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UPDATED OCTOBER 22, 2020



Federal Circuit allows infringement case to proceed without patent owner

By Peter Wied and Seth Levy

U.S. patent law allows a “patentee” to bring a civil action for infringement. 35 U.S.C. § 281. An exclusive licensee cannot bring suit in its own name, but may do so with the patentee. *Lone Star Silicon Innovations v. Nanya Technology Co.*, 925 F.3d 1225, 1229 (Fed. Cir. 2019). The patent owner is normally an indispensable party, and absent an agreement to the contrary (often in the terms of the license itself), an exclusive licensee can join the patent owner as co-plaintiff involuntarily if the owner refuses or is unable to join. *Independent Wireless Telegraph Co. v. Radio Corp. of Am.*, 269 U.S. 459, 468 (1926). On July 24, 2020, the Federal Circuit found the rare exception to these two principles in *Gensetix, Inc. v. Baylor College of Medicine*, Case No. 19-1424.

The factual background of *Gensetix* is almost as unusual as the holding. The suit involved two patents invented by William K. Decker while employed at the University of Texas (“UT”); accordingly, the patents were assigned to UT. Slip op. at 3. UT granted an exclusive license to the patents, a license now held by Gensetix. *Id.* Decker left UT and joined the faculty at Baylor. *Id.* In April 2017, Gensetix brought an infringement suit against Baylor, based upon Decker’s ongoing work there. Slip. op. at 4. UT declined to join the suit, so Gensetix named UT as an involuntary plaintiff. *Id.* UT and Baylor filed motions to dismiss, granted by the district court, which posed two questions for the Federal Circuit upon appeal: (1) whether sovereign immunity barred the involuntary joinder of UT; and (2) if UT could not be joined, whether Federal Rule of Civil Procedure 19(b) required the suit against Baylor to be dismissed because of UT’s absence.

Each of the three judges on the panel issued an opinion, and each of the questions was determined by a 2–1 majority, but with different combinations of judges for each question.¹

On the first question, Judge O’Malley and Judge Taranto agreed that sovereign immunity and the Eleventh Amendment prevented UT (as an arm of the State of Texas) from being joined involuntarily. Gensetix argued that the Eleventh Amendment only bars suits against a state, and did not apply in this case because UT would be a co-plaintiff in the lawsuit. Judges O’Malley and Taranto rejected this distinction, citing the Supreme Court’s guidance in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999) and *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996). They explained that sovereign immunity, which is “reflected in (rather than created by) the Eleventh Amendment” not only prevents claims against a state, but

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“serves to prevent ‘the indignity of subjecting a State to the coercive process of judicial tribunals’ against its will.” Slip op. at 10. Thus, even as a co-plaintiff, UT could not be dragged unwillingly into federal court. Id.

Unable to involuntarily join UT, the question then became whether the case could proceed in the absence of UT. Rule 19(b) requires a court to determine, when a required party cannot be joined, whether the action should proceed among the existing parties or should be dismissed. The rule sets forth four factors for consideration: “(1) the extent to which a judgment rendered might prejudice the missing required party or the existing parties; (2) the extent to which any prejudice could be lessened or avoided; (3) whether a judgment rendered in the required party’s absence would be adequate; and (4) whether the plaintiff would have an adequate remedy if the action were dismissed for nonjoinder.” Slip op. at 14.

Here the majority shifted, with Judge O’Malley and Judge Newman agreeing that the case against Gensetix can proceed in the absence of UT. Judge O’Malley wrote that the district court abused its discretion in considering the four factors by turning UT’s status as a sovereign into a dispositive fact. Slip op. at 15. Judge O’Malley noted that Gensetix was the exclusive licensee in every field of use, and therefore considered Gensetix and UT’s interests identical. Slip op. at 16. Thus, Judge O’Malley found the prejudice to UT to be “minimal, or at least substantially mitigated.” Id. Looking at the third factor, Judge O’Malley noted that UT could not initiate a lawsuit against Baylor once Gensetix had already done so, and thus Baylor did not face a substantial risk of multiple suits if the case proceeded without UT. Slip op. at 18. Based on these considerations, as well as the fact that Gensetix would be unable to enforce its rights without allowing the suit to proceed, Judge O’Malley found that Rule 19(b) did not require the suit against Gensetix to be dismissed. Slip op. at 19.

Judge Newman offered a different argument for why the application of Rule 19(b) should not result in dismissal of the case against Gensetix. Citing *Waterman v. Mackenzie*, 138 U.S. 252 (1891), Judge Newman noted that “a conveying of the whole patent, comprising the exclusive right to make, use, and vend the invention throughout the United States is tantamount to an assignment” and would grant Gensetix the right to sue in its own name. Slip op. at 24-25. While the district court had held the fact that UT could sue for infringement if Gensetix did not do so was inconsistent with the agreement being tantamount to an assignment, Judge Newman disagreed and found it did not defeat Gensetix’s right to sue in its own name as exclusive licensee.

It may be that the unusual result in *Gensetix* is a result of the unusual facts, but it highlights some concerns that are particular to licensing patents from state entities, such as universities. For licensees, the potential need for the university to be involved in any infringement suits should be considered in advance, since the involuntary joinder mechanism of Rule 19(a) may not be available, particularly if the express terms of the university license dictate otherwise. For state universities licensing patents, if they want to permit their licensees to assert the licensed patents without the university becoming a party in the infringement litigation, they might consider structuring their licenses to specifically allow the exclusive licensee to sue in its own name. The best time to address these considerations is when the license is being negotiated; barring that, the license should be analyzed carefully before initiating litigation. An amendment to the license may be able to address any standing issues, but only if entered into prior to filing a lawsuit asserting the licensed patents. *Alps S., LLC v. Ohio Willow Wood Co.*, 787 F.3d 1379, 1384 (Fed. Cir. 2015).

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ⁱ On October 20, 2020, the Federal Circuit denied Baylor's petition to rehear the case *en banc*, allowing the current holding to remain in place.