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Federal Circuit Friday

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In *Gensetix v. UT Regents* (July 24) the Federal Circuit clarified that sovereign immunity under the 11th Amendment precludes Rule 19 joinder of a state university patent owner as an involuntary plaintiff and that status of the un-joinable university as a "sovereign" is not a dispositive factor in determining whether a patent infringement suit by a licensee may proceed in the absence of the university patent-owner.

Background: Facts & The Issue

In 2008, the University of Texas ("UT") granted an exclusive license to patents relating to methods for developing cancer immunotherapies and vaccines.[1] That license was later assigned to Gensetix. The license includes four terms relevant to the dispute and its resolution:

- Gensetix is required to enforce the licensed patents at its own expense (and is entitled to retain any recovery from such enforcement).
- UT retained a secondary right to enforce the licensed patents (*i.e.,* where Gensetix fails to do so).
- UT and Gensetix agreed to fully cooperate with each other in any patent enforcement action.
- UT and Gensetix agreed that nothing in the license agreement waived UT's sovereign immunity.

In 2017, Gensetix sued Baylor College of Medicine ("Baylor") for infringement. UT declined to join as co-plaintiff, so Gensetix sought to add UT as an involuntary plaintiff under Federal Rule of Civil Procedure 19. UT moved for dismissal of itself from the case on the grounds that, as a sovereign state entity under Texas law, it was entitled to immunity from suit under the 11th Amendment.

At the same time, Baylor argued that UT was a "required" party under Rule 19 and, as a consequence, if UT were immune from suit and therefore could not be joined, then Gensetix's case against Baylor should be dismissed.

The district court agreed with both UT and Baylor, first dismissing UT from the case and then dismissing the suit. Gensetix appealed.

Background: Relevant Black Letter Law

1. Sovereign Immunity – Federal Courts.
    a. 11th Amendment: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State."
    b. Broadly interpreted to effect underlying policy: The 11th Amendment recognizes and protects attributes of the States' sovereignty, including sovereign immunity and dignitary interests, which pre-date their entry into the Union and continue unabated as part of the federation.[2] For this reason, the 11th Amendment provides immunity beyond its literal terms –

[1] The methods involve programming dendritic cells (a type of antigen-presenting cell in the immune system) to present tumor antigens to other immune cells and thereby to induce a cytotoxic response to the tumor. The programming can involve exposing the dendritic cells to tumor antigen and transfecting them with nucleic acid encoding tumor antigen.

[2] *E.g., Puerto Rico Aqueduct and Sewer Authority v. Metcalf Eddy, Inc*, 506 U.S. 139, 146 (1993)("[t]he Amendment is rooted in a recognition that the States, although a union, maintain certain attributes of sovereignty, including sovereign immunity [and thereby] accords the States the respect owed them as members of the federation.").

i. *E.g.,* although the 11th Amendment only mentions suits against a State by citizens of *another* State, the Supreme Court has held that it also bars suits against a State by citizens of *that same* State.[3]

ii. *E.g.,* the 11th Amendment bars suits in which a State is not a named party but nevertheless is a "real, substantial party in interest" – *e.g.,* where the State would ultimately be responsible for payment of damages.[4]

c. Waiver: A State waives its sovereign immunity by consent, for example by either bringing or voluntarily appearing in a lawsuit in federal court.[5]

i. A State's consent to be sued must be "unequivocally expressed," *i.e.,* by voluntarily invoking the jurisdiction of a federal court or by a "clear declaration" that it intends to submit itself to federal jurisdiction.[6]

2. Rule 19 - Joinder of "required" parties and factors for determining whether to dismiss a suit in their absence.

a. In general, a person must be joined as party to a suit in federal court if (i) their presence is necessary to accord complete relief among existing parties, or (ii) their absence would either impair their ability to protect their own interests or subject one of the existing parties to substantial risk of incurring multiple or inconsistent obligations.[7] This is a "required" party, and, when joined in a case as a party plaintiff, is often referred to as an "involuntary plaintiff."[8]

b. If a "required" party cannot be joined, then "the court must determine whether, in equity and good conscience, the action should proceed among the existing parties or should be dismissed" using the following factors:[9]

i. *Factor 1:* The extent to which a judgment rendered in the person's absence might prejudice that person or the existing parties;

ii. *Factor 2:* The extent to which any prejudice could be lessened or avoided by:
- protective provisions in the judgment;
- shaping the relief; or
- other measures;

iii. *Factor 3:* Whether a judgment rendered in the person's absence would be adequate; and

iv. *Factor 4*: Whether the plaintiff would have an adequate remedy if the action were dismissed for nonjoinder.

What *Gensetix* Adds or Changes:

Sovereign Immunity:

The Federal Circuit clarified that, as a matter of Federal Circuit law, the 11th Amendment protects a State from not merely suits "against" it but more broadly from being forced into suits – "[t]he Eleventh Amendment serves to prevent 'the indignity of subjecting a State to the coercive process of judicial tribunals' against its will." Thus, the court held, because "UT did not voluntarily invoke federal court

[3] *E.g., Edelman v. Jordan,* 415 U.S. 651, 662-63 (1974).

[4] *Id*.

[5] *E.g., Regents of the Univ. of Cal. v. Eli Lilly & Co.,* 119 F.3d 1559, 1564–65 (Fed. Cir. 1997)(bringing lawsuit); *Regents of the Univ. of N.M. v. Knight,* 321 F.3d 1111, 1124 (Fed. Cir. 2003)(voluntarily appearing)(citing *Clark v. Bernard,* 108 U.S. 436, 447 (1883)).

[6] *Pennhurst State School and Hospital v. Halderman*, 465 U.S. 89, 99 (1984) (State's consent to suit must be "unequivocally expressed"); *College Savings v Fl Prepaid Postsecondary Educ*., 527 U.S. 666, 675-76 (1999)(our "test for determining whether a State has waived its immunity from federal-court jurisdiction is a stringent one," and "[g]enerally, we will find a waiver either if the State voluntarily invokes our jurisdiction . . . or else if the State makes a 'clear declaration' that it intends to submit itself to our jurisdiction").

[7] FRCP 19(a)(1).

[8] FRCP 19(a)(1), (a)(2).

[9] FRCP 19(b).

jurisdiction" (*i.e.,* did not waive sovereign immunity), it cannot be forced into the case as an involuntary plaintiff under Rule 19.[10]

The court rejected Gensetix's argument that because the text of 11th Amendment expressly limits its applicability to suits "against" a State, it therefore does not prohibit a State from being joined as a plaintiff. The Federal Circuit determined that 11th Amendment "sovereign immunity is to be applied more broadly than the face of its text," and explained that Supreme Court precedent provides that "sovereign immunity reflected in (rather than created by) the Eleventh Amendment transcends the narrow text of the Amendment itself" and that it "stand[s] not so much for what it says, but for the presupposition . . . which it confirms." Because the underlying policy of the 11th Amendment was to respect the States' pre-existing sovereignty and dignitary interests, the 11th Amendment supersedes Rule 19 and prohibits making a State an involuntary plaintiff.

In her concurrence/dissent, Judge Newman asserts that sovereign immunity does not apply here because the State voluntarily entered into a commercial transaction in which it required its licensee to bring infringement suits and agreed to cooperate in such infringement suits. I agree with Judge Newman's arguments as a matter of fairness, but the high threshold for waiver set by the Supreme Court[11] might not be met, especially since the license agreement also provides, in effect, that UT is *not* waiving sovereign immunity.[12]

Rule 19 & Joinder:

The Federal Circuit determined that, as a matter of Federal Circuit law,[13] the district court erred in dismissing the case in the absence of UT by "collapsing the multi-factorial Rule 19(b) inquiry into one dispositive fact: UT's status as a sovereign."

The court cited the following specific errors:

- *Factor 1 (prejudice to UT):* The district court found this factor favored dismissal because UT risked loss of its patent rights without the opportunity to defend itself. This was error because Gensetix has a license in all fields and therefore Gensetix's and UT's "interests in the validity of the patent rights are identical" and "Gensetix will adequately protect UT's interests in the validity of the patents-in-suit."
- *Factor 2 (mitigation of prejudice to UT):* The district court did not analyze this factor explicitly, but nevertheless determined that it favored dismissal because UT risked loss of its patent. This was error because the potential for prejudice to UT is "minimal, or at least substantially mitigated" by Gensetix's identical interest in preserving validity. This factor therefore weighs against dismissal.
- *Factor 3 (adequate judgment for the remaining parties):* The district court declined to consider whether a judgment without UT as a party would be adequate for Baylor, in terms of precluding an additional infringement suit by UT. This was error because the district court had already determined that the license agreement precluded UT from suing Baylor after Gensetix had already done so, indicating that this factor weighs against dismissal.

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[10] The majority's extension of 11th Amendment jurisprudence to preclude Rule 19 joinder of an involuntary plaintiff would be, as far as I can tell, a question of first impression if brought to the Supreme Court. So there might be more to come.

[11] *See* n.6, above.

[12] Assuming the case goes to the Supremes and they do not find waiver, they might nevertheless slice the issue a bit more finely, *e.g.,* by not extending sovereign immunity to mere status as involuntary plaintiff, where UT's burden would be to protect, as needed, its federally-granted property rights (*i.e.*, its patents' scope and validity) in response to Baylor's defenses.

[13] The court explained that although the non-patent-specific procedural aspects of Rule 19 are reviewed under the law of the regional circuit (in this case the 5th Circuit), the "interplay between Rule 19 and the Eleventh Amendment" was an issue for review under Federal Circuit law.

- *Factor 4 (adequate alternative remedy for plaintiff Gensetix):* The district court dismissed Gensetix's lack of an adequate alternative remedy as "the inherent risk for anyone who chooses to contract with a sovereign." This was error because Gensetix's lack of an adequate alternative remedy weighs against dismissal.

In her concurrence/dissent, Judge Newman asserts the UT need not be a party at all – and therefore the case should not have been dismissed – because, at least with respect to infringement suits against third parties, the license agreement effected an assignment of exclusive patent rights. Recall that the license agreement (i) required Gensetix to enforce the licensed patents at its own expense; and (ii) afforded UT only a secondary right to enforce the licensed patents (*i.e.,* only if Gensetix did not). While this is not a classic case of "effective assignment" of a patent, Judge Newman's position gives effect to Federal Circuit precedent that transfer of the right to enforce licensed patents is a particularly important factor.[14]

In his concurrence/dissent, Judge Taranto sides with the district court in giving near-dispositive effect to sovereign immunity in the Rule 19 analysis. Citing Supreme Court precedent, Judge Taranto explains that "where sovereign immunity is asserted, and the claims of the sovereign are not frivolous, dismissal of the action *must be ordered* where there is a potential for injury to the interests of the absent sovereign."[15] (emphasis in original). Because UT made a valid assertion of sovereign immunity, Judge Taranto saw "no abuse of discretion in the district court's dismissal of this action."

[14] *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d 870, 875-76 (Fed. Cir. 1991)("The agreements also transferred the right to sue for infringement of the '650 patent, subject only to the obligation to inform [the patent owner]. This grant is particularly dispositive here because the ultimate question confronting us is whether [the licensee] can bring suit on its own or whether [the patent owner] must be joined as a party. The policy underlying the requirement to join the owner when an exclusive licensee brings suit is to prevent the possibility of two suits on the same patent against a single infringer . . . This policy is not undercut here because the right to sue rested solely with Vaupel.").

[15] Quoting *Republic of Philippines v. Pimentel*, 553 U.S. 851, 867 (2008). The majority states that Judge Taranto "reads too much into Pimetel" in that the case did not so much give preeminence to sovereign immunity in the Rule 19 analysis as it criticized the lower court in that case for giving too little weight to sovereign immunity.