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Fractured Federal Circuit Panel Finds That Sovereign Immunity Does Not Prevent Exclusive Licensee from Pursuing Unlicensed Infringement Alone

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Entities with patent-related relationships with state universities scored a victory under the rarely implicated (at least for patent practitioners) doctrine of sovereign immunity. For patent holders, sovereign immunity comes into play when a state actor, for example a state university, enters contracts related to patents, such as in *Gensetix v. Baylor College of Medicine*. There, the Federal Circuit ruled that despite the sovereign immunity of an otherwise necessary plaintiff, the exclusive licensor the University of Texas, a patent's exclusive licensee should be allowed to continue with its patent infringement action alone. This splintered ruling, where all three judges filed separate opinions disagreeing on key issues, suggests the case may be ripe for *en banc* review.

Some context is useful. In the early 2000s, William Decker, an employee at the University of Texas MD Anderson Cancer Center ("UT"), developed and patented a method of modifying a patient's immune system to kill cancer cells. Decker assigned his rights to UT, which granted an exclusive license to a third party. Later, that third party assigned all of its exclusive rights to Gensetix. The agreement provides that Gensetix, at its own expense, must enforce any patent "covered by the license and is entitled to retain recovery of such enforcement." However, UT retains a secondary right to sue if Gensetix fails to file suit against a substantial infringer within six months of knowledge of infringement. The parties agreed to cooperate with each other in any infringement suit. And, since UT is an arm of the state of Texas, the parties agreed that UT retained sovereign immunity for purposes of the patent license.

Decker left UT in 2011 and joined Baylor College of Medicine—where he allegedly continued to use the patents without a license. In April 2017, Gensetix sued Decker, Baylor College, and its research partner, Diakonos Research, for infringement. UT refused to join the suit, after which Gensetix named UT an involuntary plaintiff under Rule 19(a). UT filed a motion to dismiss itself as a party under Rule 12(b)(1) claiming sovereign immunity under the Eleventh Amendment. Baylor likewise filed a motion to dismiss arguing that: (1) UT was a necessary party to the suit; (2) UT could not be an involuntary plaintiff, for it was entitled to Eleventh Amendment sovereign immunity; and (3) Rule 19(b) factors

weighed in favor of dismissal, instead of proceeding in UT's absence. The district court agreed with Baylor and dismissed the case entirely.

On appeal, Gensetix argued that sovereign immunity does not preclude coercive joinder of a sovereign under Rule 19(a). Gensetix claimed the Eleventh Amendment only bars suits brought by private citizens *against* the state. Gensetix also argued that Supreme Court and Federal Circuit precedent have "consistently" held that a patentee who refuses to voluntarily join an infringement action initiated by its exclusive licensee can still be joined as an involuntary plaintiff.

Judge O'Malley, writing the controlling opinion, disagreed and affirmed the district court's decision to refuse to join UT as an involuntary plaintiff. Judge O'Malley criticized Gensetix's "erroneous" reading of *Regents of UC*, and explained that *Regents of UC* did not create a rule permitting parties to drag sovereign entities into court simply because there were no claims "against the sovereign." Instead, Judge O'Malley found it dispositive that, unlike in *Regents of UC*, UT did not voluntarily submit itself to jurisdiction. Judge O'Malley also cited the agreement's express refusal to waive sovereign immunity as support for its decision to reject involuntary joinder under Rule 19(a).

However, in the controlling portion of the decision Judge O'Malley agreed with Gensetix that it could proceed with the case because Gensetix was willing and able to step into UT's shoes and protect its interests in the validity of the asserted patents. The panel found that the district court abused its discretion by putting too much weight on UT's status as a sovereign, "to the exclusion of all other facts."

Judges Newman and Taranto each wrote opinions concurring in part and dissenting in part. Judge Newman agreed Gensetix could pursue its case alone, but disagreed that the Eleventh Amendment sovereign immunity shielded UT from involuntary joinder. Judge Newman wrote that the Eleventh Amendment should not absolutely shield states from litigation, especially if they violate commercial and contractual obligations. Here, UT expressly violated the license agreement by failing to "cooperate fully" in litigation, as well as depriving its licensee of "the agreed upon exclusivity."

For his part, Judge Taranto filed a partial dissent. He agreed that sovereign immunity barred UT's coercive joinder, but disagreed that the district court was incorrect in dismissing the suit without UT. Under Supreme Court precedent in *Republic of Philippines v. Pimentel*, 553 U.S. 851 (2008), when a sovereign entity is protected from involuntary joinder, and makes a non-frivolous assertion that it will be prejudiced if the suit proceeds in its absence, the district court must dismiss the suit. Judge Taranto wrote that UT's claims that a narrow claim construction ruling or invalidity finding may harm its interests in the patents were non-frivolous and thus, the suit should not proceed.

In light of this fractious decision, *en banc* review may be necessary to address the apparent disagreement as to the scope of a patentee's state sovereign immunity when it refuses to join suit. Until then, parties that enter into license agreements with sovereign patent owners must be careful to effectively contract, in the form of a limited waiver, to avoid a similar result.

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