use
11 of bicycles on all off-road areas within National Parks.
12 Plaintiffs claimed that they did not object to the rule
13 during the administrative process because they "did not
14 realize how detrimental it would be to their interests until
15 a [subsequent] trail plan was promulgated." *Id.* at *4. This
16 argument was rejected because the rule "clearly banned
17 bicycle access to all off-road areas as the baseline
18 condition. Plaintiffs' failure to realize that the rule as
19 applied might harm their interests does not excuse their
20 failure to participate." *Id.*

21 As in *Bicycle Trails*, the Federal Register notice stated
22 there would be royalties to be paid as the "baseline
23 condition." Plaintiffs had no basis to assume they would be
24 exempted and could not defer further inquiry based upon that
25
26
27
28

1 assumption. Although the impact of the Federal Register in
2 this case was slightly less obvious, it was sufficient notice
3 that royalties had to be paid, absent some exception to the
4 baseline rule.

5 Plaintiffs cite *Niagra Mohawk Corp. v. Federal Energy*
6 *Regulatory Commission*, 452 F.3d 822, 827 (D.C. Cir. 2006),
7 for the proposition that a party need not seek administrative
8 review of an agency action unless and until they are on
9 notice that the action will damage their interests.

10
11 *Niagra Mohawk* does not stand for the proposition that
12 administrative exhaustion is only required after a party
13 "feels the pinch" of a regulation. In *Niagra Mohawk*, FERC
14 issued a series of orders concerning the electric power
15 market in New York. A 1996 order enunciated certain
16 principles that laid the groundwork for certain practices in
17 the region, including an industry practice called "netting."
18 *Id.* at 824-25. *Niagra Mohawk* was not dissatisfied with the
19 "practical impact" of the 1996 order, and did not challenge
20 it, either administratively or in court. *See id.* at 827.
21 Subsequently, FERC entered certain other orders, expanding
22 the 1996 framework. FERC argued that *Niagra Mohawk* should
23 not be permitted to challenge the subsequent orders on the
24 ground that regulation of "netting" was beyond FERC's
25 statutory authority. *Id.* The D.C. Circuit held that *Niagra*
26
27
28

1 Mohawk did not "forfeit[] their right to challenge the
2 principle of netting by not petitioning for review earlier."
3 *Id.* A party "need not seek review if it is satisfied with
4 the practical impact of the order" and failure to do so "does
5 not foreclose its ability to challenge the principle as
6 beyond the agency's statutory authority when the agency later
7 utilizes [the principle] to cause substantial injury." *Id.*

9 The present circumstances are not analogous. At best,
10 Niagra Mohawk stands for the proposition that failure to seek
11 administrative review of a previous administrative action
12 does not bar a party from seeking review of a subsequent
13 administrative action that builds upon the initial
14 administrative action. Here, Plaintiffs seek to challenge in
15 court the only particular administrative action that they
16 failed to challenge at the administrative level. *Niagra*
17 *Mohawk* is simply inapplicable to the present circumstances.

19 In the final analysis, the Federal Register Notice was
20 sufficient to put Plaintiff on actual and inquiry notice of
21 the general thrust of the regulation and the potential for
22 harm. Plaintiffs' failure to raise any of their concerns
23 with the agency, when it would have enabled the agency to
24 remedy Plaintiffs' concerns, precludes judicial review.
25 Plaintiffs have had several opportunities to state a valid
26 claim against Defendants and have not stated an alternative
27
28

1 excuse-from-exhaustion theory. State Defendants' motion to
2 dismiss the APA claim is GRANTED WITHOUT LEAVE TO AMEND.

3
4 B. Plaintiffs' Concede that their APA Claims Do Not Seek to
5 Challenge the Patents.

6 USDA argues that to the extent the APA claims actually
7 challenge the government's right to enforce its patent
8 rights, such challenges should be dismissed because
9 Plaintiffs have failed to identify a valid waiver of the
10 United States' sovereign immunity as to such claims. Doc.
11 100 at 10. In response, Plaintiffs concede that they do not
12 challenge the USDA's right to obtain and enforce patents;
13 they challenge only the legality of the Commission's
14 licensing scheme. Doc. 109 at 19. Any such claim is
15 DISMISSED WITHOUT LEAVE TO AMEND.

16
17 C. Unfair Competition Claim.

18 The California Unfair Competition Law ("UCL"), Cal. Bus.
19 & Prof. Code §§ 17200 et seq., prohibits any "person" from
20 engaging in "unlawful, unfair or fraudulent business act[s]
21 or practice[s]." *Id.* §§ 17201, 17203. Plaintiffs' UCL claim
22 was previously dismissed, with the exception of their "double
23 payment" theory, which alleges that the Commission engaged in
24 unfair competition by using assessments collected from
25 California growers to help fund the USDA's breeding program
26 and then indirectly charged growers a licensing fee to use
27
28

1 the patented varieties that the USDA develops. See Doc. No.
2 84, at 63-65. Recognizing that the UCL claim was not the
3 central focus of the Commission's prior motions, the
4 Commission's motion was denied as to the UCL claim "without
5 prejudice." *Id.* at 65.

6
7 The Commission now moves to dismiss the UCL for a third
8 time, arguing (1) the claim is preempted by federal law; (2)
9 the Commission is not a proper defendant under § 17200; and
10 (3) Plaintiffs fail to state a claim under the statute.

11
12 1. Preemption.

13 a. Preemption by the Patent Act.

14 The Commission maintains that federal patent law
15 preempts this UCL claim. The same argument was raised and
16 rejected in *California Table Grape Com'n v. RB Sandrini,*
17 *Inc.*, 2007 WL 1847631, 26-27 (E.D. Cal. 2007), in which the
18 Commission was the plaintiff:

19
20 Federal patent law may preempt state law if it
21 "stands as an obstacle to the accomplishment and
22 execution of the full purposes and objectives of
23 Congress." *Kewanee Oil Co. v. Bicron Corp.*, 416
24 U.S. 470, 479 (1974). "When state law touches upon
the area of federal statutes enacted pursuant to
constitutional authority, it is familiar doctrine
that the federal policy may not be set at naught, or
its benefits denied by the state law." *Id.* at 479-
80.

25 Patent law will not preempt state law claims if such
26 claims "include additional elements not found in the
27 federal patent law cause of action and if they are
28 not an impermissible attempt to offer patent-like
protection to subject matter addressed by federal
law." *Rodime PLC v. Seagate Tech., Inc.*, 174 F.3d
1294, 1306 (Fed. Cir. 1999).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Unfair competition requires a plaintiff to prove the defendant "engaged in an unfair business practice, that is, a business practice that is immoral, unethical, oppressive, unscrupulous, or substantially injurious." *Id.* (citing *People v. Casa Blanca Convalescent Homes, Inc.*, 159 Cal. App. 3d 509, 206 (Cal. Ct. App. 1984)). "Unfair competition prevents unethical and oppressive business practices." *Rodime*, 174 F.3d at 1306.

In *Rodime*, the Federal Circuit addressed whether, under California law, tortious interference with prospective economic relations and unfair competition were preempted by federal patent law. The court held that "these state law causes of action do not constitute an impermissible attempt to offer patent-like protection to subject matter addressed by federal law." *Id.* The court held "because these state law causes of action protect interests different from federal patent law, federal law does not preempt [the plaintiff's] state law claims." *Id.*

The Commission's state law claims are not foreclosed as a matter of law because they have different elements and do not constitute an impermissible attempt to offer patent-like protection. Sandrini's motion for summary judgment as to the Commission's state law claims is DENIED.

At issue in *Sandrini* were the Commission's claims that Sandrini was liable for "unfair competition" under the UCL because he "unlawfully and unfairly used misappropriated USDA property for his own gain at the expense of other growers, and ... unlawfully and unfairly concealed his actions." *Id.* at *25. The Commission also alleged that Sandrini intentionally interfered with the Commission's prospective economic advantage and was unjustly enriched by virtue of Sandrini's alleged possession of Autumn King plant material without a license from the Commission. *Id.* at *26.

1 The Commission suggests that *Sandrini* is
2 distinguishable, because that case concerned whether the
3 state could go further in protecting patent rights, while,
4 here, the issue is whether the UCL claim undermines the
5 purposes of the Patent Act. The Commission cites
6 *Biotechnology Industry Organization v. District of Columbia*,
7 496 F. 3d 1362, 1371-75 (Fed. Cir. 2007) ("BIO"), which
8 concerned legislation passed by the D.C. City Council which
9 prohibited any patented drug from being sold in the District
10 at an "excessive price." *Id.* Plaintiffs alleged that the
11 legislation was preempted by federal Patent law because it
12 stood as an obstacle to the accomplishment and execution of
13 the federal patent scheme. The Federal Circuit reviewed the
14 purposes of the federal patent laws vis-à-vis price controls:
15

16 We have noted that "the essential criteria" for
17 determining whether a state law is preempted are
18 "the objectives of the federal patent laws." *Hunter*
19 *Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d
20 1318, 1333 (1998). The fundamental goal of the
21 patent law is spelled out in the Constitution: "To
22 promote the Progress of Science and useful Arts, by
23 securing for limited Times to Authors and Inventors
24 the exclusive Right to their respective Writings and
25 Discoveries." U.S. Const. art. I, § 8, cl. 8.
26 Inventors are impelled to invest in creative effort
27 by the expectation that, through procurement of a
28 patent, they will obtain a federally protected
"exclusive right" to exclude others from making,
using, or selling embodiments of their invention.
Patentees value the right to exclude in part because
the ability to foreclose competitors from making,
using, and selling the invention may allow them an
opportunity to obtain above-market profits during
the patent's term.

1
2 This court has repeatedly recognized as important
3 the pecuniary rewards stemming from the patent
4 right:

5 We have long acknowledged the importance of the
6 patent system in encouraging innovation.
7 Indeed, "the encouragement of investment-based
8 risk is the fundamental purpose of the patent
9 grant, and is based directly on the right to
10 exclude." ... Importantly, the patent system
11 provides incentive to the innovative drug
12 companies to continue costly development
13 efforts.

14 *Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368,
15 1383 (Fed.Cir.2006) (quoting *Patlex Corp. v.*
16 *Mossinghoff*, 758 F.2d 594, 599 (Fed.Cir.1985)).

17 [T]he Patent Act creates an incentive for
18 innovation. The economic rewards during the
19 period of exclusivity are the carrot. The
20 patent owner expends resources in expectation
21 of receiving this reward. Upon grant of the
22 patent, the only limitation on the size of the
23 carrot should be the dictates of the
24 marketplace.

25 *King Instruments Corp. v. Perego*, 65 F.3d 941, 950
26 (Fed.Cir.1995).

27 ...Congress, too, has acknowledged the central role
28 of enhanced profits in the statutory incentive
scheme it has developed. In the legislative history
of the Drug Price Competition and Patent Term
Restoration Act of 1984 (popularly known as the
"Hatch-Waxman Act"), the House Committee on Energy
and Commerce observed:

Patents are designed to promote innovation by
providing the right to exclude others from
making, using, or selling an invention. They
enable innovators to obtain greater profits
than could have been obtained if direct
competition existed. These profits act as
incentives for innovative activities.

H.R.Rep. No. 98-857, at 17 (1984), U.S.Code Cong. &

1 Admin.News 1984, pp. 2647, 2650; see also *id.* at 15,
2 U.S.Code Cong. & Admin.News 1984, pp. 2647, 2648
3 ("The purpose of Title II of the bill is to create a
4 new incentive for increased expenditures for
5 research and development.").

6 Of course, the patent laws are not intended merely
7 to shift wealth from the public to inventors. Their
8 purpose is to "promote the Progress of ... useful
9 Arts," U.S. Const. art. I, § 8, cl. 8, ultimately
10 providing the public with the benefit of lower price
11 through unfettered competition. That goal is
12 underscored by the Constitutional command that
13 periods of exclusivity be for "limited Times." *Id.*
14 Once the patent expires and the inventor's exclusive
15 rights terminate, others may enter the market with
16 products based on the teachings of the patent, which
17 must "enable any person skilled in the art ... to
18 make and use the [invention]." 35 U.S.C. § 112 ¶ 1.
19 If the market functions properly, this new
20 participation will bring down the formerly elevated
21 price of the patented product to competitive levels.
22 These two objectives—to reward innovators with
23 higher profits and to keep prices reasonable for
24 consumers—are in dialectic tension. The Supreme
25 Court has noted that "[t]he tension between the
26 desire to freely exploit the full potential of our
27 inventive resources and the need to create an
28 incentive to deploy those resources is constant."
Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489
U.S. 141, 152 (1989); see also *Hunter Douglas*, 153
F.3d at 1333 ("[T]he objectives of the federal
patent laws are in some tension with one
another, and Congress struck a balance between
them."). Congress, as the promulgator of patent
policy, is charged with balancing these disparate
goals. The present patent system reflects the result
of Congress's deliberations. Congress has decided
that patentees' present amount of exclusionary
power, the present length of patent terms, and the
present conditions for patentability represent the
best balance between exclusion and free use.

Id. at 1372-73. The Federal Circuit then examined whether
the District's legislation was in conflict with and preempted
by federal patent law.

1 It is unquestioned that the District has general
2 police power within its borders and that "[w]hatever
3 rights are secured to inventors must be enjoyed in
4 subordination to this general authority of the State
5 over all property within its limits," *Webber v.*
6 *Virginia*, 103 U.S. 344, 348 (1880). But general
7 state power must yield to specific Congressional
8 enactment: "any state law, however clearly within a
9 State's acknowledged power, which interferes with or
10 is contrary to federal law, must yield." *Felder v.*
11 *Casey*, 487 U.S. 131, 138 (1988) (quoting *Free v.*
12 *Bland*, 369 U.S. 663, 666 (1962)). Furthermore, this
13 Act is in no way general, affecting only patented
14 products. The Act's operation stands largely-indeed,
15 exclusively-within the scope of the patent laws, and
16 its effect is to shift the benefits of a patented
17 invention from inventors to consumers.

18 By penalizing high prices-and thus limiting the full
19 exercise of the exclusionary power that derives from
20 a patent-the District has chosen to re-balance the
21 statutory framework of rewards and incentives
22 insofar as it relates to inventive new drugs. In the
23 District's judgment, patents enable pharmaceutical
24 companies to wield too much exclusionary power,
25 charging prices that are "excessive" for patented
26 drugs. The Act is a clear attempt to restrain those
27 excessive prices, in effect diminishing the reward
28 to patentees in order to provide greater benefit to
District drug consumers. This may be a worthy
undertaking on the part of the District government,
but it is contrary to the goals established by
Congress in the patent laws. The fact that the Act
is targeted at the patent right is apparent on its
face. It applies only to patented drugs. D.C. Code §
28-4553. The District has thus seen fit to change
federal patent policy within its borders. The
underlying determination about the proper balance
between innovators' profit and consumer access to
medication, though, is exclusively one for Congress
to make. As the Supreme Court has noted, "[w]here it
is clear how the patent laws strike that balance in
a particular circumstance, that is not a judgment
the States may second-guess." *Bonito Boats*, 489 U.S.
at 152; see also *Webber*, 103 U.S. at 347 (noting
that sale of patented articles "cannot be forbidden
by the State, nor can the sale of the article or
machine produced be restricted except as the

1 production and sale of other articles, for the
2 manufacture of which no invention or discovery is
3 patented or claimed, may be forbidden or
restricted").

4 The Act stands as an obstacle to the federal patent
5 law's balance of objectives as established by
6 Congress. Accordingly, we conclude that it is
preempted by federal patent law.

7 *Id.* at 1373-74.

8 Here, Plaintiffs' UCL claim alleges:

9 The Commission has unlawfully and unfairly exploited
10 the '284, '891 and '229 patents in a manner that
11 violates antitrust laws and in a manner that
12 attempts to extend these patents beyond their lawful
13 scope. Such acts constitute unfair trade practices
14 and unfair competition under California Business and
Professions Code §17200, et seq., and under the
common law of the State of California, entitling
Plaintiffs to relief.

15 SAC ¶85.

16 Plaintiffs' allegation that the Commission violated the
17 UCL because it was utilizing the patents in a manner that
18 violates antitrust laws by alleged exploitation of patent law
19 rights to monopolize and profit was dismissed by the October
20 27, 2009 Decision, Plaintiffs' underlying antitrust claims
21 were rejected, as was the UCL claim, with the exception of
22 any UCL claim based on a "double payment" theory (i.e., that
23 the Commission collected patent royalties from growers who
24 already paid for the research and development of the Patented
25 Varieties through assessment fees). Doc. 84 at 63-65. Any
26 such UCL allegation based on a "double payment" theory
27
28

1 implicates the scope of the license agreement, not the scope
2 of the patents. The Bayh Dole Act, rather than the Patent
3 Act, governs patent licensing. Whether any such claim is
4 preempted by the Bayh Dole Act is addressed below.

5
6 To the extent Plaintiffs allege that the Commission is
7 unfairly using a patented product this too arguably
8 implicates the nature and scope of their exclusive license.
9 Alternatively, if Plaintiffs are alleging that the
10 Commission's actions are exceeding the scope of the patent,
11 this implicates the nature and scope of the patent itself.
12 This is unlike *Sandrini*, where the allegation was that
13 *Sandrini* was unfairly misusing a patented product. Any state
14 law challenge that implicates the scope of the patent is
15 preempted by federal patent law, which governs the scope of
16 patents. See 35 U.S.C. § 112 (defining the content of a
17 specification to include "a written description of the
18 invention, and of the manner and process of making and using
19 it, in such full, clear, concise, and exact terms as to
20 enable any person skilled in the art to which it pertains, or
21 with which it is most nearly connected, to make and use the
22 same, and shall set forth the best mode contemplated by the
23 inventor of carrying out his invention."); *Reiffin v.*
24 *Microsoft Corp.*, 214 F.3d 1342, 1345 (Fed Cir.
25 2000) (explaining that the purpose of § 112 is "to ensure
26
27
28

1 that the scope of the right to exclude, as set forth in the
2 claims, does not overreach the scope of the inventor's
3 contribution to the field of art as described in the patent
4 specification."). "Where it is clear how the patent laws
5 strike that balance in a particular circumstance, that is not
6 a judgment the States may second-guess." *Bonito Boats*, 489
7 U.S. at 152. In particular, where a state law cause of
8 action hinges on a finding that implicates federal patent law
9 (such as the scope of a patent), the state law must yield.
10 See *Univ. of Colo. Found. Inc. v. Am. Cyanamid Co.*, 196 F.3d
11 1366, 1373-74 (Fed. Cir. 1999) (patent law preempts state law
12 causes of action that "hinge" on finding of inventorship
13 under the Patent Act). That the Patent Act permits inventors
14 to realize such profits in the marketplace is not illegal.
15
16

17 b. Preemption by the Bayh-Dole Act.

18 The Commission also agrees that Plaintiffs' double-
19 payment theory conflicts with the purposes and provisions of
20 the Bayh-Dole Act. Congress enacted the Bayh-Dole Act to
21 facilitate the patenting and licensing of inventions produced
22 by the federal government or with federal support. The Act
23 authorizes each federal agency to "apply for, obtain, and
24 maintain patents or other forms of protection ... on
25 inventions in which the Federal Government owns a right,
26 title, or interest." 35 U.S.C. § 207(a)(1). It also
27
28

1 authorizes agencies to "grant nonexclusive, exclusive, or
2 partially exclusive licenses under federally owned
3 inventions, royalty-free or for royalties or other
4 consideration, and on such terms and conditions ... as
5 determined appropriate in the public interest." *Id.* §
6 207(a)(2) (emphasis added).
7

8 The Bayh-Dole act embodies Congress' intent to create a
9 system in which federal agencies could patent their
10 inventions, grant exclusive licenses, administer their rights
11 through third parties, and charge royalties. The Commission
12 correctly points out that:

13 Government patents are funded in whole or in part by
14 tax revenue and can be supported by entities working
15 in partnership with the government. Yet, the Bayh-
16 Dole Act permits the government to collect royalties
17 from all licensees, including taxpayers and any
18 others who support the development of an invention.
The same is true when businesses and nonprofit
organizations obtain patents based on federally
funded research.

19 Doc. 102 at 18.

20 A plaintiff cannot use state law to "interfere[] with
21 the 'methods by which the federal statute was designed to
22 reach [its] goal.'" *Ting v. AT&T*, 319 F.3d 1126, 1137 (9th
23 Cir. 2003) (quoting *Int'l Paper Co. v. Ouellette*, 479 U.S.
24 481, 494 (1987)). Here, the Bayh-Dole Act sets forth a
25 "method" by which exclusive licenses are issued, specifically
26 precluding the issuance of exclusive licenses unless the
27 issuing Federal agency has determined that:
28

1 (A) The public will be served by the granting of the
2 license, in view of the applicant's intentions,
3 plans and ability to bring the invention to the
4 point of practical application or otherwise promote
5 the invention's utilization by the public.

6 (B) Exclusive, co-exclusive or partially exclusive
7 licensing is a reasonable and necessary incentive to
8 call forth the investment capital and expenditures
9 needed to bring the invention to practical
10 application or otherwise promote the invention's
11 utilization by the public; and

12 (C) The proposed scope of exclusivity is not greater
13 than reasonably necessary to provide the incentive
14 for bringing the invention to practical application,
15 as proposed by the applicant, or otherwise to
16 promote the invention's utilization by the public;

17 37 U.S.C. § 404.7. This requires USDA to assess the
18 "reasonableness" of the license terms, an exercise of
19 discretion that would be substantially impeded if Plaintiffs
20 could challenge the license terms as "unfair" under the UCL.
21 Plaintiffs' UCL claim is preempted by the Bayh-Dole Act.

22 Even if the Bayh-Dole Act did not preempt the UCL claim
23 as a matter of law, the Federal Government is a party to the
24 exclusive license being challenged by the UCL claim. As the
25 October 27, 2009 Decision concluded:

26 It is unnecessary to engage in a preemption analysis
27 because, state law cannot be used to challenge a
28 contract entered into pursuant to federal law where
the government is a party. See *O'Neill v. United States*, 50 F.3d 677, 682 (9th Cir. 1995) ("Federal law governs the interpretation of contracts entered into pursuant to federal law where the government is a party.").

Plaintiffs argue that they "do not seek a sweeping prohibition on the Commission's and the USDA's right to

1 license patented inventions and charge royalties for those
2 patents when doing so complies with the law and is fair.”

3 Doc. 109 at 21. Rather, they maintain that their UCL claims

4 are based on the specific facts and licensing scheme
5 alleged, namely the charging of royalties where the
6 exclusive license to the Commission was invalid and
7 unlawful for failing to meet the requirements of the
8 Bayh-Dole Act, particularly where the licensees paid
9 for the development of the patented varieties. An
10 adjudication of that particular scheme’s fairness
11 would in no way interfere or impair the Commission’s
12 or the USDA’s general patent rights. Nor would
13 adjudication of Plaintiffs’ claims undermine the
14 Commission’s or the USDA’s patent rights. To the
15 contrary, an adjudication of Plaintiffs claim would
16 seek, in part, to adjudicate whether the
17 Commission’s and the USDA’s actions are consistent
18 with the controlling patent law of the Bayh-Dole
19 Act.

20 *Id.* This is unpersuasive. An adjudication of the licenses’
21 fairness would certainly interfere with the methods by which
22 the Bayh-Dole Act was designed to reach its goals. This is
23 not done on a case-by-case basis where the United States’
24 objectives are capable of being thwarted by State law.

25 To the extent the UCL claim directly challenges the
26 fairness of the licenses issued under the Bayh-Dole Act, it
27 is preempted by the Bayh-Dole Act.

28 At oral argument, Plaintiffs attempted to redefine their
claim once again, asserting that they are not challenging the
licenses themselves as “unfair” under the UCL. Rather, they
claim the licensing was unfairly administered by the
Commission, because, for example, “it went about limiting the
licenses to three nurseries, one with family ties to the

1 Commission." 6/28/10, Rough Tr. at 30:17-19.

2 Plaintiffs' counsel summarized his UCL claim as follows:

3 MR. HADLEY: It is that the commission has taken the
4 licenses, the exclusive licenses that it was
5 granted, which we do not contest were improperly
6 granted, and it has applied them in a
7 discriminatory, unfair, and capricious manner in
8 several regards among which is limiting the sub-
licenses in an anti-competitive way to three
nurseries, one of which is owned by the son of a
commission member.

9 *Id.* at 33:17-23. This appears, again, to be an attempt to
10 invoke the anti-trust laws. Any such claim has been
11 dismissed with prejudice. See Doc. 84 at 63-65. The only
12 claim for which Plaintiffs were granted leave to amend after
13 the October 27, 2010 Decision, Doc. 84, was their "double
14 payment" theory. Plaintiffs cannot have endless bites at the
15 apple.
16

17 In the final analysis, Plaintiffs UCL claim based upon a
18 "double payment" theory arising from implementation of the
19 license is preempted by the Bayh-Dole Act.
20

21 2. Is the Commission a Proper Defendant?

22 Alternatively, the Commission next argues that it is not
23 a proper defendant under the UCL, which applies only to
24 "person[s]" that "engage in unfair competition." Cal. Bus. &
25 Prof. Code § 17203. The statute defines "person" to mean
26 "natural persons, corporations, firms, partnerships, joint
27 stock companies, associations and other organizations of
28

1 persons." *Id.* § 17201. It is well established that public
2 entities "are not included in this definition of person."
3 *Janis v. California State Lottery Comm'n*, 68 Cal. App. 4th
4 824, 831 (1998); see also *PETA, Inc. v. California Milk*
5 *Prods. Advisory Bd.*, 125 Cal. App. 4th 871, 877-879 (2005);
6 *California Med. Ass'n, Inc. v. Regents of Univ. of Cal.*, 79
7 Cal. App. 4th 542, 551 (2000); *Trinkle v. California State*
8 *Lottery*, 71 Cal. App. 4th 1198, 1203-1204 (1999); *Community*
9 *Mem'l Hosp. v. County of Ventura*, 50 Cal. App. 4th 199, 208-
10 210 (1996).

11
12 The Commission argues that it qualifies as a public
13 entity for purposes of § 17200. The Legislature created the
14 Commission "in the exercise of the police power" to perform
15 functions "affected with the public interest" that advance
16 the declared "policy" of the State and enhance the "welfare,
17 public economy and health" of its people. Cal. Food & Agric.
18 Code § 65500. The Secretary of Food and Agriculture appoints
19 and may remove every member of the Commission. See *id.* §
20 65550. Anyone aggrieved by an action of the Commission may
21 appeal to the Secretary to reverse the Commission's decision.
22 *Id.* § 65650.5. "In addition, like other entities in the
23 state government, the Commission is subject to transparency,
24 auditing, and ethics regulations that aim to promote public
25 accountability." *Delano Farms Co. v. California Table Grape*
26
27
28

1 *Comm'n*, 586 F.3d 1219, 1221 (9th Cir. 2009) (holding the
2 Commission to be the government for purposes of the First
3 Amendment).

4 The Commission maintains that the fact that the
5 Legislature declared the Commission to be "a corporate body"
6 and to "possess all the powers of a corporation," Cal. Food &
7 Agric. Code § 65551, does not make it a proper defendant
8 under the UCL. California courts have long recognized that
9 public corporations are not among the "corporations" included
10 in § 17201's definition of "person." For example, The
11 Regents of the University of California operates as a
12 "corporation," Cal. Const. art. IX, § 9(a), but cannot be
13 sued under the UCL, *California Med. Ass'n*, 79 Cal. App. 4th
14 at 551.
15
16

17 The Commission argues that the Legislature's intent to
18 exclude public corporations from the UCL's definition of
19 "person" is evident when the UCL is compared to the Unfair
20 Practices Act, Cal. Bus. & Prof. Code §§ 17000 et seq., which
21 defines "person" to include any "company, corporation or
22 municipal or other public corporation." *Id.* § 17021
23 (emphasis added). Had the Legislature wished to include a
24 public entity such as the Commission within the meaning of
25 "person" under § 17201, the Commission argues "it would have
26 done so by using language similar to that in section 17021."
27
28

1 PETA, 125 Cal. App. 4th at 879 (advisory board created
2 pursuant to marketing order immune from claim under § 17200).

3 In response, Plaintiffs first complain that the
4 Commission failed to raise this argument in the first two
5 rounds of motions to dismiss, but cite no authority that it
6 is improper for the Commission to raise the issue now, in
7 response to the SAC. There is no such procedural rule, as
8 Plaintiffs chose to amend their complaint, subjecting it to
9 scrutiny on any and every applicable legal ground under Rule
10 12.
11

12 Plaintiffs next argue that the Commission's argument
13 should fail because the Commission "took the exact opposite
14 position before this Court in arguing that it was a 'person'
15 under § 17200 for purposes of asserting an unfair competition
16 claim." Doc. 109 at 21. It is true that a prior ruling was
17 made that the Commission constituted a "person" that could
18 bring suit under § 17200:
19

20 Sandrini contends the Commission is not a "person"
21 with standing to sue under § 17200. The Commission,
22 on the other hand, agrees that it is a governmental
23 entity, but that fact is not determinative of
24 whether it may bring suit under §17200. In support
25 of its argument, the Commission contends § 17204
26 authorizes corporations to bring suit under § 17200,
27 and the Ketchum Act, in turn, provides the
28 Commission shall "have and possess all of the powers
of a corporation." The Ketchum Act specifically
provides "[t]he California Table Grape Commission
shall be and is hereby declared a corporate body."
Cal. Food & Agric. Code § 65551...The Ketchum Act
further provides the Commission "shall have the
power to sue and be sued, to contract and be
contracted with, and to have and possess all of the

1 powers of a corporation." *Id.*...The Ketchum Act
2 specifically declares the Commission a "corporate
3 body," which "possesses all of the powers of a
4 corporation." As § 17204 specifically provides a
"person" may sue under § 17200, and § 17201 defines
"person" as including corporations, the Commission
has standing to sue under § 17200 as a corporation.

5 *Sandrini*, 2007, WL 1847631, at *26 (emphasis added). In
6 essence, *Sandrini* held that the Commission, although it is a
7 governmental entity, possesses all the powers of a
8 corporation and could bring suit under § 17200.

9 The Commission now argues that it cannot be sued under §
10 17200 because public entities are not persons under § 17200.
11 The Commission wants to have it both ways. There is support
12 for their position insofar as the Regents of the University
13 of California are considered a corporation with the power to
14 sue and be sued, see Cal. Const. art. IX, § 9(f), yet the are
15 not a proper § 17200 defendant. See *California Med. Ass'n,*
16 *Inc. v. Regents of Univ. of Cal.*, 79 Cal. App. 4th 542, 551
17 (2000). California seems to have made the unique choice to
18 exempt its public entities from UCL liability. However, it
19 is not necessary for a federal court to further extend this
20 unique aspect of state law to the Commission, as this case
21 can be decided on other grounds.

22
23
24
25 3. Failure to State a Claim.

26 The Commission also argues that the UCL claim fails to
27 state a claim. "A business practice is unfair within the
28 meaning of the UCL if it violates established public policy

1 or if it is immoral, unethical, oppressive or unscrupulous
2 and causes injury to consumers which outweighs its benefits.”
3 *McKell v. Washington Mut., Inc.*, 142 Cal. App. 4th 1457, 1473
4 (2006). The Commission maintains that

5
6 Imposing a user fee on those who benefit most directly
7 from using the government’s property is none of these
8 things. It is what happens every time someone pays a
9 toll to cross a public bridge or pays a fee to camp in a
10 national park. That person may well have helped pay for
the construction of the bridge or the upkeep of the
park, but the user fee recoups some of the cost borne by
the public at large and frees up public resources for
other priorities.

11 Doc. 102 at 22.

12 *Sandrini* held that the Commission has authority to
13 “engage in its patenting and licensing program” and to
14 “generate revenues through the collection of patent
15 royalties.” *Sandrini*, 2007 WL 1847631, at *9. But, this is
16 not dispositive, as Plaintiffs’ claim is more nuanced,
17 alleging that it is unfair to double-charge Plaintiffs by
18 requiring them to pay for research costs and then again for
19 the “fruit” of that research. Section 17200 allows for
20 judicial review of a “broad” and “sweeping” range of business
21 activities. Cal. Bus. & Prof. Code § 17200; *McKell v.*
22 *Washington Mutual, Inc.*, 142 Cal. App. 4th 1457, 1471 (2006);
23 *Cal-Tech Commc’n, Inc. v. Los Angeles Cellular Tel. Co.*, 20
24 Cal. 4th 163, 180 (1999). The “unfair” criteria may be met
25 “even if not specifically proscribed by some other law” so
26
27
28

1 long as it "offends an established public policy or...is
2 immoral, unethical, oppressive, unscrupulous or substantially
3 injurious to consumers." *Korea Supply Co. v. Lockheed Martin*
4 *Corp.*, 29 Cal. 4th 1134, 1143 (2003); *Heighly v. J.C. Penny*
5 *Life Ins. Co.*, 257 F. Supp. 2d 1241, 1259 (C.D. Cal. 2003).
6 While the Commission may dispute that the double-payment
7 scheme is "unfair" as a factual matter, that is not a
8 determination that can be made on a motion to dismiss.
9 *Gilligan v. Jamco Development Corp.*, 108 F.3d 246, 249 (9th
10 Cir. 1997); *TwoRivers*, 174 F.3d at 991.

11
12
13 4. Failure to Exhaust State Administrative Remedies.

14 Finally, the Commission argues that California's Ketchum
15 Act requires Plaintiffs to exhaust state administrative
16 remedies before commencing state-law claims against the
17 Commission. The Ketchum Act provides that a person
18 "aggrieved by any action of the Commission" must file a
19 grievance with the Commission before bringing suit. See Cal.
20 Food & Agric. Code §§ 65650.5 & 65651. Any adverse decision
21 may then be appealed to the Secretary of the California
22 Department of Food and Agriculture ("CDFA"). See *id.* §
23 65650.5. On appeal, the Secretary "shall review the record
24 of the proceedings before the commission" and "may reverse
25 the action of the commission" if he finds that it "is not
26 substantially sustained by the record, was an abuse of
27
28

1 discretion, or illegal," or was "arbitrary or without
2 evidentiary support." *Id.* The Secretary's decision is then
3 "subject to judicial review upon petition of the commission
4 or any party aggrieved by the decision." *Id.* Plaintiffs are
5 well aware of this provision: In 2005, the Superior Court of
6 California, Fresno County, relied upon it to dismiss their
7 earlier lawsuit challenging the Commission's patenting and
8 licensing program. See Order Sustaining Demurrer of
9 Defendant, *Delano Farms Co. v. California Table Grape Comm'n*,
10 No. 05CECG02073 (Cal. Super. Ct. Nov. 4, 2005), Doc. 102, Ex.
11 13.
12

13 At oral argument, Plaintiffs asserted that they in fact
14 did exhaust their state administrative remedies after the
15 Fresno County dismissal by filing a grievance with the
16 Commission and then taking an appeal to the CDFA. 6/28/10
17 Rough Tr. 32:2-12; 38:7-14. This is not alleged in the
18 amended complaint and the argument was not raised in
19 Plaintiffs' opposition. In the absence of any other basis
20 for dismissal, such an assertion might warrant granting
21 Plaintiffs leave to amend. However, because Plaintiffs' UCL
22 claims are preempted by federal law, amendment would be
23 futile.⁴
24
25

26
27 ⁴ Plaintiffs also argue that state administrative exhaustion under the
28 Ketchum Act was not required because the Ketchum Act does not provide for
the same forms of relief sought in this case, citing for the first time
in oral argument *Andal v. City of Stockton*, 137 Cal. App. 4th 86, 93-94

1 D. Unjust Enrichment and Constructive Trust Claims.

2 "Plaintiffs' unjust enrichment and constructive trust
3 claims are 'dependent upon Plaintiffs' substantive ...
4 antitrust claims and unfair competition claims.'" Doc. 84 at
5 65 (quoting Doc. 42 at 71); *see also McBride v. Boughton*, 123
6 Cal. App. 4th 379, 387 (2004); *PCO Inc. v. Christensen*,
7 *Miller, Fink, Jacobs, Glaser, Weil & Shapiro, LLP*, 150 Cal.
8 App. 4th 384, 398 (2007). Because no other claims in this
9 case survive, the Commission's motion to dismiss the unjust
10 enrichment and constructive trust claims is GRANTED.
11

12
13 IV. CONCLUSION

14 For the reasons set forth above, Federal Defendants and
15 the Commissions' motions to dismiss all claims of the
16 complaint are GRANTED WITHOUT LEAVE TO AMEND. Plaintiffs
17 motion for leave to file an interlocutory appeal, Doc. 93, is
18 DENIED AS MOOT. Defendants shall submit a form of order
19 consistent with this memorandum decision within five (5) days
20 of electronic service.
21

22 SO ORDERED

23 DATED: July 26, 2010

24 /s/ Oliver W. Wanger
25 Oliver W. Wanger
26 United States District Judge
27

28 (2006). It is not necessary to resolve this untimely argument, as this claim can be disposed of on other grounds.