State Sovereign Immunity for Claims of Patent Infringement: Seeking "Fair Relationships and Just Recourse"

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> *"[T]here is an increasing urgency, as the states enter the private competitive arena governed by the laws of intellectual property, to establish fair relationships and just recourse."*[1]

Since the enactment of the Bayh-Dole Act in 1980 allowing non-profit institutions to obtain intellectual property rights for inventions arising out of federally funded research,[2] the number of patents issued to universities has increased dramatically. For example, more than 3,600 U.S. patents were issued to universities during fiscal year 2004.[3] The increase in patent holdings allows universities – including state universities – to generate significant revenue by licensing patented technologies to private companies for commercial development. According to the 2004 AUTM Survey, more than 27,300 licenses or options between universities and private enterprise were active during fiscal year 2004, producing $1.385 billion in licensing revenue to the universities.[4]

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[1] *Xechem Int'l, Inc. v. University of Texas Anderson Cancer Center*, 382 F.3d 1324, 1335 (Fed. Cir. 2004) (Newman, J., concurring), *cert. denied*, 543 U.S. 149 (2005).

[2] Bayh-Dole Act, Pub. L. No. 96-517, 94 Stat. 3015 (1980) (codified as amended at 35 U.S.C. § 200 *et seq*. (2000).

[3] Association of University Technology Managers (AUTM) U.S. Licensing Survey FY 2004, Survey Summary ("2004 AUTM Survey"), at p. 4; at http://autm.net/events/File/04AUTMSurveySum-USpublic.pdf (last visited Dec. 6, 2006).

[4] 2004 AUTM Survey, at pp. 4-5.

While the universities reap the rewards generated by extensive patenting and licensing programs, the public universities, as state entities, generally enjoy sovereign immunity under the Eleventh Amendment[5] from claims alleging infringement of the intellectual property rights of others. The perceived inequity of shielding state universities from potential liability for infringement, while facilitating federal property rights and significant tax-exempt licensing revenue, [6] has produced vocal critics and several attempts by Congress (without success) to abrogate state sovereign immunity from infringement claims for public institutions. This paper will discuss the recent cases addressing the doctrine of state sovereign immunity, with a general focus on patent infringement, and will suggest an approach for coping with the current law from both the industry perspective and the public university perspective.

I. THE ELEVENTH AMENDMENT

The principle of state sovereign immunity is implicit in our constitutional structure.[7] The scope of state sovereign immunity, therefore, is not limited to the plain text of the Eleventh Amendment.[8] The Eleventh Amendment was ratified in response to a 1793 Supreme Court decision allowing an individual to sue a state government to

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[5] *See* U.S. Const. amend. XI, and the cases interpreting it, discussed *infra*.

[6] *See* Jeffrey W. Childers, *State Sovereign Immunity and the Protection of Intellectual Property: Do Recent Congressional Attempts to "Level the Playing Field" Run Afoul of Current Eleventh Amendment Jurisprudence and Other Constitutional Doctrines?* 82 N.C. L. Rev. 1067, 1069 (2004).

[7] *See Alden v. Maine*, 527 U.S. 706, 728-29 (1999) (stating that "[t]he Eleventh Amendment confirmed rather than established sovereign immunity as a constitutional principle").

[8] *Alden*, 527 U.S. at 729 (stating "the scope of the States' immunity from suit is demarcated not by the text of the [Eleventh] Amendment alone but by fundamental postulates implicit in the constitutional design").

collect a debt.[9] The plain text of the Eleventh Amendment appears to abolish diversity jurisdiction (only), in suits where the defendant is a state. The Eleventh Amendment provides:

> "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State."[10]

In 1999, the Court in *Alden v. Maine* expressly rejected the argument proposing to limit state sovereign immunity to the plain text of the Eleventh Amendment.[11] Without the narrow language in the Amendment itself as a limit, the doctrine of state sovereign immunity has been construed as a bar to all suits against a state for money damages, whether brought by its citizens or those of another state,[12] in any forum,[13] based on diversity or federal question jurisdiction.[14]

The extension of state sovereign immunity to include federal question jurisdiction operates as a bar to suits against states based on violations of any of the federal intellectual property statutes. A claim of patent infringement, for example, arises under

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[9] *Chisholm v. Georgia*, 2 U.S. (2 Dall.) 319 (1793). For a discussion of the historical development of the Eleventh Amendment, see Mitchell N. Berman, R. Anthony Reese, and Ernest A. Young, *State Accountability for Violations of Intellectual Property Rights: How to "Fix" Florida Prepaid (And How Not To)*, 79 Tex. L. Rev. 1037, 1046-52 (2001).

[10] U.S. Const. amend. XI.

[11] *Alden*, 527 U.S. at 729.

[12] *See, e.g., Seminole Tribe of Fla. v. Florida*, 517 U.S. 44, 110 (1996) (Souter, J., dissenting).

[13] *See Alden*, 527 U.S. at 753-54 (extending the doctrine of state sovereign immunity to actions brought in state courts, as well as federal courts).

[14] *Seminole Tribe*, 517 U.S. at 54.

federal law and is therefore predicated on federal question jurisdiction.[15] In practice, therefore, a state government or state entity, such as a state university, may not be sued for money damages for patent infringement,[16] copyright infringement,[17] or violations of the Lanham Act.[18]

II. CONGRESS ATTEMPTS TO ABROGATE SOVEREIGN IMMUNITY

In 1992, in response to two Federal Circuit decisions upholding state sovereign immunity from patent suits in federal court,[19] Congress attempted to subject state entities to potential liability for patent infringement by passing the Patent and Plant Variety Protection Remedy Clarification Act of 1992 (PRCA).[20]

In 1999, in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627, 643 (1999) ("*Florida Prepaid*"), the U.S. Supreme Court ruled that the PRCA violated the Eleventh Amendment and was not a proper abrogation

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[15] 28 U.S.C. § 1338 (1994).

[16] *See, e.g., Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999) ("*Florida Prepaid*") (where the College Savings Bank sued a Florida entity for willful patent infringement).

[17] *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000) (relying on *Florida Prepaid* to bar copyright suits against state entities).

[18] *See, e.g., College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999) ("*College Savings Bank*") (where the College Savings Bank sued a Florida entity for false advertising under the Lanham Act) – decided the same day as *Florida Prepaid* and *Alden v. Maine, supra*.

[19] *Chew v. California*, 893 F.2d 331 (Fed. Cir. 1990); *Jacobs Wind Electric Co. v. Florida Dept. of Transp.*, 919 F.2d 726 (Fed. Cir. 1990).

[20] Patent and Plant Variety Protection Remedy Clarification Act of 1992 ("PRCA"), Pub. L. 102-560, 106 Stat. 4230 (codified at 35 U.S.C. §§ 271(h), 296(a)). In Section 271(h), the PRCA stated that "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" could be subject to suit for infringing a patent. Section 296(a) provided that a state "shall not be immune, under the eleventh amendment . . . from suit in Federal court . . . for infringement of a patent."

of state sovereign immunity. In assessing the testimony presented to Congress, the Court cited the lack of actual evidence showing of a "pattern of patent infringement by the States,"[21] suggesting that the remedy provided by the PRCA had not been necessary.[22]

In finding the PRCA unconstitutional, the Court held that the uncertainty of state court remedies and other disadvantages potentially resulting from state sovereign immunity did not deprive a patent owner of property without due process of law.[23] The Court cited *Hudson v. Palmer*, 468 U.S. 517, 532-33 (1983) (O'Connor, J., concurring), stating that a deprivation of property without due process can result only when a claimant either exhausts all the remedies guaranteed by state law or prove that the available state remedies are inadequate.[24] The Court also noted, in footnote 9, the availability of state remedies in the State of Florida for alleged infringement by the State:

> "Aggrieved parties may pursue a legislative remedy through a claims bill for payment in full, Fla. Stat. § 11.065 (1997), or a judicial remedy through a takings or conversion claim, *see Jacobs Wind Electric Co. v. Florida Dept. of Transp.*, 626 So.2d 1333 (Fla. 1993)."[25]

Footnote 9 of *Florida Prepaid* notes two judicial remedies in state court: a regulatory takings claim, or a conversion claim. In *Jacobs Wind*, on remand from the Federal Circuit, the Florida Supreme Court concluded that the state court had jurisdiction to determine whether the state's infringement of an issued patent

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[21] *Id.* at 640.

[22] *Xechem*, 382 F.3d at 1328.

[23] *Florida Prepaid*, 527 U.S. at 644-45.

[24] *Id.* at 643.

[25] *Id.* at 644, n. 9.

was a taking by the government, requiring just compensation.[26] Under Florida law, the tort of conversion occurs upon "the exercise if wrongful dominion or control over the property to the detriment of the rights of its actual owner."[27]

The Court in *Florida Prepaid* pointed to the availability of these potential state remedies in concluding that Congress failed to support the PRCA with evidence that the state remedies were constitutionally inadequate."[28] Congress only found the state remedies to be "less convenient than the federal remedies, and might undermine the uniformity of patent law."[29] Without a showing that the state remedies were constitutionally inadequate, the Court held that the PRCA was not a proper exercise of Congress's power under Section 5 of the Fourteenth Amendment to provide a remedy for a deprivation of property without due process of law.[30]

III. ALTERNATIVE APPROACHES AFTER *FLORIDA PREPAID*

Three potential alternative remedies were mentioned in *Florida Prepaid* and *College Savings Bank*. In *Florida Prepaid*, the Court noted two potential judicial remedies for patent infringement by a state entity: [1] a regulatory takings claim, or [2] a tort claim for conversion of property.[31] In the companion case, *College Savings Bank*,

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[26] *Jacobs Wind*, 626 So.2d at 1337.

[27] *Gerber Trade Finance, Inc. v. Bayou Dock Seafood Co.*, 917 So.2d 964, 967 (Fla. App. 3 Dist. 2005).

[28] *Florida Prepaid*, 527 U.S. at 644.

[29] *Id.*

[30] *Id*. at 644-45.

[31] *Florida Prepaid*, 527 U.S. at 644, n. 9.

the Court noted the availability of a potential federal remedy: [3] filing an action in federal court under the doctrine of *Ex parte Young*, 209 US. 123 (1908).[32]

A. Regulatory Takings of Intellectual Property.

The Takings Clause of the Fifth Amendment of the U.S. Constitution,[33] and most state constitutions, provide that private property may not be taken by a government for public use without just compensation. Since the mention in footnote 9 of *Florida Prepaid* of a "takings claim" as a potential remedy for patent infringement by a state entity, at least one commentator has suggested a theory of regulatory takings as a mechanism for private companies to seek redress for patent infringement by state entities.[34]

"State use of a patented item provides the easiest case for a taking [under the Fifth Amendment]."[35] In a line of cases dating back to 1896, patent infringement by the federal government has been held to violate the Takings Clause.[36] In *Jacobs Wind*, the case cited in footnote 9 of *Florida Prepaid*, the Florida Supreme Court held that a state court had jurisdiction to determine whether the state's alleged infringement of a patent was a taking by the government, requiring just compensation.[37] The takings analysis

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[32] *College Savings Bank*, 527 U.S. at 704.

[33] U.S. Const. amend. V ("nor shall private property be taken for public use, without just compensation").

[34] *See, e.g.*, Shubha Gosh, *Toward a Theory of Regulatory Takings for Intellectual Property: The Path Left Open After College Savings v. Florida Prepaid*, 37 San Diego L. Rev. 637 (2000).

[35] *Id.* at 688.

[36] *Id.* at 688, n. 290; *see, e.g., Belknap v. Schild*, 161 U.S. 10 (1896); *James v. Campbell*, 104 U.S. 356 (1881); *Chemical Separation Technologies, Inc. v. United States*, 45 Fed. Cl. 513 (Ct. Claims 1999); *Standard Space Platforms Corp. v. United States*, 38 Fed. Cl. 461 (Ct. Claims 1997); *Bowles v. United States*, 31 Fed. Cl. 37 (Ct. Claims 1994); *Lessona Corp. v. United States*, 599 F.2d 958 (Ct. Claims 1979); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

[37] *Jacobs Wind*, 626 So.2d at 1337.

against a state government should be the same as when a claim is made against the federal government under the Takings Clause.[38]

B. *Ex parte Young*.

The Federal Circuit discusses the availability of state remedies, and the option of filing an *Ex parte Young* action, in *Xechem International, Inc. v. University of Texas Anderson Cancer Center*, 382 F.3d 1324 (Fed. Cir. 2004), *cert. denied*, 543 U.S. 149 (2005). In *Xechem*, the Federal Circuit affirmed the dismissal of an action filed in federal district court by a pharmaceutical company seeking to correct the inventors named on patents resulting from the company's collaborative research with a state university.[39]

Xechem and the University entered into a Sponsor Laboratory Study Agreement in 1995, to develop an improved formulation of the cancer drug paclitaxel. *Id.* at 1327. Xechem prepared a patent application naming two inventors, a Xechem scientist and Dr. Andersson, a scientist employed by the University. *Id.* The University disagreed with the designation of inventorship and filed its own patent application, naming Dr. Andersson as the sole inventor. *Id.* Shortly thereafter, the Xechem scientist wrote to the University stating his agreement that Dr. Andersson was indeed the sole inventor. *Id.*

Xechem and the University entered into an exclusive license in 1997. *Id.* Two patents issued, in 1999 and 2000, both of which were assigned by Dr. Andersson to the University. *Id.* In early 2000, the University terminated the license (based on Xechem's alleged insolvency) and notified Xechem that any use of the patented technology would be considered patent infringement. *Id.* Xechem filed suit in federal court seeking a declaration of non-infringement, seeking to correct inventorship, and asserting several

[38] Shubha Gosh at 688.

[39] *Xechem*, 382 F.3d at 1332.

state law tort and contract claims that were subsequently withdrawn. *Id.* The district court dismissed the inventorship claim and Xechem appealed. *Id.*

On appeal, Xechem argued that the Eleventh Amendment does not bar an action to correct inventorship under 35 U.S.C. § 256 because a change in inventors will necessarily change the ownership of the patents, thereby raising the issue of a deprivation of property by a state, subject to the requirements of the due process clause of the Fourteenth Amendment.[40] Xechem also argued that, because the university is not a necessary party to an action to correct inventorship, the university's immunity is irrelevant;[41] however, the state entities were the only parties named as defendants in the suit and "with no defendant, there is no suit."[42] Here, the opinion suggests that one or more individual state officers, such as the inventor, Dr. Andersson, could have been named defendants, but offers no further explanation or specific theory for asserting jurisdiction over them.

The Federal Circuit held that, even if the university was not a necessary party, the suit against the state entities could not be brought in federal court because Xechem did not provide a showing that an action in state court would leave Xechem "without a remedy under state law."[43] The court stated, "ownership issues are generally the province of state courts" which are capable of applying federal law to resolve inventorship and ownership issues.[44] In applying *Florida Prepaid*, the Federal Circuit in

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[40] *Id.* at 1330.

[41] *Id.* at 1331-32.

[42] *Id.* at 1332.

[43] *Xechem*, 382 F.3d at 1332, *quoting Florida Prepaid*, 527 U.S. at 647.

[44] *Xechem*, 382 F.3d at 1332, *citing Speedco, Inc. v. Estes*, 853 F.2d 909, 914 (Fed. Cir. 1988); *see also, Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1577 (Fed. Cir. 1997)

Xechem reiterated the general rule that, in order to provide an actual showing that a plaintiff is without a remedy under state law, the plaintiff must exhaust all possible remedies in the state courts.[45]

In Judge Newman's concurring opinion (entitled "Additional Views"), the court agreed that Xechem had not fully explored its state remedies,[46] "[n]or did Xechem in this action seek the alternative path marked by *Ex parte Young*."[47] Although the court expressed no opinion as to whether *Young* offers a path to relief, the court noted that the Supreme Court "kept this door ajar"[48] and "I write to the same purpose."[49]

In an action brought under *Ex parte Young*, although the state entity remains immune from suit, a state officer may be sued individually in his official capacity, as long as the complaint alleges "an ongoing violation of federal law and seeks relief properly characterized as prospective."[50] In the context of a patent infringement allegation, the defendant's infringing conduct would be identified as the ongoing violation of federal law. The limitation of prospective relief means that only injunctive relief is available in an *Ex parte Young* action.

(federal preemption under the Patent Act does not include matters of ownership or license); *and, Prize Frize, Inc. v. Matrix (U.S.), Inc.*, 167 F.3d 1261, 1264 (9th Cir. 1999) (an alleged deprivation of patent ownership is not a claim under federal law).

[45] *Xechem*, 382 F.3d at 1332.

[46] "In *Florida Prepaid* the Court noted that patent infringement by a state might be remedied in state court on the traditional state law grounds of taking of property or conversion, 527 U.S. at 644 n. 9 . . . ." *Xechem*, 382 F.3d at 1334 (Newman, J., concurring).

[47] *Id.* at 1333.

[48] *Id.* at 1335.

[49] *Id.* at 1335.

[50] *Verizon Maryland, Inc. v. Public Service Comm'n of Maryland*, 535 U.S. 635, 645 (2002) (addressing the application of *Ex parte Young* against a claim of Eleventh Amendment immunity).

In the context of *Xechem*, the Federal Circuit suggests that Xechem could have named Dr. Andersson or another state official, individually and in his official capacity, as a defendant under *Ex parte Young*, which may have allowed the inventorship action to proceed in federal court. The question remains, however, whether the conduct of maintaining and enforcing two issued patents naming allegedly incorrect inventors would constitute "an ongoing violation of federal law." An action would most likely not be available against the inventor, Dr. Andersson, because his conduct in the matter ended when he assigned the two patents to the University. An action might be tenable against the university official most closely connected to the University's continuing refusal to correct the inventorship.

The relief sought by Xechem – to correct inventorship – might not be "properly characterized as prospective" because a showing (in 2004) that Dr. Andersson was not the correct inventor would necessarily affect the validity and enforceability of the two patents in the past (between their issue dates in 1999 and 2000, respectively, and the date of correction, if proven). Xechem may have characterized its prayer for relief as prospective only (for example, seeking an equitable reduction of the future royalties payable under the license); however, as to third parties and the public, a change in inventorship could affect the validity and enforceability of the issued patents in the past. Maintaining an action against a Texas state official under *Ex parte Young* may have been difficult to maintain.[51]

[51] Moreover, the Supreme Court has cautioned that, "the real interests served by the Eleventh Amendment are not to be sacrificed to elementary mechanics of captions and pleading." *Idaho v. Coeur d'Alene Tribe of Idaho*, 521 U.S. 261, 270 (1997).

Recently, in August 2006, the Federal Circuit in *Pennington Seed v. Produce Exchange No. 299* affirmed the dismissal of an *Ex parte Young* action against three state officials, individually, who worked for the co-defendant, The University of Arkansas, because the individual's ability to oversee and possibly stop infringing activity was not a sufficient causal connection to the University's alleged infringement to support jurisdiction over the officials pursuant to *Ex parte Young*.[52]

IV. CONGRESSIONAL ACTION SINCE *FLORIDA PREPAID*

Although this paper does not explore in detail the legislative efforts since *Florida Prepaid*, several bills have been proposed in Congress to abrogate state sovereign immunity in favor of private intellectual property owners. Any such legislation will need to comply with current Eleventh Amendment jurisprudence as established by the Supreme Court, and it should also be consistent with the public policy goals of the Bayh-Dole Act.[53]

For example, the Intellectual Property Protection Restoration Act of 1999 (introduced by Senator Patrick Leahy) advocated use of Congress's spending power to require state universities to waive their sovereign immunity in exchange for federal research funding from Congress.[54] By attaching such conditions on the receipt of federal funds, the 1999 Act would frustrate the stated goal of the Bayh-Dole Act to promote the

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[52] *Pennington Seed v. Produce Exchange No. 299*, 457 F.3d 1334, 1342-43 (Fed. Cir. 2006).

[53] For a thorough review of several legislative proposals, *see* Jeffrey W. Childers, *State Sovereign Immunity and the Protection of Intellectual Property: Do Recent Congressional Attempts to "Level the Playing Field" Run Afoul of Current Eleventh Amendment Jurisprudence and Other Constitutional Doctrines?* 82 N.C. L. Rev. 1067, 1131 (2004).

[54] *Id.* at 1127.

securing of patent protection for federally-funded inventions.[55] Moreover, the condition requiring waiver of a constitutionally-protected right might constitute undue coercion.[56] The 1999 Act did not reach a vote in the Senate.[57] Similarly, the Intellectual Property Protection Restoration Act of 2003, also introduced by Senator Leahy, was not brought to a vote.[58]

Although the current Hatch-Leahy Bill, entitled "Patent Reform Act of 2006," S.3818.IS, does not include a provision abrogating state sovereign immunity,[59] it is likely that Senator Leahy and others will continue to propose legislation seeking a more level playing field for private companies seeking redress from state entities and state universities.

V. HYPOTHETICAL SCENARIO

For the purposes of a discussion on the potential consequences of state sovereign immunity, the scenario set forth below may help illustrate the various dilemmas and challenges facing private industry and public institutions today.

Niche Corporation designs and manufacturers avionics equipment for private and commercial aircraft. Joe Einstein is director of research and development for Niche. James Liter, Esq., is chief I.P. counsel for Niche. In June 2000, the Niche Corporation

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[55] *Id.*

[56] *Id.*

[57] *Id.* at 1072.

[58] *Id.* at 1075.

[59] *See*, The Library of Congress, THOMAS System, reporting on the Patent Reform Act of 2006 at http://thomas.loc.gov/cgi-bin/bdquery/z?d109:s.03818: (last visited Dec. 7, 2006).

filed a patent application disclosing a method of filtering weather radar data using a set of databases, naming Einstein as the sole inventor.

In August 2000, Einstein and Mr. Liter met with Professor Zeal at Wells College, a private university, to discuss the possibility of sponsoring a research project related to the radar filtering method. Mr. Liter did not ask Professor Zeal to sign a confidentiality agreement because the filtering method was protected by a pending patent application, and Wells College is a private institution, subject to suit in state and federal courts. At the meeting, the radar filtering method was disclosed in sufficient detail to enable Einstein and Professor Zeal to discuss the broad outlines of a research project. During their discussion, it became clear to Einstein that Wells College did not have the computing resources necessary to complete a worthwhile research project. No agreement was reached.

In October 2003, Mr. Liter was skimming the fall edition of SIGNAL, a technical journal, and noticed a radar-related article written by Professor Zeal. Mr. Liter noticed that Professor Zeal conducted his research at Kray State University (KSU), a state university known for its vast computer science facilities. The article reports the results of research conducted by Professor Zeal at KSU using 'a superset of relational databases to refine incoming radar signals' before they are displayed to a pilot. When Mr. Einstein read the article in detail, he concluded that Professor Zeal must have used the information he learned during the August 2000 meeting in order to design the research and build the database system described in the article. Einstein and Mr. Liter compared the article to the patent application. The radar filtering system described in the article is nearly identical to the system recited in several claims of the pending patent application.

Mr. Liter sent a cease-and-desist letter to Professor Zeal and KSU. The letter demanded that Professor Zeal and KSU stop using the patent-pending filtering method and suggested that KSU should consider taking a license for the filtering technology. KSU sent no response. The president of Niche Corporation has instructed Mr. Liter to file suit against Professor Zeal and KSU for patent infringement as soon as the Einstein patent issues.

VI. SEEKING "JUST RECOURSE"[60]

The cases and concepts discussed herein provide a general guideline for the causes of action, theories, and venues available for the hypothetical scenario.

A. A Patent Infringement Action In Federal District Court: *Niche Corp. v. Kray State University and Professor Zeal.*

A lawsuit alleging patent infringement, filed in federal district court, for money damages would most likely be dismissed, applying *Florida Prepaid*. KSU, as a public institution and an arm of the state, would be accorded sovereign immunity under the Eleventh Amendment. The PRCA of 1992 was found unconstitutional in *Florida Prepaid*, and Congress has not enacted any additional legislation abrogating Eleventh Amendment immunity for claims of patent infringement. The lawsuit alleging patent infringement could not be filed in state court because the federal district courts have exclusive jurisdiction over patent infringement claims.[61]

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[60] *Xechem*, 382 F.3d at 1335 (Fed. Cir. 2004) (Newman, J., concurring).

[61] 28 U.S.C. § 1338(a). It should be noted that, even if Congress amended the statutes to allow concurrent jurisdiction in both federal and state courts for infringement actions brought against a state entity, Congress's power to do so was significantly limited by the Supreme Court in *Alden v. Maine*, 527 U.S. at 753-54 (extending the doctrine of state sovereign immunity to actions brought in state courts, as well as federal courts); *see* John T. Cross, *Suing the States for Copyright Infringement*, 39 Brandeis L.J. 337, 365-66 (2000-01) (discussing that, under *Alden*, a state's

B. An *Ex parte Young* Action In Federal District Court: *Niche Corp. v. Professor Zeal, individually, in his official capacity as a faculty member of Kray State University.*

A lawsuit alleging ongoing or continuing patent infringement, in violation of federal law, filed in federal district court, could be filed against Professor Zeal, individually, under *Ex parte Young*, seeking only prospective, injunctive relief. As suggested in *College Savings Bank*, an action under *Ex parte Young* could be filed against a state actor individually, seeking an injunction by the court prohibiting the infringing conduct.

Niche Corporation would need to allege facts showing that Professor Zeal is engaging in "an ongoing violation of federal law," such as conduct that directly or indirectly infringes one or more claims of the issued Einstein patent. Niche Corporation must seek relief from Professor Zeal that may be "properly characterized as prospective," such as seeking an injunction prohibiting Professor Zeal from practicing the claimed invention. Applying the holding in *Pennington Seed*, Niche Corporation must show a sufficient causal connection between Professor Zeal's research activity and the allegedly infringing activity (under these facts, these activities are the same) in order to support jurisdiction over the officials pursuant to *Ex parte Young*.[62]

Although an injunction might seem, at first glance, to be an inadequate remedy for Niche Corporation, the prospect of a federal court order enjoining a faculty member from participating in certain research activity would represent a great detriment to Kray State University. Professor Zeal may be engaged in federally-funded or privately-

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amenability to suit depends on both Congress's grant of jurisdiction and on "whether the state allows itself to be sued on analogous claims.")

[62] *Pennington Seed v. Produce Exchange No. 299*, 457 F.3d 1334, 1342-43 (Fed. Cir. 2006).

sponsored research that requires him to investigate and develop the subject technology. A court order enjoining Professor Zeal from participating in such research activity could cost the University millions of dollars in lost funding, and may constitute a breach of one or more research agreements.

C. A Conversion and Takings Action in State Court: *Niche Corp. v. Kray State University and Professor Zeal.*

The state court remedies for Niche Corporation include a lawsuit alleging both the tort of conversion of property and the regulatory taking of private property[63] by the state.

If the constitution of the state that created Kray State University has a takings clause similar to the Fifth Amendment of the U.S. Constitution,[64] then a state cause of action seeking just compensation is a potential remedy for Niche Corporation. Under *Jacobs Wind*, a state court may exercise jurisdiction to determine whether KSU's alleged infringement of a patent amounts to a taking by the government, requiring just compensation.[65] Following federal precedent, the takings analysis against the state government would require a showing of (1) governmental use by a state entity or an agent of the state, (2) actual use of a protected property right, and (3) a reduction in the licensing value of the intellectual property.[66]

Niche Corporation should allege facts sufficient to prove actual use of the technology recited in the claims of the issued patent by Professor Zeal. For example, Niche Corporation should allege and explain that the published research results could not

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[63] *Florida Prepaid*, 527 U.S. at 644, n. 9.

[64] U.S. Const. amend. V ("nor shall private property be taken for public use, without just compensation").

[65] *Jacobs Wind*, 626 So.2d at 1337.

[66] *See*, Shubha Gosh at 687-88.

have been obtained without using the patented technology. Niche Corporation should also prepare to show a diminution in the licensing value of its issued patent by producing evidence to prove that the unauthorized use by Professor Zeal and KSU will deter potential licensees. Testimony from a potential licensee would be helpful. Niche Corporation may include an affidavit from a qualified expert in valuation and licensing to support its claim that the loss of value to its patent is sufficient to support a takings claim.

The state court remedies for Niche Corporation do not include a lawsuit for breach of contract because Niche did not require Professor Zeal to sign a confidentiality or non-disclosure agreement prior to the meeting at Wells College. In lieu of a signed agreement, Niche Corporation relied too much on the patent-pending status of the invention and neglected to consider the impact of faculty migration. Niche did not anticipate that Professor Zeal might leave Wells College and take a position elsewhere, taking knowledge of the patent-pending radar technology along with him. The terms and conditions of a confidentiality agreement could be drafted to deter Professor Zeal from disclosing his knowledge to anyone without first obtaining additional permission from Niche. Something as simple as a letter agreement stating that the parties are meeting in contemplation of a joint research project, with an agreement to keep all matters confidential, would have been sufficient to create state court jurisdiction for a breach of contract action.

D. Perspectives on Legal Recourse.

Given the current law of state sovereign immunity, the state universities and private companies will most likely have divergent goals in mind when preserving claims or defenses to be pursued in a court of law or equity.

The industry perspective will include a focus on preserving access to adequate remedies, in a court of competent jurisdiction, in the event that infringing activity by a state university is uncovered. With *Ex parte Young* representing one of the only possible avenues into federal court, and purely for injunctive relief, a private company should identify the state agents most closely connected to the research activity or conduct that could rise to the level of infringement. And the company will want to monitor the conduct of those state agents with as much scrutiny as possible. Armed with the knowledge that a state university can infringe intellectual property rights without the risk of answering a claim for damages in federal court, many private companies are increasingly suspicious about the research and related activity being conducted in university laboratories.

The industry perspective will also include a persistent desire to propose written agreements and contracts that will be readily amenable to jurisdiction in a state court. A prudent attorney for a private company will want the ability to access the courts for a simple breach of contract action, rather than rely on the somewhat uncertain and fact-dependent *Ex parte Young* jurisdiction. As a result, the state university may face a written agreement to sign for nearly every interaction with a private company. In certain situations, a private company may ask a state university to expressly waive its sovereign immunity for infringement liability as part of an agreement.

The state university perspective may include a stated policy of not waiving state sovereign immunity under any circumstances. The state university may forbid its faculty and staff from signing any written agreement whatsoever, without review of counsel, especially those non-disclosure and confidentiality agreements that would create easy

jurisdiction in a state court. The state university should endeavor to strike a balance between preserving its sovereign immunity rights, and the appearance of using such immunity as a shield to protect a secret and ongoing practice of infringing activity. Private companies who appreciate the reach of *Florida Prepaid* will be suspicious at the outset, especially if a state university appears to be directing its faculty and staff on how to avoid conduct that might create *Ex parte Young* jurisdiction.

The recent cases, such as *Pennington Seed*,[67] demonstrate that private companies continue to search for a venue and an adequate remedy when a state university or its agents violate intellectual property rights – and the contours of *Ex parte Young* continue to represent a challenge. The prospect of two parties struggling through a business relationship with "preserving legal recourse" as the only goal is not what the law intended, nor is it the way private companies and state universities actually do business. The parties' goals also include fostering strong relationships, doing business together successfully, and governing themselves through the use of written agreements.

VII. WORKING TOWARD "FAIR RELATIONSHIPS"[68]

Whether state universities regularly and routinely infringe patents is difficult to quantify. The testimony before Congress to support the PRCA of 1992 did not support the conclusion by Congress that a pattern and practice of infringement by state entities required the abrogation of sovereign immunity.[69] Patent infringement is often committed without intention and without knowledge that the technology or method being practiced

[67] *Pennington Seed v. Produce Exchange No. 299*, 457 F.3d 1334 (Fed. Cir. 2006).

[68] *Xechem*, 382 F.3d at 1335 (Fed. Cir. 2004) (Newman, J., concurring).

[69] *Florida Prepaid*, 527 U.S. at 640.

is covered by the claims of an issued patent. Even more difficult to ascertain is whether the safety net of state sovereign immunity provokes additional infringement, or lowers the diligence of the efforts made by the faculty and staff of state institutions to avoid infringing activity.

Private companies, like Niche Corporation, should regularly watch the technical journals and publications for articles in their field of technology with an eye toward identifying potentially infringing uses of proprietary technology. Similarly, university faculty and staff are generally more aware of faculty publications, but should broaden their focus to watch trade publications and science magazines for articles in their field published by private companies and their scientists.

In practice, most universities with an active technology transfer office develop ongoing relationships with private companies and their in-house counsel. In addition to avoiding litigation, both parties generally want to avoid the practical consequences of breaching an agreement or infringing an intellectual property right. The parties may be engaged in active licenses, sponsored research projects, negotiations concerning potential inventions, and other joint business interests that are often sufficient to deter bad conduct – at least the intentional bad acts that cause the most harm to business relationships.

Good fences make good neighbors.[70] Similarly, fair agreements make strong business partners. Fair agreements reduce the number of unknowns and, in so doing, reduce risk. Meetings with no written record of the understanding and expectations of the parties, like the meeting between Niche Corporation and Professor Zeal, create risk for both parties. As long as the parties are adequately educated about intellectual

[70] A proverb often mentioned in relation to *Mending Wall* (1914), a poem by Robert Frost.

property and the current governing law, the practice of developing and negotiating fair agreements can provide a reasonable degree of protection for both parties.

VIII. CONCLUSION

Encouraged by the Bayh-Dole Act, state universities are taking advantage of the federal laws and building substantial portfolios of intellectual property. Private universities and corporations must comply with all the rights and remedies of federal intellectual property law. The state universities, however, enjoy access to the commercial licensing market without the risk of facing any claims of infringement of the intellectual property rights of others. As long as the available remedies against state universities are limited, there will be an ongoing need for the parties to preserve their access to the alternative remedies, and to establish and maintain fair relationships through strong agreements.