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Patent Suit Brings Question of Immunity Before Supreme Court

The Supreme Court may soon consider an issue of sovereign immunity that, depending on the outcome, could open the door to private patent holder lawsuits against state governments. Attorneys for Biomedical Patent Management Corp. (BPM), a small California biotech, are seeking certiorari in a Federal Circuit case against California that was dismissed on grounds of sovereign immunity, thus denying the BPM patent holder millions it says it is owed in royalties from the state. *Biomedical Patent Management Corp. v. California Department of Health Services*, 505 F.3d 1328 (Fed. Cir. 2007) (petition for cert. filed, 2008 WL 194299 (U.S. Jan. 22, 2008) (No. 07-956). The crux of BPM's argument is that California, through its aggressive patent enforcement in the courts, has basically litigated away its sovereign immunity. Or stated broadly, BPM argues that any state's repeated and voluntary invocation of the jurisdiction of federal courts to adjudicate its rights under federal patent laws constitutes a general waiver of its sovereign immunity to private suits under those same laws.

The Supreme Court has asked the Solicitor General for an *amicus* brief on the issue. Court observers say this bodes well for the Court deciding to hear the case; the last time the Solicitor's Office was asked for its views in a patent case, *Quanta Computer Inc. v. LG Electronics, Inc.*, cert. was granted. Already the U.S. Chamber of Commerce and the software industry have weighed in on the issue, filing a joint *amicus* in support of the petition. In their brief, the Chamber of Commerce argues that a state's ability to invoke and reject federal jurisdiction at will undermines the patent system for the following two reasons: first, sovereign immunity encourages states to bully private entities into licenses because money damages are not available to the private entity; second, sovereign immunity discourages innovation because where state governments infringe with impunity, inventors are unable to recover investment costs and/or derive a reasonable profit from their inventions. The Chamber of Commerce posits that waiver of immunity through litigation conduct, as argued by BPM, would remedy the existing inequity and at least partially restore the balance intended by Congress in its patent laws. While states are already entitled to be plaintiffs in damage suits for federally-protected intellectual property, by permission of Congress following the Bayh-Dole Act of 1980 (codified as amended at 35 U.S.C. §§ 200-212), they would no longer be permitted to avoid being defendants in such suits.

California alone, through its university system, owns over 3,000 patents, more than any other state. This sizeable portfolio generates over $200 million annually in state revenue. California has also won over $900 million in patent suit judgments since 1990 from at least 21 infringement suits, including a $200 million settlement with Genentech (the Human Growth Hormone suit), and a $185 million settlement with Monsanto (the BGH suit). During this same period, California has successfully used the doctrine of sovereign immunity to have at least six patent suits against it dismissed, including one brought by Genentech. And this is the heart of the issue before the Supreme Court today - may a state, in the same court system, both bring suit to enforce its patent rights against a party, *and* claim itself immune from suit by that party for patent infringement on the same underlying facts and the same underlying issue.

The patent at issue in this case is U.S. Patent No. 4,874,693 ("the '693 patent") to BPM for a screening test for fetal abnormalities. The '693 patent has been licensed by BPM to numerous facilities, including the Mayo Clinic; indeed, all major labs in the U.S. have agreed to pay royalties to BPM for the test. The prenatal screening program of California's Department of Health Care Services (CDH) uses what BPM claims is its own patented process, but CDH has not licensed this process from BPM and pays it no royalties.

The background to the impending Supreme Court battle is as follows. In 1997, a subcontractor of CDH sought a declaratory judgment in U.S. district court against BPM, that CDH's screening process did not infringe BPM's patent, and that the patent was invalid. California, through CDH, moved to intervene in this suit, and itself sought a declaration of non-infringement and invalidity of BPM's patent. BPM asserted a compulsory counterclaim against CDH for infringement and royalties. When the case was dismissed without prejudice for improper venue, BPM filed a new action against CDH for infringement of its patent. This time CDH, as an arm of state government, claimed sovereign immunity under the 11th Amendment. The case was dismissed at the district court level based on the doctrine of sovereign immunity, and affirmed at the Federal Circuit in 2007.

As the *amicus* filed by the Chamber of Commerce and software consortium points out, since at least 2006, California law has mandated that private labs within the state not provide prenatal screening services, such as those covered by the '693 patent, unless they do so as subcontractors of CDH. Cal. Code Regs. Title 17, §§ 6521, 6523, 6525, 6527 (2006). Perversely, this effectively requires BPM to subcontract with California for the use of its own patented procedure. This set of facts is raised to highlight the potential inequities flowing from a state's abuse of the doctrine of sovereign immunity.

In its defense, CDH argues that it is a financially strapped public health agency – it does not have any patents and is not engaged in the use of the courts to protect patent rights. But BPM's response is that if not CDH then some other branch of state government must pay BPM the royalties it is rightfully owed. The state cannot have it both ways, enforcing its patent rights while at the same time claiming immunity from suit for violating others' patent rights, all within the same court system.

It will be interesting to learn how the Solicitor General's Office views the issue in its forthcoming *amicus*. Should the Supreme Court decide to hear the case, the expected result if BPM wins is that targets of state patent enforcement actions will be able to seek declaratory judgments to invalidate state patents or to declare that their work does not infringe. This type of preemptive strike is currently not allowed to private entities in situations where state actors claim sovereign immunity.