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Fed. Circ.'s UT Immunity Ruling Places Licensing In Spotlight

By **Dani Kass**

Law360 (July 31, 2020, 5:02 PM EDT) -- The Federal Circuit's recent decision expanding the University of Texas' sovereign immunity while letting a licensee pursue infringement litigation alone is raising a host of questions about how private companies and public universities should approach patent licensing agreements.

It's been well established that the 11th Amendment protects state entities like universities from being sued for patent infringement. But in a July 24 precedential opinion, a deeply fractured Federal Circuit panel said that same immunity bars universities from being added as co-plaintiffs without their consent.

More specifically, the panel concluded that UT didn't waive its sovereign immunity when it licensed cancer therapy patents to Gensetix Inc. It then said the company has enough rights to sue the privately owned Baylor College of Medicine for infringement on its own. The ruling left the panel divided on both when a university waives immunity, and when the licensee can sue by itself.

Attorneys who spoke with Law360 expect the case to get a spot before the full Federal Circuit or U.S. Supreme Court, given that each aspect of the ruling tore the three-judge panel apart.

Breaking Down The Rulings

The Federal Circuit panel was particularly fractured on this ruling, with the three judges each issuing an opinion. Here's where each judge stands.

		
Judge Kathleen **O'Malley (Opinion for the court)**	Judge Pauline **Newman**	Judge Richard **Taranto**
UT cannot be joined as an involuntary plaintiff	**UT can be joined as a plaintiff, given its contract with Gensetix**	**UT cannot be joined as an involuntary plaintiff**
Gensetix's suit against Baylor should be revived.	**Gensetix's suit against Baylor should be revived.**	**Gensetix's suit against Baylor was properly dismissed.**

"Depending on what happens next, and I expect there to be something that happens next, either with the full Federal Circuit or at the Supreme Court, that this could be a very important case," said Marshall

Gerstein & Borun LLP partner Robert M. Gerstein. "It could have a lot of impact, especially if the primary opinion doesn't hold up."

But in the meantime, attorneys are trying to figure out when and if immunity can ever be waived and what needs to be in a contract to keep patents enforceable even without their owner in court.

Majority Expands Immunity, But Newman's Dissent Draws Attention

The novel ruling in this case is Judges Kathleen O'Malley and Richard Taranto's finding that sovereign immunity under the 11th Amendment bars UT from being forced into the litigation as a co-plaintiff.

"From the standpoint of universities, who do take sovereign immunity very seriously and have an interest in seeing that doctrine have vitality and force, this is certainly a valuable outcome," said Sterne Kessler Goldstein & Fox PLLC director Pauline M. Pelletier.

But while that holding is what the court agreed to, significant attention has been flocking to Judge Pauline Newman's dissent. There, she argues that UT essentially consented to waive that immunity when it entered into a commercial contract to monetize the university's research, which requires the parties to enforce the patents.

"Just as the state must pay its bills, it also must comply with its contracts," she wrote.

Bass Berry & Sims PLC member Terry L. Clark said the logic of the dissent holds up because if a university wants to commercially exploit its patents, it should be willing to face litigation as well.

"When you voluntarily engage in commercial activity, isn't that the same thing as a waiver?" he said. "Once you enter into contracts, and you put yourself out there in commerce with everybody else, does that mean you're agreeing to participate in the process?"

And while this opinion didn't end up winning, it may get some traction if the case finds itself at the nation's high court. In a footnote, Judge O'Malley said she had "sympathy" for the dissenting immunity opinion, but that she's bound by a U.S. Supreme Court ruling that she hinted should be overturned.

That ruling is 1999's Postsecondary Education Expense Board v. College Savings Bank, where the justices said a law letting states and their employees face patent infringement suits improperly overrode sovereign immunity.

"You see this most in Newman's opinion, and a little in one of the footnotes for O'Malley, [that] there are many who would like to narrow sovereign immunity and keep it closer to things that they consider to be traditional state functions," Gerstein said, adding that some people would argue patent licensing falls out of that bucket. "This could have a big impact if it gets to the Supreme Court and they tighten down where states have immunity."

Building waivers of sovereign immunity into contracts could be a possibility, but Clark said doing so might not be as simple as it seems. Namely, he asked whether a university has the right to sign away the state's immunity, or if it would have to come directly from the legislature, and then what that legislation would have to look like.

"That's new territory that we'll have to get into," Clark said. "We have information now to understand

when Congress can act such that sovereign immunity doesn't apply, but we don't have the flip side of that to say when a waiver is going to be sufficient to take away the sovereign immunity."

Carefully Drafted Contracts Will Let Companies Sue Alone

Judge Newman then joined Judge O'Malley in how the specific terms of UT and Gensetix's license should be interpreted, which attorneys say provides some insight into how companies can protect their right to enforce patents if their university partner is hoping to stay out of the courtroom.

"As a practical matter, it's not ideal to go through the diligence and efforts required to bring an infringement suit, only to have the patent owner, with whom you have a prior agreement, essentially prevent you from litigating it," Pelletier said. "I'd expect most licensees don't want that outcome. It becomes an issue of what needs to be in the license agreement itself to allow the licensee to meaningful carry out enforcement."

U.S. District Judge Andrew S. Hanen had dismissed the litigation in December 2018 when UT refused to join, saying Gensetix didn't have enough of a claim to the patents to sue Baylor alone. Judge Taranto's dissent agreed.

But the majority said Judge Hanen abused his discretion, as the patents' exclusive licensee should be allowed to enforce its rights. They added that the contract would forbid UT from later suing Baylor on its own.

"Despite UT's sovereign status, given Gensetix's identical interest in the validity of the patents-in-suit, any prejudice to UT is greatly reduced," the opinion states.

Having the licensee be an exclusive licensee in all fields is key to being able to sue without joinder, Clark and Gerstein both said. If there are multiple exclusive licenses, just for different industries an invention can be used in, it's unlikely that a licensee would be able to sue without the owner, Gerstein said.

Parts of the contract outlining sublicensing rights and approval for settlements can also help prove whether the licensee has enough rights to stand on its own, Gerstein said.

Structuring these deals clearly, though, is going to be key to keeping relationships between universities and private companies flowing. A company may say it's not worth giving millions of dollars to a university, which are critical institutions for research and development, to get patents that the schools block them from enforcing, Clark said.

"Otherwise, why in the world would you ever try to contract with a university with regards to a patent license?" he said. "There would be a very high risk that you would never be able to realize your return on investment and you certainly wouldn't be able to go out and enforce that intellectual property against third parties because you're caught in a Catch-22."

--Editing by Haylee Pearl.