

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF HAWAII

CYANOTECH CORPORATION,	)	CIVIL NO. 12-00352 JMS-RLP
	)	
Plaintiff,	)	ORDER GRANTING DEFENDANTS'
	)	MOTION TO DISMISS
vs.	)	
	)	
U.S. NUTRACEUTICALS, LLC,	)	
d/b/a/ VALENSA INTERNATIONAL,	)	
AND THE UNIVERSITY OF	)	
ILLINOIS,	)	
	)	
Defendants.	)	
_____	)	

**ORDER GRANTING DEFENDANTS' MOTION TO DISMISS**

**I. INTRODUCTION**

In this action, Plaintiff Cyanotech Corporation (“Cyanotech”) seeks a declaration of non-infringement or invalidity of a patent licensed to Defendant U.S. Nutraceuticals, LLC, d/b/a Valensa International (“Valensa”), and owned by the University of Illinois (the “University”) (collectively “Defendants”). Defendants move to dismiss, contending that the University has Eleventh Amendment immunity, and that the court lacks personal jurisdiction over both Defendants. And because the University is a required party to this action as an owner of the patent, Defendants argue that the action must be dismissed under Federal Rules of Civil

Procedure 12(b)(7) and 19(b).

The court GRANTS Defendants' Motion. The University indeed has Eleventh Amendment immunity and is a party whose joinder is not feasible under Rule 19(a).<sup>1</sup> Applying Rule 19(b), because the action cannot proceed without the University, the court DISMISSES the action without prejudice to Cyanotech asserting its claims in a parallel patent infringement action pending against it in the U.S. District Court for the Middle District of Florida. *See U.S. Nutraceuticals LLC v. Cyanotech Corp.*, No. 5:12-cv-366OC-10TBS (M.D. Fla. June 29, 2012) (the "parallel action").

## II. BACKGROUND

### A. **Factual Background**<sup>2</sup>

Among other products, Cyanotech develops a microalgae in Kailua-Kona, Hawaii that contains astaxanthin, an antioxidant that is claimed to have a wide variety of human health benefits. *See, e.g.*, Doc. No. 1, Compl. ¶¶ 1 & 13

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<sup>1</sup> Because the suit is dismissed under Federal Rules of Civil Procedure 12(b)(7) and 19, the court need not reach whether personal jurisdiction exists as to the University or as to Co-Defendant U.S. Nutraceuticals, LLC, d/b/a Valensa International ("Valensa"). Accordingly, the Ex Parte Motion for Leave to File Supplemental Material, Doc. No. 46; and the Ex Parte Motion to File Under Seal, Doc. No. 47, are both DENIED as MOOT.

<sup>2</sup> Given that the court need not reach personal jurisdiction issues, this factual background focuses on describing the basic allegations of the merits of the dispute, and the facts related to whether the University is a required party under Rule 19. That is, the court does not set forth much of the background related to Valensa's and the University's contacts (or lack of contacts) with the Hawaii forum that might be otherwise be relevant to a personal jurisdiction analysis.

(alleging that astaxanthin “is a natural product long known for its ability to neutralize free radicals, thereby promoting eye health, reducing sunburn, and reducing other types of photic damage”). Cyanotech supplies this microalgae in an algal biomass to Valensa under a November 2, 2007 Biomass Supply Agreement. Doc. No. 37-4, Pl.’s Ex. 11; Doc. No. 10-2, Moerk Decl. (July 30, 2012) ¶ 8. Valensa in turn extracts the astaxanthin from the biomass and -- in part utilizing its rights under U.S. Patent No. 5,527,533 (the “‘533 Patent” or the “Tso Patent”) -- develops and sells ingredients or formulations to others who package, distribute, and sell retail health-related products. Doc. No. 39-1, Moerk Decl. (Jan. 9, 2013) ¶ 4; Doc. No. 1, Compl. ¶ 4. In particular, the ‘533 Patent relates to a method of using astaxanthin for “retarding and ameliorating central nervous system and eye diseases.” Doc. No. 1-1, ‘533 Patent at 7.

The University owns the ‘533 Patent. Doc. No. 1, Compl. ¶ 5. Specifically, the ‘533 Patent lists its inventors as Mark O.M. Tso and Tim-Tak Lum, and its assignee as the Board of Trustees of the University of Illinois. Doc. No. 1-1, ‘533 Patent at 1. According to the Complaint, the University “is a public entity of the State of Illinois with its principal place of business in Chicago, Illinois.” Doc. No. 1, Compl. ¶ 3. In this regard, the University is “a body corporate and politic” under Illinois law, 110 Ill. Comp. Stat. § 305/1, and is

therefore “an arm of the state [of Illinois] for Eleventh Amendment purposes.” *Ranyard v. Bd. of Regents*, 708 F.2d 1235, 1239 (7th Cir. 1983). In turn, the University licensed certain rights to the ‘533 Patent to La Haye Laboratories, Inc. (“La Haye”), Doc. No. 10-9, and La Haye’s interests were later assigned in their entirety to Valensa. Doc. No. 10-3, Kohlhepp Decl. ¶ 5. Not all rights were licensed -- for example, under the license agreement, the University “shall retain the right to practice the rights licensed . . . for its own non-commercial and research activities.” Doc. No. 10-9, Defs.’ Ex. A ¶ 2.3.

A dispute arose in 2011 between Cyanotech and Valensa regarding Cyanotech’s own astaxanthin products such as “EyeAstin” and “BioAstin.” *See, e.g.*, Doc. No.1-2, Compl. Ex. B. Valensa contends that Cyanotech is infringing on Valensa’s rights in the ‘533 Patent when Cyanotech holds out to others that its astaxanthin products prevent photic damage to the eye or improve eye health. *Id.*; Doc. No. 10-4, Compl. (parallel action) ¶ 24. On March 22, 2011, Valensa President Rudi Moerck sent an email to Brent Bailey and Gerry Cysewski of Cyanotech, explaining why Valensa believes “it is obvious” that Cyanotech is using Valensa’s “Tso Patent” “for the promotion of [Cyanotech’s] products to consumers and customers.” Doc. No. 1-2, Compl. Ex. B. In the email, Valensa asked Cyanotech to “cease and desist selling BioAstin to customers for eye health

indications contained in the Tso patent, . . . cease selling and promoting EyeAstin using our IP, and . . . agree to pay [Valensa] a royalty fee retroactively for all sales of EyeAstin and BioAstin sold to customers making label or literature claims based on the Tso patent.” *Id.*

On June 20, 2012, Cyanotech filed this action, asserting three Counts. First, it seeks, as to both Defendants, a declaratory judgment of non-infringement of the ‘533 Patent and for patent invalidity. Doc. No. 1, Compl. ¶ 19. Citing the March 22, 2011 email from Valensa, the Complaint alleges that Cyanotech “has been repeatedly threatened by Valensa with having allegedly committed infringing conduct, and engaging in an allegedly infringing activity, causing reasonable apprehension that one or both Defendants will bring suit as Cyanotech’s activities continue.” *Id.* ¶ 21. Cyanotech alleges that the ‘533 Patent is invalid and that “[Cyanotech’s] conduct and actions . . . fall outside the scope of the ‘533 Patent claims as amended during prosecution of the application and as finally issued by the U.S. Patent and Trademark Office.” *Id.* ¶ 22. It also alleges that the University “is or may be a necessary party pursuant to Fed. R. Civ. P. Rule 19 as the United States Patent and Trademark Office lists [the University] as the assignee of the Patent-in-Suit thereby making it the last recorded owner[.]” *Id.* ¶ 24.

Counts Two and Three are state law claims directed only at Valensa.

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