

Spring 1999

## Licensed to Steal: Has Sovereign Immunity Gone too Far, 32 J. Marshall L. Rev. 779 (1999)

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### Recommended Citation

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# LICENSED TO STEAL: HAS SOVEREIGN IMMUNITY GONE TOO FAR?

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## INTRODUCTION

Q Labs, a hypothetical small biotechnology company, discovered and patented an enzyme used to catalyze a set of reactions.<sup>1</sup> State University, through its perusal of Q Labs' research papers and presentations, was able to reproduce the enzyme in its research facility. State University used the Q enzyme in its own chemical reaction to produce an intermediate compound which could not be manufactured without the use of the patented enzyme. State University then sold the intermediate compound to a major pharmaceutical company, which in turn used the compound in its chemical process. The end product of the pharmaceutical company's chemical process was the cure for Parkinson's disease.

As the only supplier of the Parkinson's drug, the pharmaceutical company was able to sell its product at an exorbitant price. Consequently, State University was able to sell its intermediate compound to the pharmaceutical company at any price it desired. State University and the major pharmaceutical company reaped enormous amounts of profit due to the Parkinson's drug.

Q Labs was the only party in this scenario that did not realize tremendous economic benefits from the drug. For years, Q Labs was not aware of the fact that its Q enzyme patent was being infringed by State University. All over the country, public universities have professors, graduate students, and undergraduate students working on thousands of different projects. Those outside of the individual university departments are rarely aware of the research being done in the respective departments. Consequently, Q Labs did not immediately know that the university violated its patent rights. Further, the fact that the university sold a compound that can only be

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1. This is a hypothetical situation used to demonstrate the issues and problems addressed in this Comment. Q Labs recognized the industrial significance of its enzyme, and promoted the enzyme through research papers, presentations, and advertisements.

manufactured using the Q enzyme, and not the enzyme itself, made it practically impossible for Q Labs to know that its patent rights were being violated.

After several years, Q Labs became aware of State University's infringement of its Q enzyme patent. Q Labs immediately filed suit in federal court to protect its patent rights. In spite of evidence that clearly showed that it had infringed the Q enzyme patent, State University filed a motion to dismiss, which the court granted, relying on the relevant patent laws and the Eleventh Amendment. Therefore, while State University and the major pharmaceutical company made millions of dollars from their respective products that could not be manufactured absent the Q enzyme, Q Labs did not benefit from its own patented discovery. The University essentially stole the enzyme; and as a result, it did not have to pay licensing fees that Q Labs was entitled to receive. Consequently, Q Labs did not profit in any manner from the high volume sales of the Parkinson's drug. Q Labs could not recover its losses in the courts or enjoin the university from continuing to blatantly infringe its Q enzyme patents because the university was immune from patent infringement lawsuits.<sup>2</sup>

Until recently, the preceding hypothetical scenario allowed states and state entities to "steal" patented products and processes because the patent laws and the Eleventh Amendment effectively made states and state entities immune from patent infringement liability.<sup>3</sup> The Eleventh Amendment expressly prohibits suits against the states by citizens of another state, or by citizens or subjects of any foreign state.<sup>4</sup> The Eleventh Amendment also prohibits federal courts from hearing actions for damages involving nonconsenting states.<sup>5</sup> When patent laws, which provide for exclusive federal jurisdiction,<sup>6</sup> interact with the Eleventh Amendment, states have broad protection against suits in federal

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2. *Chew v. California*, 893 F.2d 331, 334 (Fed. Cir. 1990). Chew sued the state of California for patent infringement. *Id.* at 332. The plaintiff appealed from an order dismissing the complaint on grounds of Eleventh Amendment immunity. *Id.* The Court of Appeals held that Congress did not abrogate state immunity from patent infringement claims through provisions of the patent statute. *Id.* at 335.

3. R. Carl Moy, *A Review of the Year in Patents* 13 (Sept. 23, 1997) (unpublished handout by Professor R. Carl Moy of the William Mitchell College of Law, St. Paul, Minnesota).

4. U.S. CONST. amend. XI. The Eleventh Amendment states: "[t]he 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." *Id.*

5. Blaney Harper, *Intellectual Property and State Sovereign Immunity: The Eleventh Amendment Under Scrutiny*, *COMPUTER LAW.*, July 1992, at 21.

6. 28 U.S.C. § 1338 (1996).

court.<sup>7</sup> As a result, state entities often use the Eleventh Amendment as a shield from patent infringement liability.<sup>8</sup> However, Congress has the power to abrogate the sovereign immunity of states.<sup>9</sup> In 1992, by amending the patent laws, Congress attempted to eliminate state claims of sovereign immunity in this area.<sup>10</sup> However, the question of state liability under the amended patent laws raises federalism issues.<sup>11</sup>

This Comment examines the conflict between the United States patent law amendments set forth in § 296 and § 271(h), and the Eleventh Amendment, and the various attempts to resolve this conflict. Part I explains the nature of the conflict between patent rights and sovereign immunity, and explores its inception and background by looking briefly at the Constitution and relevant case and patent laws. Part II analyzes the effectiveness of the congressional abrogation of state patent immunity in light of recent case law. Finally, Part III discusses whether the Supreme Court should follow the federal appellate court decisions and proposes legal bases for doing so.

## I. THE CONSTITUTION, CASE LAW, AND PATENT STATUTES

In order to understand the background of the conflict between patent rights and the Eleventh Amendment, it is necessary to examine the Constitution and relevant case law and patent statutes. Section A explores the history and purpose of the Eleventh Amendment. Section B examines the case law that forms the foundation of the conflict. Section C examines the relevant amendments to the patent laws.

### A. *The Eleventh Amendment*

The Eleventh amendment was enacted in response to the 1793 Supreme Court decision *Chisholm v. Georgia*.<sup>12</sup> The

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7. Harper, *supra* note 5, at 21. The Eleventh Amendment protection may be limited due to the fact that states may consent to suit in federal court when they file suit against a private entity. *Id.* Supreme Court opinions indicate that "a state's consent to federal court jurisdiction is very limited." *Id.* Because federal courts have exclusive jurisdiction over patent suits, the Eleventh Amendment, coupled with patent laws, provides states with a strong protection against suits in the federal system. *Id.*

8. Moy, *supra* note 3, at 13.

9. *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 237-38 (1985). *Atascadero* did not involve a patent right, but it did involve the Eleventh Amendment. *Id.* at 238-40.

10. See 35 U.S.C. §§ 271(h), 296 (1992) (attempting to abrogate the sovereign immunity of states).

11. Moy, *supra* note 3, at 13.

12. 2 U.S. 419 (1793). *Chisholm* involved a South Carolina citizen's suit against the State of Georgia on behalf of a deceased South Carolina citizen's estate. *Id.* at 420. The state of Georgia challenged the Court's original

*Chisholm* court held that states were subject to the Supreme Court's original jurisdiction over suits between a state and citizens of another state.<sup>13</sup> In response to the Court's decision in *Chisholm*, Congress proposed a constitutional amendment that would preclude suits in federal court against a state by citizens of another state.<sup>14</sup> The Eleventh Amendment was ratified and expressly provided immunity to a state from suits in federal court by a citizen of another state or foreign country.<sup>15</sup> The Eleventh Amendment has been interpreted in numerous cases, which initially expanded the reach of the amendment,<sup>16</sup> and, more recently, restricted the states' immunity to federal jurisdiction.<sup>17</sup>

A state may waive its constitutional immunity through a state statute, its state constitution, or by participating in certain federal programs.<sup>18</sup> Congress may also unilaterally abrogate state immunity pursuant to § 5 of the Fourteenth Amendment.<sup>19</sup>

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jurisdiction by refusing to enter an appearance. *Id.* at 470-71.

13. *Id.* at 420.

14. Peter A. Schwartz, *Suing States After Seminole*, J. PROPRIETARY RTS., Sept. 1997, at 2.

15. See U.S. CONST. amend. XI.

16. *Hans v. Louisiana*, 134 U.S. 1, 10-11 (1890). *Hans* sued the State of Louisiana, in federal court, for violating the Contracts Clause of the Constitution. *Id.* at 3. The Supreme Court held that the state of Louisiana was immune from suit in federal court. *Id.* at 21. The Court based its decision on the principle of state sovereign immunity. *Id.* at 13. Furthermore, the Court stated that the Eleventh Amendment is also a bar to suits against a state by its own citizens, although this is not expressly stated in the Amendment. *Id.* at 10-12.

17. Kenneth S. Weitzman, Comment, *The Authority to Abrogate State Eleventh Amendment Sovereign Immunity After Pennsylvania v. Union Gas Co.*?, 2 SETON HALL CONST. L.J. 297, 303 (1991). Substantial confusion has been caused by the inconsistencies in decisions interpreting the Eleventh Amendment. *Id.*

18. *Id.* at 307-11. In *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184, 184-85 (1964), a state railroad employee sued the state of Alabama, in federal court, under the Federal Employers' Liability Act. The employee sought money damages for an injury suffered in the course of his employment. *Id.* On the basis of its immunity under the Eleventh Amendment, the State of Alabama contested the jurisdiction of the court. *Id.* at 185-86. The Supreme Court held that Alabama had constructively waived its Eleventh Amendment immunity via its participation in a federal program. *Id.* at 196. The program was governed by a federal statute that authorized a federal cause of action. *Id.* The Court felt that "the states had surrendered a portion of their sovereignty" when they ratified the Constitution. *Id.* at 191. However, in *Welch v. Department of Highways & Public Transportation*, 483 U.S. 468, 477-78 (1987), the Court overruled the *Parden* decision by stating that in the absence of an unequivocal indication that the state consents to federal jurisdiction, no waiver will be inferred by the courts.

19. See U.S. CONST. amend. XIV, § 5.

### B. Relevant Case Law

Initially, courts did not allow state entities to use sovereign immunity as a blanket defense to patent infringement actions.<sup>20</sup> In *Lemelson v. Ampex Corp.*, plaintiff Lemelson sued Ampex and the Illinois Bureau of Investigation (IBI) for patent infringement.<sup>21</sup> IBI asserted its immunity as a state entity and filed a motion to dismiss the complaint.<sup>22</sup> The court held that because the states had granted Congress the exclusive right to grant patents, they were not immune from patent lawsuits.<sup>23</sup> Furthermore, the court held that a patent owner should be able to protect his patented interest for reasons of public policy.<sup>24</sup> In stark contrast to future decisions, the patent act was not, on its face, interpreted to exempt states from liability.<sup>25</sup> Consequently, under the *Lemelson* decision, states were liable for patent infringement in spite of the Eleventh Amendment.<sup>26</sup>

In *Edelman v. Jordan*,<sup>27</sup> the United States Supreme Court made the requirements for finding a waiver of Eleventh Amendment state immunity much more stringent than the standard used by the district court in *Lemelson*.<sup>28</sup> The Court held that waiver of state Eleventh Amendment immunity must be

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20. *Lemelson v. Ampex Corp.*, 372 F. Supp. 708, 714 (N.D. Ill. 1974). The court offered several theories under which the patent owner's rights could be protected. *Id.* at 711. The court reasoned that the patent was property, and taking it without just compensation violated the Fourteenth Amendment. *Id.* The court also stated that governmental units act outside the scope of their authority when they violate patent rights. *Id.* The court decided the case under the theory that the states surrendered their sovereignty to patent suits when they granted "Congress the right to create exclusive patents." *Id.* at 711.

21. *Id.* at 710. Ampex manufactured a video system that incorporated Lemelson's invention. *Id.* IBI, an agency of the state of Illinois, purchased and utilized the Ampex system. *Id.*

22. *Id.* IBI also claimed that the patent laws were not applicable to state governments and that venue did not lie in the court. *Id.* The court held IBI liable for patent infringement, even though IBI had not expressly consented to the suit. *Id.*

23. *Id.* at 711. The court also expressed that the patent laws do not expressly exclude states from their operation. *Id.*

24. *Id.* at 713. The court based this statement on the *Parde*n decision. *Id.*

25. *Id.* at 711.

26. *Lemelson*, 372 F. Supp. at 711.

27. 415 U.S. 651 (1974).

28. *Id.* at 673. Plaintiff Jordan filed a complaint in the district court seeking declaratory and injunctive relief against state officials who administered federal-state programs in Illinois. *Id.* at 653. The Supreme Court found that mere participation in the federal program did not result in Illinois waiving its Eleventh Amendment immunity. *Id.* at 673. The Court distinguished the *Parde*n decision. *Id.* at 672. The Supreme Court stated that *Parde*n involved a congressional enactment that expressly authorized suits by plaintiffs against states or state instrumentalities. *Id.* The Court explained that in the case at hand, the congressional intent to abrogate state immunity was "wholly absent." *Id.*

stated so clearly that the text involved does not permit "any other reasonable construction."<sup>29</sup>

In *Fitzpatrick v. Bitzer*,<sup>30</sup> the Supreme Court held that the enforcement provision of the Fourteenth Amendment limited Eleventh Amendment sovereign immunity.<sup>31</sup> The Court found that Congress had used its powers under § 5 of the Fourteenth Amendment to abrogate state sovereign immunity when it authorized federal courts to award money damages to private individuals who were discriminated against by a state government.<sup>32</sup> The Court held that the principles of state sovereignty and the Eleventh Amendment are limited by § 5 of the Fourteenth Amendment.<sup>33</sup> Consequently, the Court held that Congress can authorize private suits against states or state officials under its Fourteenth Amendment power.<sup>34</sup>

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29. *Id.* at 673. The Supreme Court held that the Eleventh Amendment barred the retroactive payment of benefits found to have been wrongfully withheld. *Id.* at 669. The Court held that a state's participation in a federal program was not sufficient to establish Illinois' consent to be sued. *Id.* at 673.

30. 427 U.S. 445 (1976). In *Fitzpatrick*, male employees of the state of Connecticut brought a class action lawsuit alleging that Connecticut's statutory retirement benefit plan discriminated against them on the basis of sex. *Id.* at 448. The 1972 Amendments to Title VII of the Civil Rights Act of 1964 prohibit employment discrimination on the basis of "race, color, religion, sex, or national origin." 42 U.S.C. § 2000e. The district court held that the Connecticut act violated Title VII's prohibition against sex discrimination. *Fitzpatrick*, 427 U.S. at 449. The plaintiffs also sought retroactive retirement benefits and attorney's fees. *Id.* at 449-50. The district court held that the payment of retroactive benefits and attorney's fees from the state's treasury would violate the Eleventh Amendment, and the holding in *Edelman*. *Id.* at 450. The court of appeals affirmed the decision, but reversed as related to the attorney's fees. *Id.* at 450-51. Before the Supreme Court, the plaintiffs argued that Congress has the constitutional power to allow their damages action against Connecticut, and the Supreme Court agreed. *Id.* at 451, 456.

31. *Id.* at 454. The Supreme Court explained that "the prohibitions of the Fourteenth Amendment are directed to, and they are to a degree restrictions of State power." *Id.* at 454. The enforcement of these prohibitions is not an invasion of state sovereignty. *Id.* The Constitution expressly gives authority in § 5 of the Fourteenth Amendment for congressional interference in those situations that are within the bounds of the Fourteenth Amendment. *Id.* at 455.

32. *Id.* at 447-48.

33. *Id.* at 456. In relevant part, the Fourteenth Amendment provides:

Section 1 . . . No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

U.S. CONST. amend. XIV, § 1. In addition, § 5 of the Fourteenth Amendment also states that "[t]he Congress shall have power to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. XIV, § 5.

34. *Fitzpatrick*, 427 U.S. at 456. When Congress uses its § 5 power, it exercises its authority under one section of an Amendment whose other

In *Atascadero State Hospital v. Scanlon*,<sup>35</sup> the Supreme Court addressed the issue of the particularity with which the Congressional abrogation of state immunity must be stated in a statute or constitutional provision.<sup>36</sup> The Court held that Congress can abrogate the states' sovereign immunity from suit in the federal court "only by making its intention unmistakably clear in the language of the statute."<sup>37</sup>

In *Pennsylvania v. Union Gas Co.*,<sup>38</sup> the Supreme Court restricted the states' sovereign immunity in a plurality decision.<sup>39</sup>

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sections function as limitations on state authority. *Id.* In *Pennhurst State School & Hospital v. Halderman*, the Supreme Court addressed the issue of whether Congress' ability to abrogate state sovereign immunity extended to ordering state officials to conform to state law. 465 U.S. 89, 97 (1984). Mentally challenged citizens brought a class action challenging the fact and condition of their confinement in a state institution. *Id.* at 92. In dictum, the Court said that federal courts, in exercising their Fourteenth Amendment powers, cannot interfere with state Eleventh Amendment immunity in regards to state matters. *Id.* at 102-03. The Court stated that its "[r]eluctance to infer that a State's immunity from suit in the federal courts has been negated stems from the recognition of the vital role of the doctrine of sovereign immunity in our federal system." *Id.* at 99. The principles of federalism are disturbed when a federal court instructs state officials in regards to conforming their conduct to state laws. *Id.* at 100. The Court reasoned that if federal courts were allowed to interfere with state operations, problems of federalism would arise in making the state appear in the courts of another sovereign. *Id.*

35. 473 U.S. 234 (1985).

36. *Id.* at 239-41. An applicant for a position with a state hospital brought action against the state and state officials under the Rehabilitation Act of 1973. *Id.* at 236. The plaintiff contended that Congress, by enacting the Rehabilitation Act, had abrogated State constitutional immunity. *Id.* at 241. The Court held that the Rehabilitation Act did not abrogate the Eleventh Amendment immunity of the states. *Id.* at 246. The requirement of unequivocal statutory language subjecting the states to federal jurisdiction was not met by the statute's general authorization for federal jurisdiction. *Id.*

37. *Id.* at 242. Prior to the *Atascadero* decision, patent owners were able to recover damages against states for patent infringement in spite of the Eleventh Amendment. H.R. REP. NO. 101-960(I) (1990). However, since *Atascadero*, the courts have denied patent owners relief for patent infringement by state entities. *Atascadero*, 473 U.S. at 242.

38. 491 U.S. 1 (1989).

39. *Id.* at 23. Union Gas Company's predecessors operated a plant that produced coal tar as a waste. *Id.* at 5. The plant was dismantled, and subsequently the state of Pennsylvania began flood control projects close to the plant. *Id.* In the course of these projects, Pennsylvania pierced a coal tar deposit, allowing it to drain into a creek. *Id.* Pennsylvania and the federal government cleared the hazardous tar from the creek and the federal government reimbursed Pennsylvania for all costs incurred in the cleanup process. *Id.* at 6. This suit was a result of the federal governments attempt to recover its costs. *Id.* The United States sued Union Gas, which in turn filed a third party complaint against Pennsylvania. *Id.* The district court found that Pennsylvania was immune under the Eleventh Amendment and dismissed the complaint. *Id.* The Court of Appeals affirmed, holding Congress had not clearly expressed its intent to hold states liable. *Id.* Union Gas petitioned the

The Court held that Congress' authority to regulate commerce includes the authority to abrogate state immunity from suit where Congress found it necessary.<sup>40</sup> The Court stated, in dictum, that the Commerce Clause gives power to Congress and at the same time takes power away from the states.<sup>41</sup>

In *Chew v. California*,<sup>42</sup> a resident of Ohio sued the State of California for patent infringement.<sup>43</sup> The district court rejected Chew's argument that § 271(a)<sup>44</sup> of the patent code contained the explicit congressional intent required to abrogate a state's immunity under the Eleventh Amendment.<sup>45</sup> Section 271(a) reads: "whoever without authority, makes, uses or sells any patented invention . . . infringes the patent."<sup>46</sup> The court of appeals held that "the general term 'whoever' was not the unmistakable language of congressional intent necessary to abrogate Eleventh Amendment immunity" in light of the holding in *Atascadero*, and affirmed.<sup>47</sup>

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Supreme Court for a writ of certiorari, and while the petition was pending, Congress amended the Act under which the original suit was filed, the Comprehensive Environmental Response, Compensation, and Liability Act. *Id.* The Supreme Court granted certiorari, vacated the Court of Appeals' judgment, and remanded the case. *Id.* The Court of Appeals found that the amended statute rendered the states liable for damages. *Id.* The Supreme Court granted certiorari and affirmed. *Id.*

40. *Id.* at 19-20. Justice Brennan, writing for a plurality of the Court, stated that Congress may unilaterally abrogate state constitutional immunity with legislation pursuant to the Commerce Clause, as long as it expresses its intention to do so in unmistakably clear language. *Id.* Justice Brennan believed that by ratifying the United States Constitution, the states surrendered their Eleventh Amendment immunity to suits for money damages in federal court whenever Congress decides to render them liable under its constitutional authority. *Id.*

41. *Id.* at 19.

42. 893 F.2d 331 (Fed. Cir. 1990).

43. *Id.* at 332. Chew invented a test that measured automobile exhaust emissions. *Id.* The state of California asserted its sovereign immunity under the Eleventh Amendment and filed a motion to dismiss the case. *Id.* Subsequently, the district court dismissed the case. *Id.*

44. 35 U.S.C. § 271(a) (1982). "Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention during the term of the patent therefor, infringes the patent." *Id.*

45. *Chew*, 893 F.2d at 334. Chew also offered several other arguments. *Id.* at 335. Chew urged the court to consider public policy implications, the fact that Congress' patent power is exclusive, and the fact that the federal courts have exclusive jurisdiction over patent matters. *Id.* The court rejected all of these arguments. *Id.* Chew also argued that, in effect, the state was taking her property. *Id.* at 336. The court disposed of this argument by stating that the proper party for a taking claim in this case would be the United States, not California. *Id.*

46. 35 U.S.C. § 271(a) (1982).

47. *Chew*, 893 F.2d at 334-35. The court stated that the relevant patent laws did not provide a statutory definition of "whoever", and furthermore, the laws did not include "states" in the language. *Id.* at 335.

In *Seminole Tribe of Florida v. Florida*,<sup>48</sup> the Supreme Court held that Congress lacks the authority, under the Commerce Clause or any other Article I power, to abrogate the states' sovereign immunity under the Eleventh Amendment.<sup>49</sup> In addition, the Supreme Court expressly overruled *Pennsylvania v. Union Gas Co.*<sup>50</sup> The Supreme Court, in *Seminole*, stated that in order to determine whether Congress has abrogated state sovereign immunity, two questions must be asked: "first, whether Congress has 'unequivocally expresse[d] its intent to abrogate the immunity'; and second, whether Congress has acted 'pursuant to a valid exercise of power.'"<sup>51</sup> Prior to the ruling in *Seminole*, the Court had found authority to abrogate state immunity under only two provisions of the Constitution: the Fourteenth Amendment and the Interstate Commerce Clause.<sup>52</sup> By overruling *Union Gas*, the Supreme Court left Congress with only one method of abrogating state sovereign immunity, the Fourteenth Amendment.<sup>53</sup> It remained to be seen whether federal courts would use the holding in *Seminole* to disregard Congress' 1992 amendments to the patent laws.

### C. Relevant Patent Laws

In 1992, Congress enacted amendments to the patent code in an attempt to protect patent owners from patent infringement by state entities.<sup>54</sup> The addition of § 271(h) and § 296 to the patent code expressly abrogated state immunity from suit for violation of

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48. 116 S. Ct. 1114 (1996).

49. *Id.* at 1132. The Seminole Tribe of Indians sued the State of Florida. *Id.* at 1121. Seminole alleged that Florida had refused to enter into good faith negotiations required by the Indian Gaming Regulatory Act under the Indian Commerce Clause. *Id.* The Act authorizes a tribe to bring suit in federal court against a state in order to force the state to negotiate in good faith. *Id.* at 1119. The Supreme Court stated that "[t]he Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction." *Id.* at 1131-32. In spite of Congress' clear intent to abrogate state immunity, the suit was subsequently dismissed for lack of jurisdiction. *Id.* at 1133.

50. *Id.* at 1128. The *Seminole* Court noted that the plurality decision in *Union Gas*, which held Congress could expand the federal courts' Article III jurisdiction via Article I, contradicted the idea that Article III sets forth the boundaries of federal court jurisdiction. *Id.* The Court concluded that *Union Gas* was wrongly decided. *Id.*

51. *Id.* at 1123 (citations omitted).

52. *Id.* at 1125. In *Union Gas*, a plurality of the Supreme Court held that Congress had the power to abrogate state sovereign immunity under the Commerce Clause. *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 19-20 (1989).

53. *Seminole*, 116 S. Ct. at 1131 n.15. In this footnote, the majority states that Congress' authority to abrogate state immunity via the Fourteenth Amendment is undisputed. *Id.*

54. See 35 U.S.C. §§ 296, 271(h) (1992).

patent law.<sup>55</sup> Section 271(h) defines "whoever" to include "any State, any instrumentality of a state," and "any officer or employee of a state or instrumentality of a state acting in his official capacity."<sup>56</sup> Section 296 explicitly sets forth that states and state entities "shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity" from a suit for patent infringement.<sup>57</sup> Although the amendments were specifically enacted to remedy the conflict between the patent laws and the Eleventh Amendment, disputes related to sovereign immunity still found their way into the federal court system.

## II. SECTION 296: THE CONFLICT AND THE CASES

The amendment of the patent laws<sup>58</sup> and the subsequent Supreme Court decision in *Seminole*<sup>59</sup> brought the conflict between patent rights and state sovereign immunity into the judicial system.<sup>60</sup> In order to ascertain whether § 296 has fulfilled the legislative intent of abrogating state immunity related to patent

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55. *See id.*

56. 35 U.S.C. § 271(h) (1992).

As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

*Id.*

57. 35 U.S.C. § 296 (1992).

(a) In general—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State, acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title. *Id.*

(b) Remedies—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.

*Id.*

58. *See generally* 35 U.S.C. §§ 296, 271(h) (1992) (amending the modern patent laws).

59. 116 S. Ct. 1114 (1996).

60. G. Scott Thomas & Gary J. Sertich, Note, *Recent Developments in Patent Law*, 5 TEX. INTEL. PROP. L.J. 463, 482 (1997). Under *Seminole*, if the amendments to the patent laws were enacted by Congress pursuant to its authority under Article I, then Article III courts would not have jurisdiction over infringement claims against state and state entities. *Id.*

infringement lawsuits,<sup>61</sup> it is necessary to undertake a four-part analysis of § 296 and subsequent judicial decisions. First, Section A will analyze whether § 296 fulfills the requirements set forth in various Supreme Court decisions interpreting the Eleventh Amendment. Second, Section B will determine whether § 296 fulfills the requirements set forth in the *Seminole* decision. Third, Section C will review *Genentech, Inc. v. Regents of the University of California*<sup>62</sup> and *Genentech, Inc. v. Eli Lilly & Co.*,<sup>63</sup> and their treatment of the conflict. Finally, Section D examines *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*<sup>64</sup> and its treatment of the conflict.

#### A. Section 296 and the Requirements for Congressional Abrogation

Supreme Court decisions have established a set of requirements that must be met before Congress can abrogate a state's immunity under the Eleventh Amendment.<sup>65</sup> Congress must fulfill two requirements to abrogate state Eleventh Amendment immunity from suit: first, Congress must explicitly state its intent to abrogate the immunity; and second, Congress must act under a valid exercise of power.<sup>66</sup>

For § 296 to abrogate state sovereign immunity from patent infringement suits, Congress must have unequivocally expressed its legislative intent to do so.<sup>67</sup> In the alternative, federal courts will only find a waiver of state immunity where the statutory text involved does not allow any other reasonable construction.<sup>68</sup>

The legislative history and the wording of § 296 are evidence of Congress' express intention to abrogate state immunity.<sup>69</sup> Section 296(a) explicitly states that:

[a]ny State, any instrumentality of a State, and any officer or employee of a State, acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the

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61. H.R. REP. NO 101-960(I), at 39 (1990). Title III added a new section, § 296, to Title 35 of the U.S. Code expressly abrogating state immunity under the Eleventh Amendment. *Id.* at 54. Section 296 also subjects states to monetary liability for patent infringement. *Id.*

62. 939 F. Supp. 639, 642 (S.D. Ind. 1996).

63. 143 F.3d 1446, 1452 (Fed. Cir. 1998).

64. 148 F.3d 1343, 1345 (Fed. Cir. 1998).

65. *Seminole*, 116 S. Ct. at 1123.

66. *Id.*

67. *Id.* In *Atascadero*, the Court held that a general authorization for suit would not suffice to abrogate state immunity under the Eleventh Amendment. *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 241 (1985).

68. *Edelman v. Jordan*, 415 U.S. 651, 673 (1974).

69. H.R. REP. NO. 101-960(I), (1990). "Title III constitutes a proper exercise of Congress' constitutional authority to abrogate State sovereign immunity." *Id.* at 30.

United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title.<sup>70</sup>

Congress expressed its unequivocal intention to override state immunity from patent suits in § 296(a), and the language of the statute does not allow for any other reasonable construction.<sup>71</sup> Therefore, the first of the two requirements set forth by the Supreme Court in *Seminole* was unquestionably satisfied by § 296.<sup>72</sup>

For § 296 to effectively abrogate state immunity from patent lawsuits, Congress must also have enacted it under a valid exercise of power.<sup>73</sup> Section 5 of the Fourteenth Amendment allows Congress to abrogate the state's immunity from suit guaranteed by the Eleventh Amendment.<sup>74</sup> Therefore, Congress acted under a valid exercise of power only if it enacted § 296 based on its power under § 5, the enforcement provision of the Fourteenth Amendment.<sup>75</sup> The question of whether Congress enacted § 296 under a valid exercise of power, and fulfilled the second requirement of the test, must be answered in light of the *Seminole* decision and subsequent case law, which the next section of this Comment explores.

### B. Section 296 and the *Seminole* Decision

For § 296 to effectively abrogate state immunity from patent infringement lawsuits, it must fulfill the second requirement of the test set forth in *Seminole*.<sup>76</sup> This requirement states that to abrogate state immunity, Congress must act under a valid exercise of power.<sup>77</sup> In *Seminole*, the Supreme Court held the Eleventh

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70. 35 U.S.C. § 296(a) (1992).

71. *See id.*

72. H.R. REP. NO. 101-960(I), at 30 (1990).

73. *Seminole*, 116 S. Ct. at 1123. Congress acts under a valid exercise of power when it passes the Act in question under a "constitutional provision granting Congress the power to abrogate." *Id.* at 1125. Previously, the Court "found authority to abrogate under only two provisions of the Constitution." *Id.* In *Fitzpatrick v. Bitzer*, the Court held that under § 5 of the Fourteenth Amendment Congress may abrogate state immunity. 427 U.S. 445, 452-56 (1976). A plurality of the Supreme Court also upheld congressional abrogation of state immunity in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 19-20 (1989). However, *Seminole* expressly overruled *Union Gas*. *Seminole*, 116 S. Ct. at 1128.

74. *Fitzpatrick*, 427 U.S. at 452-56. In *Fitzpatrick*, the Court stated that the Constitution gives express authority for congressional interference in those cases which fall within the reach of the Fourteenth Amendment. *Id.* at 455.

75. Thomas & Sertich, *supra* note 60, at 482.

76. *See Seminole*, 116 S. Ct. at 1123.

77. *Id.*

Amendment restricts the power of the judiciary under Article III, and Congress cannot use its Article I powers to abrogate sovereign immunity.<sup>78</sup> Based on a literal reading of the *Seminole* decision, Congress can only abrogate state immunity from patent infringement lawsuits via its authority under § 5 of the Fourteenth Amendment.<sup>79</sup> Therefore, if Congress enacted § 296 and § 271(h) solely on the basis of its Article I powers, then Article III courts would not have jurisdiction over infringement actions against states and state entities.<sup>80</sup>

In order to determine if Congress enacted § 296 pursuant to a valid exercise of its power under the Fourteenth Amendment, it is necessary to examine the legislative history of the law.<sup>81</sup> The House of Representatives report states that the enactment of § 296 could be characterized as an exercise of Congress' Fourteenth Amendment powers.<sup>82</sup> In its report pertaining to § 296, the Senate stated that the law is justified as a method of enforcing Congressional power under the Fourteenth Amendment.<sup>83</sup> Based

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78. *Id.* at 1132. The Court made this statement to explain its rationale for overruling *Union Gas*. *Id.* at 1131. The Court stated that even when the Constitution grants Congress lawmaking authority under Article I, and Congress enacts legislation pursuant to that authority, Congress cannot abrogate a state's sovereign immunity. *Id.* at 1132.

79. *Id.* at 1131 n.15.

80. Thomas & Sertich, *supra* note 60, at 482. Justice Stevens' dissent in *Seminole* expressly stated the conflict that would arise due to the majority decision. *Seminole*, 116 S. Ct. at 1134 n.1. The dissent stated that since "federal courts have exclusive jurisdiction over cases arising under . . . federal laws," the majority decision would protect states from being subject to federal jurisdiction for violations of federal laws. *Id.* The majority, in response to Justice Stevens, stated that the Court did not award relief against the states in those situations prior to *Seminole*. *Id.* at 1132 n.16.

81. Congress has authority under Article I, § 8, clause 8 of the Constitution to promote the progress of science and the arts by granting patent rights. U.S. CONST. art. I, § 8, cl. 8. Based on this authority, Congress enacted a patent statute in 1790, and the patent laws were subsequently amended in 1793, 1836, and 1952. H.R. REP. NO. 101-960(I), at 27 (1990). The legislative history of the patent laws does not evince a congressional intent to exempt states from liability for patent infringement. *Id.*

82. H.R. REP. NO. 101-960(I), at 31 (1990). Professor Glen Reynolds wrote a letter to Chairman Kastenmeier stating "[t]his bill could be characterized as . . . an exercise of Congress' powers under the Fourteenth Amendment which among other things authorizes Congress to pass 'appropriate legislation' to prevent States depriving persons of life, liberty, or property without due process of law or denying them the equal protection of the laws." *Id.* at 40. Professor Reynolds also stated that Congress could enact the bill under its Commerce Clause powers, or its power to promote the progress of the sciences and useful arts. *Id.* Obviously, the report was written prior to the *Seminole* decision, which ruled out the Commerce Clause as a basis for the abrogation of state immunity. *Seminole*, 116 S. Ct. at 1119.

83. *Patent and Plant Variety Protection Remedy Clarification Act*, S. REP. NO. 102-280, at 7-8 (1992). The Senate Report states that the purpose of the Act was to clarify Congress' intent to abrogate state immunity from

on both the House and Senate reports, it is apparent that Congress enacted § 296 under its Fourteenth Amendment powers.<sup>84</sup> Consequently, based on its legislative record and express wording, § 296 satisfies the second requirement of the *Seminole*.<sup>85</sup>

Section 296 effectively eliminates state immunity as to patent lawsuits because it fulfills both requirements of the *Seminole* test: first, Congress unequivocally expressed its intent to abrogate state immunity via § 296; and second, Congress acted under a valid exercise of power.<sup>86</sup> However, it remained to be seen whether the courts would uphold Congress' legislative intent to abrogate state immunity via § 296.

### C. The Genentech Case

*Genentech, Inc. v. Eli Lilly & Co.* was the first major case to address the issue of whether Congress' legislative intent in enacting § 296 would be upheld.<sup>87</sup> Genentech filed a declaratory action against the University of California and Eli Lilly.<sup>88</sup> The University asserted its sovereign immunity under the Eleventh Amendment and sought to have the suit dismissed.<sup>89</sup> The District Court for the Southern District of Indiana dismissed the action on the ground that the University was immune under the Eleventh Amendment.<sup>90</sup>

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infringement suits under the patent laws. *Id.* at 2-4, 7. The Report also expresses that because Congress is granted exclusive power to promote the sciences by granting patent rights, it logically follows that Congress must also have the power to abrogate state immunity in order to protect patent holders. *Id.* at 8. The Senate stated that courts have recognized patent rights as property, and the Fourteenth Amendment prohibits the states from taking property without due process of law. *Id.* The Senate determined that if states were allowed to infringe patent rights, they would suppress future innovation. *Id.*

84. See generally H.R. REP. NO. 101-960(I); S. REP. NO. 102-280.

85. See *Seminole*, 116 S. Ct. at 1123 (describing this requirement).

86. See *id.* (discussing what is needed to abrogate state immunity).

87. *Genentech, Inc. v. Eli Lilly & Co.*, No. IP 90-1679-C (S.D. Ind. Mar. 7, 1991).

88. *Genentech*, 998 F.2d at 935. Genentech's action requested that the court declare that the University's patent ('877) was invalid and that Genentech had not infringed on the patent. *Id.* Genentech also sought a declaration that '877 was unenforceable because it was obtained through deception of the Patent and Trademark Office. *Id.* In addition, Genentech alleged that a waiver from the Department of Health and Human Services was obtained by the University through deceptive acts. *Id.* Genentech also stated that the University was estopped from enforcing '877 against it because of previous contractual obligations. *Id.* Finally, Genentech raised claims based on antitrust, patent misuse and state tort law. *Id.* The very next day, the University filed a patent infringement suit against Genentech. *Id.*

89. *Id.*

90. *Id.* The court made its decision in reliance upon the Federal Rules of Civil Procedure. *Id.* The court held that it did not have jurisdiction under Federal Rule of Civil Procedure 12(b)(1), and that Genentech had failed to

On appeal, Genentech argued that the University had waived its immunity from patent claims by virtue of its participation in the patent system.<sup>91</sup> The University disputed that it had waived its immunity, and furthermore, argued that § 296 applied to patent infringement by the states, and not declaratory actions against the states.<sup>92</sup> However, the University conceded that § 296 had abrogated state sovereignty as to patent infringement lawsuits.<sup>93</sup> The United States Court of Appeals for the Federal Circuit held that the University was not immune to the suit as to the patent claims.<sup>94</sup> As to the specific issue of whether § 296 abrogated state immunity from declaratory actions, the court answered in the affirmative.<sup>95</sup> The court based its findings on the 1992 patent law amendments.<sup>96</sup> The court vacated the district

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state a claim under Rule 12(b)(6). *Id.* at 935-36. The court also stated that in the alternative, it had exercised its discretion not to hear the declaratory judgment action. *Id.* Genentech appealed the judgment. *Id.* at 935.

91. *Id.* at 940. Genentech stated that because patent rights are exclusively enforceable in federal court, when the University had filed suit, and been counter sued, it had waived its immunity. *Id.* The court declined to decide the issue of whether the University had waived its immunity. *Id.*

92. *Id.* at 941. Additionally, the University argued that the patent law amendments did not abrogate its immunity as to Genentech's antitrust, tort and contract claims. *Id.* Genentech countered the University's assertion by presenting the plain language of the amendments, the legislative history of the Act, and the absence of exceptions in both the statute and the legislative history. *Id.*

93. *Id.* The University agreed that the amendments overruled *Chew v. California*. *Id.* Consequently, the University admitted that absolute state immunity from patent lawsuits no longer existed. *Id.*

94. *Genentech*, 998 F.2d at 935-36. In dictum, the court said that when the text and the legislative intent of a statute are clear, and when the intent is furthered by the statute, the court's inquiry is complete. *Id.* at 941-42. The court discussed the methods and requirements necessary for congressional abrogation of state immunity set forth in case law. *Id.* at 939-40. Since this case preceded the *Seminole* decision, the *Union Gas* holding was still valid. The court also found that the district court's dismissal on discretionary grounds was improper. *Id.* at 939.

95. *Id.* at 944. The University stated that the amendments do not expressly mention the approval of declaratory judgment actions against the states. *Id.* at 943. Genentech countered that the University did not possess immunity from a declaratory judgment action because the University had by its actions created the need for Genentech's action. *Id.* The court found that the controversy arose when the University accused Genentech of patent infringement, and the University was not immune, under the Eleventh Amendment, from Genentech's responses to the accusations. *Id.* More importantly, the court stated that allowing the state to claim immunity under the Eleventh Amendment would be contrary to the legislative intent of treating all parties equally in patent claims. *Id.*

96. *Id.* at 941. The court found that the amendments expressly abrogated state immunity from patent suits. *Id.* at 942. The court pointed out that the legislative history of the amendments clearly states Congress' intent to abrogate state immunity in patent lawsuits. *Id.* The court also recognized that the University's position was supported because the headings of the

court's dismissal of the patent related claims, and remanded the case to the district court.<sup>97</sup>

On remand, the University reasserted its contention that it was immune from the suit under the Eleventh Amendment.<sup>98</sup> Several years after it had filed its answer, the University filed a motion to dismiss the lawsuit.<sup>99</sup> The University cited the recent *Seminole* decision as the basis for its motion.<sup>100</sup> The University argued that after *Seminole*, Congress did not have the power to abrogate its immunity from Genentech's declaratory judgment action.<sup>101</sup> Genentech countered the University's argument using the Patent and Copyright Clause<sup>102</sup> and the Fourteenth Amendment<sup>103</sup> to establish that Congress had the power to abrogate the University's immunity.<sup>104</sup> Based on the holding in *Seminole*, the court stated that if § 296 was enacted by Congress solely pursuant to its Article I powers, then the court did not have jurisdiction under Article III.<sup>105</sup> Genentech advanced the proposition that Congress enacted § 296 pursuant to its Fourteenth Amendment and Commerce Clause powers.<sup>106</sup> The court agreed with Genentech's proposition that § 296 was enacted, in part, pursuant to the Fourteenth Amendment, and therefore it

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amendments mentioned only infringement. *Id.* However, the headings could not override the plain meaning of the text. *Id.* The court stated that it did not have to address the question of whether the University had constructively waived its immunity, because the patent law amendments were sufficient to support the decision. *Id.* at 940.

97. *Id.* at 949. The court said that the University was not immune to the portions of the suit involving patent claims, and the district court, on remand, should determine which of Genentech's claims were properly set forth. *Id.*

98. *Genentech*, 939 F. Supp. at 641. In its answer to Genentech's amended complaint, the University also asserted a patent infringement counterclaim. *Id.*

99. *Id.* The motion to dismiss was filed on April 29, 1996. *Id.*

100. *Id.* at 641-42. The *Seminole* case was decided on March 27, 1996. *Seminole*, 116 S. Ct. 1114, 1114 (1996).

101. *Genentech*, 939 F. Supp. at 642.

102. U.S. CONST. art. I, § 8, cl. 8.

103. U.S. CONST. amend. XIV.

104. *Genentech*, 939 F. Supp. at 642. Genentech also argued that the University had waived its immunity. *Id.* Genentech did not contest the University's assertion that it was an arm of the state, and thus entitled to Eleventh Amendment immunity. *Id.*

105. *Id.* at 643.

106. *Id.* In short, Genentech argued that patents were property, § 1 of the Fourteenth Amendment prohibits states from taking property without due process, and § 5 of the Fourteenth Amendment provides Congress with the authority to enforce § 1. *Id.* Consequently, Genentech felt that Congress had acted pursuant to the Fourteenth Amendment when it enacted § 296. *Id.* Genentech agreed that Congress had also used its powers under the Commerce Clause. *Id.* Genentech supported its propositions by presenting the legislative history of § 296. *Id.*

was valid.<sup>107</sup> However, the court found that § 296 did not further Genentech's position. The court held that the Fourteenth Amendment itself limited Congress' power in this case because Genentech was not the owner of the patent.<sup>108</sup> The court held that since Genentech did not own the patent, it had not been deprived of property without due process, and consequently § 296 did not abrogate the University's immunity as to the declaratory judgment action.<sup>109</sup> Therefore, the court granted the University's motion to dismiss.<sup>110</sup> In summary, the court held that § 296 abrogated state immunity as to patent infringement actions against the state, but it did not render the states subject to declaratory action judgments.<sup>111</sup>

Genentech appealed the district court's decision to dismiss its declaratory judgment action.<sup>112</sup> Genentech argued that if it was not allowed to bring a declaratory judgment action, it would be deprived of its constitutional rights under the Fifth and Fourteenth Amendments.<sup>113</sup> Genentech's argument also implicated the doctrine of constructive waiver.<sup>114</sup> The University argued that the Fourteenth Amendment does not give Congress the power to allow for declaratory judgment actions under § 296.<sup>115</sup>

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107. *Id.*

108. *Id.* If Genentech owned the patent, and it filed a suit against the University for patent infringement, then Congress could use its power under the Fourteenth Amendment to abrogate the University's immunity. *Id.* Furthermore, the court agreed with Genentech that a patent was property, and to allow states to infringe on the patent right would constitute a taking without due process of law, thus violating the Constitution. *Id.*

109. *Id.* Genentech could freely manufacture the substances patented by the University until the University secured a judgment in its favor. *Id.* As a result, Genentech was guaranteed due process before it lost its rights to manufacture. *Id.* at 643-44.

110. *Genentech*, 939 F. Supp. at 646.

111. *Id.* at 643-44. "[W]e do not believe the statutory amendments in issue can be interpreted under the Fourteenth Amendment to abrogate UC's sovereign immunity." *Id.* at 644. "We believe that doing so would require that we apply the subject statutes in an unconstitutional manner." *Id.* The court also dismissed Genentech's waiver claim. *Id.* at 646.

112. *Genentech, Inc. v. The Regents of the Univ. of Cal.*, 143 F.3d 1446 (Fed. Cir. 1998).

113. *Id.* at 1451. Genentech argued that it would be deprived of both property and liberty without due process. *Id.* Genentech stated that if it was not allowed the same remedies as the University, it would also be deprived of equal protection under the law. *Id.* In addition, Genentech asserted that § 296 was constitutional because it was empowered by the Patent Clause of the Constitution. *Id.*

114. *Id.* Genentech pointed out that the University acted voluntarily, obtained the benefits of the patent system, and attempted to enforce its patent rights through the judicial system. *Id.* at 1451.

115. *Id.* at 1452. The University also stated that Genentech does not have a property interest in infringing the University's patents. *Id.* Genentech countered that its property was commercial in nature, and the *Seminole* Court

The court declined to decide whether the Fourteenth Amendment grants Congress the power to allow for declaratory judgment actions under § 296.<sup>116</sup> The court stated that it was not necessary to decide the constitutional question because the University had constructively waived its immunity and consented to the declaratory judgment action.<sup>117</sup> Consequently, the court held that the declaratory judgment action was improperly dismissed by the district court, and remanded the case for further proceedings.<sup>118</sup>

#### D. College Savings Bank

In *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*,<sup>119</sup> the New Jersey District Court was confronted with the exact scenario that § 296 was meant to remedy.<sup>120</sup> College Savings Bank filed suit for patent infringement against Florida Prepaid, a state entity.<sup>121</sup> A short time after the

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could not have intended to eliminate declaratory judgment actions that, because federal courts have exclusive jurisdiction of patent cases, cannot be remedied elsewhere. *Id.*

116. *Id.* The court also declined to decide whether § 296 supplied a constitutionally valid remedy for patent infringement by the state. *Id.* at 1453.

117. *Id.* at 1453. In finding a waiver, the court placed weight on the fact that the University created a case or controversy that could only be resolved in the federal courts. *Id.* The court also placed weight on the fact that the controversy concerned federally created property rights that could only be enforced by the use of federal judicial power. *Id.* The court explicitly stated that the act of obtaining a patent, standing alone, would not be considered a waiver of state immunity. *Id.*

118. *Id.* at 1454.

119. 948 F. Supp. 400 (D.N.J. 1996).

120. *Id.* at 406. The plaintiff, College Savings Bank, is a chartered bank located in Princeton, New Jersey. *Id.* at 401. The defendant, Florida Prepaid Postsecondary Expense Board, is an entity of the state of Florida, created by a Florida statute to run the Florida Prepaid Postsecondary Education Expense Program. *Id.*

121. *Id.* College Savings alleged that it had patented a method, CollegeSure® CD, which it utilized in administration of a deposit contract. *Id.* CollegeSure® CD was intended to provide a sufficient return to meet college expenses. *Id.* Through its Expense Program, Florida Prepaid also provided a return on money invested that was sufficient to meet college education costs. *Id.* at 402. Both the College Savings and Florida Prepaid programs provided returns for college expenses, even though those future expenses were unknown. *Id.* at 401-02. On November 7, 1994, College Savings brought suit against Florida Prepaid for infringement of its patented method for administration of a deposit contract. *Id.* at 402. Specifically, College Savings alleged that the data processing apparatus and the methods used by Florida Prepaid directly infringed the College Savings patent. *Id.* In response to College Savings' Patent Act Claim, Florida Prepaid filed a counterclaim that sought a declaration that the College Savings patent was "invalid, unenforceable, and void." *Id.* Florida Prepaid then filed a motion seeking either to dismiss the patent claim, or alternatively, to transfer the case to the

Supreme Court's decision in *Seminole*, Florida Prepaid filed a motion to dismiss College Savings' patent claim.<sup>122</sup> Florida Prepaid stated that the court must dismiss College Savings' claims for two reasons: first, Congress amended the statutes in question, including § 296, under its Article I powers, and consequently the statutes are unconstitutional pursuant to the decision in *Seminole*; and second, if Congress did amend the statutes pursuant to the Fourteenth Amendment, the statutory amendments are not appropriate because they do not remedy the types of actions that the Fourteenth Amendment expressly prohibits.<sup>123</sup> In response to Florida Prepaid's motions to dismiss, the court stated that § 296 is a valid exercise of Congressional authority under § 5 of the Fourteenth Amendment, and consequently, Florida Prepaid's immunity from suit was abrogated.<sup>124</sup>

In order to determine whether Florida Prepaid's immunity was abrogated by § 296, the court conducted a two part inquiry: first, "whether Congress has unequivocally expressed its intent to abrogate the immunity; and second, whether Congress has acted pursuant to a valid exercise of power."<sup>125</sup> For part one of the inquiry, the court examined the text of § 296 and found that it was "more than clear enough to abrogate State Eleventh Amendment immunity for suit thereunder in federal court."<sup>126</sup> For part two of

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Northern District of Florida on the basis of forum non-conveniens. *Id.* at 403. The court denied Florida Prepaid's motions. *Id.* Subsequently, the court granted College Savings' motion to dismiss the defendant's counterclaims upon concluding that a government agency could not maintain an action for either libel or defamation. *Id.* at 403.

122. *Id.* at 406. Within two months of the *Seminole* decision, Florida Prepaid filed a motion to dismiss the Patent Act claims. *Id.* Interestingly enough, in *Genentech*, the University filed its motion to dismiss immediately after the *Seminole* decision. *Genentech*, 939 F. Supp. at 642.

123. *College Sav. Bank*, 948 F. Supp. at 406. Florida Prepaid's constitutional challenges were certified by the court and sent to the Attorney General. *Id.* The Department of Justice requested that the court allow the United States to intervene in the action, and the court obliged. *Id.* In response to Florida Prepaid's motions to dismiss, College Savings asserted that Florida Prepaid had waived its immunity, and § 296 was enacted under the Fourteenth Amendment, therefore it abrogated Florida Prepaid's immunity. *Id.* at 406.

124. *Id.* at 421. The court said Congress unequivocally expressed its intent to abrogate sovereign immunity under the patent amendments, and it had acted under a proper exercise of authority. *Id.* College Savings also asserted that Florida Prepaid waived its Eleventh Amendment immunity by engaging in activities that Congress had indicated would subject it to suit in federal court. *Id.* In addition, College Savings raised the following arguments: (1) Florida Prepaid is not an arm of the state for Eleventh Amendment purposes, and is not entitled to immunity; and (2) even if Florida Prepaid was entitled to sovereign immunity, it waived its immunity through its actions in the suit. *Id.* at 406.

125. *See id.* at 420 (quoting *Seminole*, 116 S. Ct. 114, 123 (1996)).

126. *Id.* at 420-21. The Court also mentioned that the language of § 296 was clearer than the language that the Supreme Court found sufficient in

the inquiry, the court acknowledged that after the *Seminole* decision, the only remaining congressional authority to abrogate state immunity is § 5 of the Fourteenth Amendment.<sup>127</sup> If a patent is considered a “property” right, then legislation that renders the states liable in federal court for violation of that right is clearly enforceable under § 5 of the Fourteenth Amendment.<sup>128</sup> The court said that the deciding constitutional issue was whether the interests that the patent laws protect are “property” interests for the purpose of Fourteenth Amendment analysis.<sup>129</sup> The court examined precedent holding that a patent is “property” for Fourteenth Amendment purposes.<sup>130</sup> Consequently, the court held that Congress, under the Fourteenth Amendment, can abrogate Eleventh Amendment immunity for patent claims.<sup>131</sup> The court also held that the patent law amendments, including § 296, which abrogate the Eleventh Amendment immunity of the states, are a valid exercise of Congressional power pursuant to § 5 of the Fourteenth Amendment.<sup>132</sup> The court denied Florida Prepaid’s motions to dismiss as to the patent claims.<sup>133</sup>

Florida Prepaid appealed the district court decision to the U.S. Court of Appeals for the Federal Circuit.<sup>134</sup> On appeal, Florida Prepaid argued that “the goal of the patent law amendments, which is to prevent states from violating patent rights or obliging them to compensate patent owners when they do so, is not a legitimate objective under the Fourteenth Amendment.”<sup>135</sup> The court disagreed, holding that preventing state infringement of privately held patents is a “legitimate

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*Seminole*, where the language in the statute did not even refer to the Eleventh Amendment. *Id.* at 420.

127. *Id.* at 421.

128. *Id.* at 422. Section 5 of the Fourteenth Amendment grants Congress the power to exercise its discretion in determining what legislation, if any, is required to enforce the provisions of the Fourteenth Amendment. *Id.*

129. *College Sav. Bank*, 948 F. Supp. at 422.

130. *Id.* at 425. The law is clear that a patent is property. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945).

131. *College Sav. Bank*, 948 F. Supp. at 425. The court rationalized that Congress has the authority to enforce all of the Fourteenth Amendment, including the Due Process Clause. *Id.* at 425-26. As a result, Congress can, under § 5 of the Fourteenth Amendment, pass legislation to provide federal jurisdiction for cases involving patent owners deprived of their “property” without compensation and due process of law. *Id.* at 426.

132. *Id.*

133. *Id.*

134. *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343, 1346 (Fed. Cir. 1998).

135. *Id.* at 1349. Florida Prepaid claimed that since the Fourteenth Amendment was adopted due to racial discrimination, congressional authority under § 5 of the Fourteenth Amendment was limited to statutes that prevent discrimination. *Id.*

congressional objective under the Fourteenth Amendment.”<sup>136</sup> Florida Prepaid argued that even if it had deprived College Savings Bank of property, the requirements of due process were satisfied because College Savings could have sought relief in Florida through a claims bill.<sup>137</sup> The court held that the fact that the state of Florida may have some process available to a patent owner whose rights have been violated does not preclude Congress from exercising its Fourteenth Amendment powers through the patent law amendments.<sup>138</sup> Florida Prepaid also argued that the patent law amendments allowed Congress to abrogate state immunity under its Article I powers, which was prohibited after the *Seminole* decision.<sup>139</sup> The court also disagreed with this argument.<sup>140</sup> The court explained that because the Fourteenth Amendment, unlike Article I, was enacted after the Eleventh Amendment, it expressly limits the principle of sovereign immunity.<sup>141</sup> Florida Prepaid then argued that even if the objectives of the patent law amendments were constitutionally legitimate, the means employed by Congress to further the objectives are out of proportion to the harms that the patent amendments attempt to prevent.<sup>142</sup> The court held that the burden

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136. *Id.* The court stated that the Supreme Court has expanded Fourteenth Amendment protection beyond just prohibiting racial discrimination. *Id.*

137. *Id.* at 1350. Florida Prepaid argued that this form of relief provided sufficient process to satisfy Fourteenth Amendment scrutiny. *Id.*

138. *Id.* at 1350. The court stated the patent law amendments abrogate state immunity irrespective of whether a state provides due process in its own courts. *Id.* at 1351. The court also pointed out that if it were to follow Florida Prepaid's suggestion, statutes enacted under the Fourteenth Amendment would have to take into account the various remedies offered by the states, thereby preventing the statute from being uniformly applied. *Id.* at 1350-51.

139. *College Sav. Bank*, 148 F.3d at 1351. Florida Prepaid's rationale was that Congress could create a system of property under its Article I powers, patents in this case, then pass a statute that expressly renders states amenable to suits for deprivation of that property. *Id.* Florida Prepaid asserted that based on this rationale, Congress could accomplish indirectly through the Fourteenth Amendment what it is not allowed to do directly through Article I. *Id.*

140. *Id.* at 1351.

141. *Id.* The court said that since by adoption of the Fourteenth Amendment, the states relinquished to the government a part of their authority, it must have been within their understanding that they limited their Eleventh Amendment immunity. *Id.* at 1352. The court added that patents were viewed as property at the time the Fourteenth Amendment was adopted. *Id.* The court said that Florida Prepaid's assertion that patents should not be protected was tantamount to stating that Congress may not abrogate state Eleventh Amendment immunity. *Id.*

142. *Id.* Florida Prepaid complained that Congress did not show evidence of widespread patent infringement by the states, and absent such a showing, the abrogation of state immunity was not allowable. *Id.* at 1353. The court stated that significant instances of patent infringement by states and state entities were on record. *Id.* The legislative history also indicated that as state

the patent law amendments place on the states is slight compared to the potential harm to patent holders, who would be unable to fully enforce their patent rights absent the abrogation of sovereign immunity.<sup>143</sup> Therefore, the court found that abrogation of state Eleventh Amendment immunity under the patent law amendments was proper.<sup>144</sup> Consequently, the appellate court affirmed the district court decision denying Florida Prepaid's motion to dismiss the patent infringement claim was affirmed.<sup>145</sup>

Florida Prepaid petitioned the Supreme Court for a writ of certiorari.<sup>146</sup> The petition was granted on January 8, 1999.<sup>147</sup> The Supreme Court heard *College Savings Bank* on April 20, 1999.<sup>148</sup>

### III. PROPOSALS

At the present time, the status of the law is as follows: § 296 renders states and state entities subject to patent infringement actions;<sup>149</sup> however, states are immune from declaratory judgment actions absent constructive waiver or consent.<sup>150</sup> Individuals involved with intellectual property consider the conflict between sovereign immunity and the patent law amendments to be a critical issue which the Supreme Court must clarify.<sup>151</sup> This Part of the Comment submits proposals under which the Supreme Court can resolve the conflict between patent rights and sovereign

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universities become more active in the intellectual property arena, the number of patent lawsuits involving the states would continue to increase. *Id.* at 1354.

143. *Id.* at 1355. The court said that absent the right to sue a state for patent infringement, a patent would decrease in value. *Id.* The court emphasized that the patent law amendments do not place any greater burden on states and state entities than those shouldered by private patent holders. *Id.* at 1355.

144. *College Sav. Bank*, 148 F.3d at 1355.

145. *Id.* The court said that "Congress clearly expressed its intent to abrogate sovereign immunity," and "exercised its intent pursuant to a valid constitutional exercise of power." *Id.*

146. *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 119 S. Ct. 790, 790 (1999).

147. *Id.*

148. Telephone interview with a Supreme Court clerk (Feb. 24, 1999).

149. *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 948 F. Supp. 400, 426 (D.N.J. 1996). "Accordingly, this Court finds that the Patent Act amendments, which abrogate State Eleventh Amendment immunity, are 'appropriate legislation' under Section 5 of the Fourteenth Amendment." *Id.* The appellate court stressed that there is "no sound reason to hold that Congress cannot subject a state to the same civil consequences that face a private party infringer." *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d. 1343, 1355 (Fed. Cir. 1998).

150. *Genentech, Inc. v. Regents of the Univ. of Cal.*, 143 F.3d 1446, 1453-54 (Fed. Cir. 1998).

151. Telephone Interview with Arnold Calmann, counsel for College Savings Bank, of the law firm of Saiber, Schlesinger, Satz & Goldstein, in Newark N.J. (Feb. 27, 1998).

immunity, and clarify the law in this area. In order to offer proposals that advance Congress' intent, it is necessary to determine exactly what the amendments were meant to remedy, and what remedies are available. Section A examines the congressional record to determine the intent of the amendments, and the remedies available under these amendments. Section B discusses the appellate court holdings in *College Savings Bank*<sup>152</sup> and *Genentech*,<sup>153</sup> and how they may be modified to resolve the conflict. Section C discusses the doctrine of constructive waiver, and how it may be applied to the patent arena.

#### A. *The Congressional Record*

The House of Representatives Report states that the intent of the amendments is to abrogate "state sovereign immunity in patent law, . . . notwithstanding the provisions of the Eleventh Amendment . . ." <sup>154</sup> The House of Representatives also found that the amendments met the requirements set forth in the Supreme Court decisions<sup>155</sup> and that they were enacted under a valid exercise of congressional authority.<sup>156</sup> The Report added that plaintiffs could recover all forms of available relief, including money damages.<sup>157</sup> However, the Subcommittee refused to specify injunctive relief and declaratory judgments, because they were already available.<sup>158</sup> The House Report, in setting forth § 296, expressly stated that the remedies available against the states included declaratory and injunctive relief.<sup>159</sup>

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152. 148 F.3d 1343 (Fed. Cir. 1998).

153. 143 F.3d 1446 (Fed. Cir. 1998).

154. H.R. REP. NO. 101-960(I), at 2 (1990). The report also mentions that the amendments assure "that patent owners can recover damages from states that infringe their patents." *Id.* "[The] legislation is necessary to clarify that states are monetarily liable for patent infringement if patent holders are to recover damages." *Id.* The legislation "responded to various judicial decisions finding that State sovereign immunity was a bar to the recovery of money damages in . . . patent infringement suits." *Id.* at 5.

155. *Id.* "[T]he language of the statute effectively meets the requirements set forth in *Atascadero* and in more recent Supreme Court decisions to effectively abrogate the current State immunity in the patent law." *Id.* at 31.

156. *Id.* "This bill could be characterized as an exercise of Congress' power to regulate interstate commerce, as an exercise of Congress' power 'to promote the Progress of Science and the useful arts' or as an exercise of Congress' powers under the Fourteenth Amendment . . ." *Id.*

157. *Id.*

158. *Id.* Witnesses who testified before the Subcommittee had requested that the bill be amended to include declaratory and injunctive relief against the states. *Id.* The Subcommittee denied the request because the requested remedies were corrective, and more importantly, "are already available against the states." *Id.*

159. H.R. REP. NO. 101-960(I), at 43. "This section enumerates such remedies so that it will be absolutely clear that, in addition to injunctive and declaratory relief, the remedies of damages (including treble damages),

The Senate Report similarly states that the amendments were introduced to explicitly establish that states could be subject to patent infringement suits in federal court.<sup>160</sup> The Senate found that the amendments were justified under the Commerce Clause,<sup>161</sup> the Patent Clause,<sup>162</sup> and § 5 of the Fourteenth Amendment.<sup>163</sup> It found that sovereign immunity from patent infringement lawsuits was likely to discourage future innovation.<sup>164</sup> The Report concluded that the patent amendments were a valid exercise of Congress' power to abrogate state immunity.<sup>165</sup> The final version of the Act, in § 296(b), provided for remedies in equity.<sup>166</sup>

Any proposed solution to the conflict must further Congress' legislative intent. It must allow for patent infringement suits against states and state entities.<sup>167</sup> Furthermore, the proposed solution must allow for declaratory and injunctive relief against states and state entities.<sup>168</sup>

### B. Modification of the Appellate Court Decisions

The decision in the *College Savings Bank* case furthered Congress' intent to render states subject to patent infringement

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interest, costs, attorneys fees and the remedy for infringement of design patents will be available in patent infringement suits against states." *Id.* The Report also expressly stated that remedies in equity were available against the states. *Id.* "Thus, it makes clear that remedies that are currently available, such as declaratory and injunctive relief, will continue to be available to patentees suing for violation of our Nation's patent laws." *Id.*

160. S. REP. NO. 102-280, at 6 (1992). The bill also stated that all remedies available against private parties would be available against the states. *Id.*

161. *Id.* After *Seminole*, this is no longer a valid authority under which Congress may abrogate state immunity. *Seminole Tribe of Fla. v. Florida*, 116 S. Ct. 1114, 1132 (1996).

162. S. REP. NO. 102-280, at 6. Congress has exclusive power to promote the sciences through grants of patent rights. *Id.* As a consequence, Congress should have the authority to render states liable to patent infringement lawsuits. *Id.*

163. *Id.* The courts have held that patents are property, and the Fourteenth amendment prohibits a state from taking property without due process. *Id.* at 7.

164. *Id.* "The need to abrogate State sovereign immunity for intellectual property is clear for several reasons." *Id.* The allowance of immunity was against the principle of article I, § 8, clause 8 of the Constitution, granting Congress the power to issue patents. *Id.*

165. *Id.* The Report pointed out that Congress did not intend for states to be immune from patent infringement suits in federal court. *Id.* Sections 296 and 271(h) will provide a uniform system of protection. *Id.*

166. See 35 U.S.C. § 296(b) (1992) (stating that "remedies (including remedies at both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity.").

167. S. REP. NO. 102-280, at 6.

168. *Id.*

suits.<sup>169</sup> However, in *Genentech*, the appellate court did not implement Congress' intent to unconditionally render states subject to declaratory actions.<sup>170</sup> As a consequence, the case law involving § 296 does not provide plaintiffs access to the full range of remedies that Congress intended.<sup>171</sup>

The discrepancy between Congress' intent and the decision in *Genentech* can be resolved by the Supreme Court via a literal reading of § 296. Section 296(b) states in pertinent part: "[r]emedies (including remedies both at law and *in equity*) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity."<sup>172</sup> The legislative history of § 296 also makes it unequivocally clear that Congress intended that the states are subject to declaratory actions.<sup>173</sup> Therefore, a literal reading of § 296(b) would resolve the confusion caused by the *Genentech* decision. Section 296 renders the states subject to patent infringement, injunctive, and declaratory actions. This is exactly what Congress intended, and the Supreme Court should, when interpreting § 296, show deference to the clear legislative intent.

### C. The Waiver Doctrine

The Supreme Court should find that states and state entities are amenable to patent suits in federal court because the states have constructively waived their sovereign immunity as to patents. In *Genentech*, the court found a constructive waiver of sovereign immunity.<sup>174</sup> In finding a waiver, the court placed weight on several factors, including the "voluntary and deliberate creation of a case or controversy that can be resolved only in federal courts, concerning federally-created property rights of national scope that are enforceable only by federal judicial power."<sup>175</sup>

Patent rights are federally created property rights that are

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169. *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343, 1355 (Fed. Cir. 1998). The appellate court stressed that "there is no sound reason to hold that Congress cannot subject a state to the same civil consequences that face a private party infringer." *Id.*

170. *Genentech, Inc. v. Regents of the Univ. of Cal.*, 143 F.3d 1446, 1452 (Fed. Cir. 1998). The appellate court declined to answer the constitutional questions involved, and instead found that the University had constructively waived its sovereign immunity. *Id.* at 1452-53.

171. *See* S. REP. NO. 102-280, at 6. *See also* H.R. REP. NO. 101-960(I), at 31 (1990).

172. 35 U.S.C. § 296(b) (1992) (emphasis added).

173. *See* S. REP. NO. 102-280. *See also* H. REP. NO. 101-960(I), at 43.

174. *Genentech*, 143 F.3d at 1453.

175. 28 U.S.C. § 1338 (1996). Therefore, it is unreasonable to assert, as the *Genentech* court did, that the requirements of a constructive waiver cannot be satisfied unless the wrongdoing state initiates a lawsuit.

national in scope. A state that creates or is otherwise involved in a dispute involving patent rights undeniably invokes federal judicial power because the case or controversy can only be resolved in the federal judicial system. Therefore, all participants in the federal patent system, including states, must be subject to actions in the federal judicial system. Consequently, the Supreme Court should hold that states that actively participate in the patent system and become involved in patent disputes have constructively waived their Eleventh Amendment immunity and consented to actions in federal court as to those disputes.

#### CONCLUSION

States and state entities play a large part in the intellectual property arena. The Eleventh Amendment, coupled with the Supreme Court decision in *Seminole*, allows states and state entities to exploit the patent system to their advantage. Prior to the *College Savings Bank* and *Genentech* cases, the states were allowed to, quite literally, steal intellectual property without penalty.

The appellate court in *College Savings Bank* held that § 296 abrogated state immunity from patent infringement actions. However, the *Genentech* decision indicates that states are immune from declaratory actions, absent waiver or consent. Therefore, at the present time, states and state entities are subject to patent infringement actions, but not declaratory actions. As a consequence, states are held to a different standard of liability than private patent holders, who are subject to both patent infringement and declaratory actions.

The *College Savings Bank* case will be heard by the Supreme Court on April 20, 1999. The Supreme Court must use that opportunity not only to resolve the conflict between the patent law amendments set forth in § 296 and § 271(h) and sovereign immunity, but to eliminate the lax standard of liability that states are currently held.

The Supreme Court should find that § 296 constitutionally abrogates sovereign immunity, as all courts that have addressed the issue in *College Savings Bank* and *Genentech* have found. Furthermore, the Court should hold states and state entities to the same standards as private patent owners, as Congress intended. The Supreme Court should expressly hold that the states are amenable to patent infringement lawsuits as well as actions for declaratory and injunctive relief. The Court should also find that the same remedies that are currently available in the private sector will be available against the states. The current system allows for legalized thievery, and the loophole that allows it should be permanently and unequivocally closed by the Supreme Court.