IP Alert: Company Founder Joined and Potentially Liable for Attorneys' Fees — An Interesting Wrinkle in a Typical "Exceptional" Case

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By Scott M. Kelly and Apurv Gaurav

In the wake of Octane Fitness, 134 S. Ct. 1749, 1756 (2014), courts have awarded attorneys' fees if the opposing party's conduct has been exceptional, based on a totality of the circumstances. The Octane Fitness case was seen as relaxing the standard for attorneys' fee awards, as it shifted the standard away from a "clear and convincing" burden of proof, and has led to an increase in such fee awards in patent cases. Using this test, in Phigenix, Inc. v. Genentech, Inc., Case No. 5-15-cv-01238 (N.D. Cal, August 13, 2018, Order), the court granted Genentech's request for attorneys' fees against Phigenix for "stubbornly proceed[ing] with an untenable case" alleging infringement of its patent at issue (U.S. Patent No. 8,080,534) on breast cancer treatment by Genentech's sale of Kadcyla. But more notably, the court further granted Genentech's motion to personally join Dr. Carlton Donald, the founder of Phigenix and inventor of the '534 patent at issue, after finding that Genentech would be unable to obtain meaningful relief otherwise due to Phigenix's lack of financial resources. While not explicitly characterizing Phigenix as a non-practicing entity (NPE), this holding may indicate that courts are willing to reach beyond a NPE and hold principals personally liable for the NPE's litigation conduct.

Phigenix (a pharmaceutical and biomedical research company involved with breast cancer drugs) was already informed about potential weakness in its case even before the filing of its suit. Kadcyla is a breast cancer drug for patients who have been previously treated with a trastuzumab (a monoclonal antibody) and a taxane. Kadcyla is an antibody-drug conjugate containing the antibody, trastuzumab, and a cytotoxic drug, DM1. Prior to the suit, Dr. Donald sent multiple letters to Genentech offering to "secure patent protection" for Kadcyla by negotiating a license to Phigenix's patent portfolio. In the letters, Dr. Donald hypothesized that trastuzumab-DM1 conjugates contained in Kadcyla affect a signal pathway resulting in the inhibition of PAX2 in breast cancer cells, and by doing so Kadcyla infringes the '534 patent. It is worth noting that the '534 patent claims "a method for treating a breast condition…comprising administering…a composition that… inhibits PAX2 expression or PAX2 activity." In response, Genentech asserted that its own publication four years prior disclosed "trastuzumab-DM1 conjugates…for the treatment of breast cancer," and anticipated the '534 patent claims.

When Phigenix sued Genentech in 2014, Genentech filed a motion for summary judgement asserting that the claims of Phigenix's patent were anticipated by Kadcyla's public use during a clinical trial from 2007. The court denied Genentech's first motion for summary judgment, stating that a material dispute existed over the content of the disclosures made in the clinical trial. Up until this point, the court explained, "nothing in Phigenix's conduct made this case 'exceptional' for a finding of an attorneys' fees award." The tipping point came after the court found that the '534 patent was not entitled to the 2005 priority date due to inadequate written description in a priority application, leaving the '534 patent to rely on 2010 filing date.

Recognizing that its patent's validity now rested on shakier grounds, and that it was less likely to distinguish its patent from the prior art clinical trial of 2007, Phigenix restricted its infringement contentions to patients who had previously been treated with a trastuzumab (i.e., Herceptin) and a taxane and nothing else. Genentech filed a second motion for summary judgment of non-infringement and invalidity. The court observed that Phigenix had only narrowed its infringement theory "in response to the finding that '534 patent was not entitled to an earlier priority date," and had not timely informed Genentech of its new infringement theory. Consequently, the court struck the new infringement theory, and granted the second summary judgment motion of no infringement in favor of Genentech.

Genentech sought attorneys' fees based on Phigenix's actions in continuing to maintain the case after the loss of its earliest priority date. The court granted Genentech's motion for attorneys' fees, noting that "the weakness of Phigenix's case was a recurring theme throughout the course of the litigation," whether it was an author's own testimony debunking Phigenix's interpretation of her findings to support an infringement theory, or the futility of Phigenix to continue to litigate after it lost its 2005 priority date.

But Genentech was concerned that Phigenix would be unable to pay any fee award, and sought to join inventor and founder Dr. Donald to the case given his control over Phigenix as one of its only two employees and his direct participation in the litigation. The court granted this motion, though the order allows Dr. Donald an opportunity to explain why he should not be held liable for the fees.

In addressing the motion to join Dr. Donald, the court assessed whether Dr. Donald was a "necessary" party, i.e., whether his absence would preclude the court from fashioning meaningful relief between the parties. The court agreed with Genentech that Phigenix lacked sufficient financial resources (based on Dr. Donald's own declaration) and rejected Phigenix's assertion that the court could afford complete relief without joining him. The court observed that, although Phigenix had gone through "multiple rounds of fundraising," Dr. Donald testified that most of the funds were actually for litigation. In addition, the court found no evidence of Phigenix having any "cash on hand, revenue, or current fundraising." The court also noted that Phigenix had not yet paid its fees and costs to its former counsel for more than a year. While Genentech did not rely on a veil-piercing theory in a traditional corporate law sense, which would have involved a showing that Phigenix was a mere instrumentality or alter-ego of Dr. Donald, the court acknowledged that an individual officer of a corporation may be joined in his or her sole capacity based on that individual's conduct.

The court also examined and found that the joinder was "feasible," i.e., that the venue was proper, that Dr. Donald was subject to personal jurisdiction, and that the joinder would maintain subject matter jurisdiction. The court granted the motion to join Dr. Donald.

The more lenient attorneys' fee standards brought in by Octane Fitness have been seen as deterring some NPE assertions. Dr. Donald still has a chance to make his case as to why it would not be proper to hold him liable for the attorneys' fee award. But even the court's initial willingness to join Dr. Donald to the action may serve as a further deterrent to egregious suits brought by NPEs, particularly undercapitalized litigation entities. Patent owners and defendants alike will be watching to see if holding NPE principals personally liable becomes a broader trend.

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