

United States Court of Appeals for the Federal Circuit

PHYTELLIGENCE, INC.,
Plaintiff-Appellant

v.

WASHINGTON STATE UNIVERSITY,
Defendant-Appellee

2019-2216

Appeal from the United States District Court for the Western District of Washington in No. 2:18-cv-00405-RSM, Judge Ricardo S. Martinez.

SEALED OPINION ISSUED: August 25, 2020
PUBLIC OPINION ISSUED: August 27, 2020*

JOHN PAUL FLYNN, Wilson, Sonsini, Goodrich & Rosati, PC, San Francisco, CA, argued for plaintiff-appellant. Also represented by COLLEEN BAL, JOSHUA ALEC BASKIN.

STUART RUSSELL DUNWOODY, Davis Wright Tremaine LLP, Seattle, WA, argued for defendant-appellee.

* This opinion was originally filed under seal and has been unsealed in full.

Before PROST, *Chief Judge*, REYNA and STOLL, *Circuit Judges*.

REYNA, *Circuit Judge*.

Phytelligence, Inc., appeals from the United States District Court for the Western District of Washington's grant of summary judgment in favor of Washington State University. Because we agree with the district court's decision, we affirm.

BACKGROUND

I

Appellant Phytelligence, Inc., (“Phytelligence”) was an agricultural biotechnology company that used tissue culture to grow trees for sale to nurseries and growers. Phytelligence has since ceased operations and is in receivership.

In November 2012, Phytelligence and appellee Washington State University (“WSU”) began discussing the propagation, i.e., growing, of “WA 38” apple trees—a new apple cultivar that WSU developed and patented. On November 9, 2012, WSU sent Phytelligence a draft propagation agreement, which provided that Phytelligence could propagate WA 38 trees. The draft agreement forbid Phytelligence from selling WA 38 trees “unless [Phytelligence] ha[d] authorization to do so under a separate contract with [WSU], or an agent of [WSU], in accordance with Section 4 of this Agreement.” J.A. 119.

Key to this appeal is Section 4 of the draft propagation agreement, entitled “option to participate as a provider and/or seller in [WSU] licensing programs,” which provided that:

If [Phytelligence] is an authorized provider in good standing . . . by signing this Agreement, [Phytelligence] is hereby granted an option to participate as a provider and/or seller of Plant Materials listed in

Exhibit A, if the Cultivar is officially released by WSU and becomes available for licensing by [WSU] [Phytelligence] will need to sign a separate contract with [WSU], or an agent of [WSU], to exercise this option.

J.A. 51.

On November 18, 2012, days before Phytelligence executed the agreement, Phytelligence reached out to WSU “to clarify” that to exercise its option under Section 4, WSU would need to “grant [it] a separate license for the purpose of selling.” J.A. 631. On November 19, 2012, WSU responded “[y]es,” but also noted that there was uncertainty as to the terms of that future license. Specifically, WSU noted that “there exists the possibility that if we license WA 38 to an exclusive licensee, that company/person/group may want to do his/her own plant propagation without outside assistance or may want to do that under contract with its own contractors.” *Id.* WSU also noted that:

We have no idea how WA 38 will be licensed at this time. It would take any form: under an open release through a nursery group, for example, to an exclusive license with a company, group of individuals, coop., etc. That decision has not yet been made, so there can be no guarantees made to anyone at this point.

Id. During this exchange, Phytelligence noted that it understood the Propagation Agreement to be a “strictly research undertaking,” in which it would propagate WA 38 for WSU and be allowed to “experiment with propagation techniques.” J.A. 635. WSU indicated a similar understanding of the Propagation Agreement, noting that “[t]he intent of the agreement is to give [Phytelligence] the ability to propagate WA 38.” *Id.*

On November 19, 2012, Phytelligence reached out to WSU a second time, acknowledging the uncertainty

surrounding WSU's future licensing of WA 38. Phytelligence also noted that given the "wispy forward commitment" concerning the option in Section 4, it was hesitant to execute the Propagation Agreement. J.A. 247. Phytelligence noted that "[i]t may make more sense" for it to conduct its research with a separate lab or to proceed forward with a "fee-for-service contract." *Id.* WSU responded that same day, noting that the "fact of the matter is that what happens from a commercialization/licensing point of view in regard to WA 38 and future apple releases is completely out of [our] hands at the moment." J.A. 640.

On November 23, 2012, Phytelligence reached out to WSU again. Phytelligence acknowledged that WSU is "moving somewhat cautiously here," but noted that "everyone thinks that . . . Phytelligence and others would have a shot at securing commercial licenses." J.A. 249. Phytelligence also noted that

since this [Propagation] agreement is a precursor to any other, [we] suppose there's no harm in going ahead and executing it. Then at least we will have the pieces in place when we are all ready to go beyond R&D mode. With that context, the agreement *is fine as it is.*

Id. (emphasis added). On November 27, 2012, Phytelligence executed the "Propagation Agreement" with WSU, without making or even suggesting any changes to Section 4.

II

In March 2013, WSU issued an "Announcement of Opportunity," i.e., a request for proposals, to companies interested in commercializing WA 38. WSU sought "an exclusive licensee to manage" commercialization of WA 38, "including the contracting of tree propagation to nurseries and others." J.A. 649, 652. WSU sent this announcement

of opportunity to Phytelligence. Phytelligence did not submit a proposal.

In June 2014, WSU accepted the proposal of Proprietary Variety Management (“PVM”) and entered into a “Management Contract” with PVM. The Management Contract granted PVM an exclusive license. The Management Contract also required PVM to subcontract exclusively with the Northwest Nursery Improvement Institute (“NNII”), a fruit tree nursery association, to propagate and sell WA 38 trees. Pursuant to the Management Contract, PVM provided NNII with an exclusive sublicense. In turn, NNII provided nonexclusive sublicenses with NNII member nurseries to propagate and sell WA 38 trees. As a result, no industry participant could obtain a license to sell WA 38 without becoming a member of NNII.

On May 18, 2017, Phytelligence formally notified WSU that it wanted to exercise its option under the Propagation Agreement. J.A. 126. WSU responded that under the option clause, Phytelligence had to “sign a separate contract with [WSU], or an agent of [WSU], to exercise this option,” and that PVM was WSU’s “agent.” J.A. 157 (emphasis in original). WSU thus directed Phytelligence to “approach PVM for an agreement.” *Id.* Phytelligence reached out to PVM, which required Phytelligence to become a NNII member as a condition to obtaining a license to commercialize WA 38. Phytelligence subsequently notified WSU that it rejected PVM’s requirement to become a NNII member. Phytelligence explained that it did “not wish” to join NNII, nor did it believe that NNII membership was a condition contained in Section 4 of the Propagation Agreement. J.A. 165–166.

On September 15, 2017, WSU then presented Phytelligence with three options for propagating and selling WA 38 “on equal footing with other propagators that have commercial rights to WA 38.” J.A. 169. One of the options required NNII membership while the other two did not.

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