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Federal Circuit Ruling Bars Involuntary Joinder of State Patentees

In *Gensetix, Inc. v. Baylor College of Medicine*, No. 19-1424 (Fed. Cir. July 24, 2020), a divided three-judge panel of the Federal Circuit ruled that state sovereign immunity barred a state patentee from being compelled to join a patent infringement suit brought by its exclusive licensee as a co-plaintiff, even where the state had agreed in the license agreement to fully cooperate with any such suit. This ruling marks a departure from the practice in suits involving private parties, where a patentee who refuses to voluntarily join an infringement action initiated by its exclusive licensee can ordinarily be joined as an involuntary plaintiff under Rule 19(a) of the Federal Rules of Civil Procedure (“FRCP”). Although the decision allowed the licensee to proceed with its suit without the state university licensor being joined as a co-plaintiff, the court’s application of sovereign immunity to frustrate the intent of a license agreement’s patent enforcement clause both complicates suits to enforce such state-owned patents and requires prospective licensees negotiating such a license to carefully analyze whether they can truly obtain the benefit of their bargain from state licensors with respect to the enforcement of licensed patents.

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Background

Gensetix, Inc. (“Gensetix”) exclusively licensed certain patents from the University of Texas (“UT”). Under the license agreement, Gensetix was obligated to enforce the licensed patents, and UT was obligated to “fully cooperate” with such enforcement. UT retained a secondary right to sue if Gensetix failed to file suit against an infringer. In the license agreement, Gensetix stipulated that nothing in the agreement would be deemed a waiver by UT of its state sovereign immunity.

Gensetix sued Baylor College of Medicine for infringement of the patents-in-suit and requested that UT voluntarily join the suit as a co-plaintiff. After UT refused to voluntarily join, Gensetix named UT as an involuntarily plaintiff pursuant to FRCP Rule 19(a). UT moved to dismiss itself from the lawsuit, arguing that state sovereign immunity under the Eleventh Amendment barred it from being joined as an involuntary plaintiff in the patent suit.

The District Court for the Southern District of Texas held that the Eleventh Amendment barred joinder of UT as an involuntary plaintiff under FRCP Rule 19(a), and that, because UT was a required party under FRCP Rule 19(a) as it retained substantial rights in the patents-in-suit, the suit could not proceed in UT’s absence because the FRCP Rule 19(b) factors weighed in favor of dismissing the suit rather than proceeding in UT’s absence. Gensetix appealed.

Federal Circuit Decision

In the opinion for the court, authored by Judge Kathleen O’Malley, the Federal Circuit affirmed the district court’s holding that UT could not be involuntarily joined as a plaintiff without an express waiver of its sovereign immunity. However, the Federal Circuit reversed the district court’s holding that the suit could not proceed in UT’s absence.

The Eleventh Amendment Bars Involuntary Joinder of a State Entity

On appeal, Gensetix argued that state sovereign immunity does not apply to the involuntary joinder of a required plaintiff because the Eleventh Amendment only bars suits brought by private parties *against* the state. The Federal Circuit rejected this argument, reasoning that the Eleventh Amendment broadly protects state entities from the “indignity” of being subjected to private party litigation, whether or not the suit involves claims against the state entity.

The Federal Circuit acknowledged that in suits between private parties, a patentee who refuses to voluntarily join an infringement action initiated by its exclusive licensee can ordinarily be joined as an involuntary plaintiff under FRCP Rule 19(a). The court refused to extend this general principle to the involuntary joinder of state entities, reasoning that the Eleventh Amendment bars a state entity from being forced into litigation as a co-plaintiff. The court distinguished such involuntary joinder from cases in which a state entity voluntarily submits itself to federal court jurisdiction, in which case the state entity cannot invoke sovereign immunity.

The Federal Circuit found that UT could invoke the protection of the Eleventh Amendment because it did not explicitly waive its state sovereign immunity, despite UT's contractual obligation to fully cooperate with Gensetix. The court found it "of no moment" that the license agreement required Gensetix to initiate an infringement suit and provided for full cooperation by UT. Because the agreement explicitly stipulated that UT did not waive its sovereign immunity, the court held that UT could not be forced into patent litigation as a co-plaintiff.

The Patent Infringement Suit Can Proceed Without UT

The Federal Circuit reversed the district court's holding that the patent infringement suit could not proceed in UT's absence under FRCP Rule 19(b), which provides that, where joinder of a required party is not feasible, "the court must determine whether, in equity and good conscience, the action should proceed among the existing parties or should be dismissed." This inquiry involves consideration of four factors: (1) the extent to which a judgment rendered might prejudice the missing required party or the existing parties; (2) the extent to which any prejudice could be lessened or avoided; (3) whether a judgment rendered in the required party's absence would be adequate; and (4) whether the plaintiff would have an adequate remedy if the action was dismissed for failure to join the required party.

The Federal Circuit found that the district court had abused its discretion by giving undue weight to UT's status as a state sovereign, and concluded that the action could proceed in UT's absence. First, because Gensetix had an exclusive license in every field, the court found that UT and Gensetix had identical interests in the validity of the patents-in-suit, and thus there was minimal prejudice to UT. Second, the court found that any prejudice to UT was greatly reduced due to the parties' aligned interests. Third, the court found that there was no risk of multiple suits because, under the express terms of the license agreement, UT could not sue an alleged infringer once Gensetix had commenced litigation. And finally, as an exclusive licensee with less than all substantial rights in the patents-in-suit, Gensetix could not enforce its patent rights without the court allowing the suit to proceed in UT's absence.

Concurrences and Dissents

The Federal Circuit panel was splintered in its ruling, with each of the two other judges issuing opinions concurring in part and dissenting in part.

Judge Pauline Newman dissented from the court's holding that UT has Eleventh Amendment immunity from involuntary joinder, arguing that the Eleventh Amendment does not insulate a state entity from its commercial and contractual obligations. Judge Newman reasoned that the Eleventh Amendment should not permit UT to violate its obligation under the license agreement to cooperate fully with Gensetix. "Just as the State must pay its bills, it also must comply with its contracts," she wrote. Judge Newman agreed, however, that the suit could proceed in UT's absence.

Judge Richard Taranto concurred with the court's holding that the Eleventh Amendment bars UT from being joined as an involuntary plaintiff, but dissented from the court's holding that the suit could proceed in UT's absence. Judge Taranto argued that the court should give controlling weight to the interests of the state sovereign, and there was no abuse of discretion by the district court because UT made a non-frivolous claim that its interests as a patent owner could be harmed by the suit proceeding in its absence.

Importance and Implications

While a valuable outcome for state universities, the Federal Circuit's holding in *Gensetix* has implications regarding the ability of exclusive licensees to effectively enforce licensed patents against potential infringers. Without the ability to enforce the licensed patent rights in its name alone, and without the cooperation of the state patentee in such enforcement efforts, an exclusive licensee would be deprived of the agreed-upon exclusivity. This may be a particular concern for prospective licensees who are seeking to obtain an exclusive license to practice a state-owned licensed patent in a limited field, as the court relied on that aspect of the agreement when holding that *Gensetix* could proceed with its suit without UT. Indeed, for this reason state licensors may find it more difficult to negotiate limited field licenses or retain other commercially meaningful rights going forward. In any event, in light of this decision, parties should carefully consider deal structure when negotiating an exclusive license agreement to ensure that the licensee can enforce licensed patents as the parties intend.

Lastly, it is important to note that this decision may not be the final word for this case, as the splintered nature of the rulings by the three-judge panel may elicit review by the full Federal Circuit or the U.S. Supreme Court.