No. 07-956

In the Supreme Court of the United States

BIOMEDICAL PATENT MANAGEMENT CORPORATION,
Petitioner,

v.

STATE OF CALIFORNIA,
DEPARTMENT OF HEALTH SERVICES,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

This case concerns a state's waiver of Eleventh Amendment immunity by litigation conduct. The Federal Circuit improperly limited the scope of such waivers in two ways. First, by holding that a waiver effected by a voluntary invocation of federal jurisdiction disappears when the state sues in an improper venue, the court disregarded the principle applied in *Lapides* v. *Board of Regents of the University System of Georgia*, 535 U.S. 613 (2002), and created a conflict among the courts of appeals. Second, by conflating a state's pervasive invocation of federal court jurisdiction with its mere participation in the marketplace, the court granted states a dangerous windfall in an area of crucial economic importance.

As *amici* Chamber of Commerce and Software & Information Industry Association explain, the decision below creates "an obvious and inordinate imbalance" that will have an "enormous impact" on the relationship between "state and private intellectual property rights." Br. 3-4. DHS offers no plausible defense of the Federal Circuit's decision and no persuasive justification for this Court to deny review.

A. A State's Waiver Of Immunity In One Action Extends To A Subsequent Action Involving The Same Parties And The Same Transaction Or Occurrence.

1. The dispute between the parties concerns DHS's infringement of U.S. Patent No. 4,874,693. DHS voluntarily invoked federal jurisdiction to challenge the validity of the patent. It thereby waived its Eleventh Amendment immunity in that case, which was ultimately dismissed for improper venue. DHS

now claims immunity in this case even though it was filed to resolve precisely the same issues between the very same parties. DHS attempts to equate the dismissal of the initial action with a plaintiff's voluntary dismissal and to distinguish *Lapides*. Opp. 6-14. Both attempts fail.

a. DHS argues that, because the initial action was dismissed without prejudice, the Federal Circuit properly applied "a long-standing and uncontroversial general legal principle" requiring that the action be treated as if it "had never been brought." Opp. 7. According to DHS, that principle has been "universally" applied to "dismissals under [Federal Rule of Civil Procedure] 41(a)(1) and 41(a)(2)," which govern voluntary dismissals by the plaintiff. *Id.* at 7, 10 n.1. DHS cites seven cases and two treatises that apply the principle to dismissals of that type. *Id.* at 7-10.

The "general" principle on which DHS places such heavy reliance, however, has no applicability here. The initial action was not dismissed voluntarily under Rule 41(a), as DHS mistakenly—and repeatedly—asserts. Opp. 9, 10 n.1. Rather, it was dismissed for improper venue under Rule 12(b)(3). Pet. App. 54a-55a. That is why the Federal Circuit did not rely on the principle invoked by DHS, see *id.* at 9a-23a, and why it barely discussed the only case—*City of South Pasadena* v. *Mineta*, 284 F.3d 1154 (9th Cir. 2002)—to apply that principle where a waiver of Eleventh Amendment immunity was at issue, see *id.* at 19a-20a.

Had the initial action been voluntarily dismissed under Rule 41, the Federal Circuit would surely have done what the Ninth Circuit did in *City of South Pasadena*: apply the straightforward principle on which DHS relies without reaching the question

whether "a waiver of sovereign immunity * * * carr[ies] over to a subsequent action." 284 F.3d at 1158 (internal quotation marks omitted); see Pet. 19-20. Instead, the Federal Circuit grounded its decision on the separate legal conclusion challenged here—that an Eleventh Amendment waiver ordinarily "does not extend to a separate lawsuit." Pet. App. 22a-23a.

Nor is there any basis for treating a dismissal for improper venue like a voluntary dismissal. A voluntary dismissal is a "unique circumstance," *In re Piper Aircraft Distribution Sys. Antitrust Litig.*, 551 F.2d 213, 219 (8th Cir. 1977), that moots the case and strips the court of jurisdiction, *A.B. Dick Co.* v. *Marr*, 197 F.2d 498, 502 (2d Cir. 1952), and does not result in a final, appealable order, 9 Wright & Miller, *Federal Practice & Procedure* § 2367 (3d ed. 2008). The same is not true of other dismissals without prejudice on such grounds as venue, jurisdiction, and joinder. In those circumstances, "further litigation of particular issues may be precluded by judgments that do not bar further litigation on the underlying claim." 18A Wright & Miller, Federal Practice & Procedure § 4435, at 134 (2d ed. 2002); see, *e.g.*, *Offshore Sportswear, Inc.* v. *Vuarnet Int'l, B.V.*, 114 F.3d 848, 851 (9th Cir. 1997) (finding preclusion after a dismissal for improper venue). Moreover, it would be particularly inappropriate to allow DHS to disavow its waiver on the theory that the initial action must be treated "as if [it] had never been brought" (Opp. 7), because it was DHS itself that invoked the federal court's jurisdiction by filing a complaint against BPMC.

b. When a state voluntarily invokes federal jurisdiction, it exposes itself to that jurisdiction to the ex-

tent necessary to avoid unfair and inconsistent results. See Pet. 11-15. This Court so held in *Lapides*, where it explained that the "judicial need to avoid inconsistency, anomaly, and unfairness" is the foundation for the "interpretation of the Eleventh Amendment that finds waiver in the litigation context." 535 U.S. at 620. Notwithstanding this principle, DHS argues that *Lapides* is inapplicable for two reasons: because there was "no intervening dismissal [in *Lapides*] to 'wipe[] the slate clean'"; and because *Lapides* dealt only with state-law claims. Opp. 10-12 (quoting *Sandstrom* v. *ChemLawn Corp.*, 904 F.2d 83, 86 (1st Cir. 1990)). But the principle applied in *Lapides* cannot be limited to cases with identical facts.

The dismissal of the initial action does not meaningfully distinguish this case from *Lapides*, because the dismissal was attributable to DHS's decision to sue in the wrong forum. That is the very source of unfairness that BPMC seeks to redress. If DHS is correct that a waiver of immunity does not survive a dismissal caused by the state's own litigation strategy, then the Eleventh Amendment and *Lapides* not only *tolerate* the Hobson's choice described in the petition (at 12), but affirmatively *encourage* it.[1]

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[1] DHS counters (Opp. 14) that it was *BPMC* that acted inconsistently by seeking voluntary dismissal of the second action and then refiling after the decision in *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999). But BPMC sought voluntary dismissal of the second action only to "save both parties significant resources that could be wasted in litigation" of an issue that this Court would soon resolve. Pet. App. 47a. BPMC took no position on the consequences of *College Savings Bank* and made clear its intention to "proceed[] with this litigation" regardless. *Ibid.* In

Nor is it significant that *Lapides* involved only state-law claims. That case "applied a generally applicable principle of federal law based upon a comprehensive consideration of problems associated with states' assertions of sovereign immunity after voluntarily invoking federal jurisdiction." *Meyers ex rel. Benzing* v. *Texas*, 410 F.3d 236, 243 (5th Cir. 2005). That principle affords no basis for treating federal-law claims any differently than state-law claims, as every court of appeals to consider the issue has held. See *id.* at 250; *Embury* v. *King*, 361 F.3d 562, 564 (9th Cir. 2004); *Estes* v. *Wyo. Dep't of Transp.*, 302 F.3d 1200, 1204-1206 (10th Cir. 2002); *Johnson* v. *Conn. Dep't of Corr.*, 392 F. Supp. 2d 326, 335 (D. Conn. 2005), *aff'd*, 225 Fed. App'x 42 (2d Cir. 2007).

DHS also argues that its waiver should be excused because, prior to this Court's decision in *College Savings Bank*, it reasonably believed that its immunity had been abrogated by Congress. Opp. 12-13. But BPMC already defended itself in DHS's voluntary action and immunity does not permit a state to "reverse the action invoked by it and to come in and go out of court at its will, the other party having no right of resistance to either step." *Porto Rico* v. *Ramos*, 232 U.S. 627, 632 (1914).[2] In any event, DHS's motives for invoking federal jurisdiction are irrelevant. See *Lapides*, 535 U.S. at 621 ("Motives

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any event, because the second action was dismissed under Rule 41(a)(2), it is a nullity, as DHS should be well aware, see Opp. 6-10.

[2] Unsurprisingly, despite its willingness to forget its litigation *loss* in the first action, DHS has given no indication that it intends to surrender its litigation *victories* in actions that it would not have initiated after *College Savings Bank*.

are difficult to evaluate, while jurisdictional rules should be clear.").[3]

2. As the petition explains (at 15-18), the Federal Circuit's decision conflicts with the Eighth Circuit's decision in *Rose* v. *U.S. Department of Education (In re Rose)*, 187 F.3d 926 (1999), and the Ninth Circuit's decision in *Schulman* v. *California (In re Lazar)*, 237 F.3d 967 (2001). DHS contends that those decisions are not inconsistent with the decision below, because they involved a special rule of bankruptcy law. Opp. 14-15. But the rule to which DHS refers—that a state waives its immunity by filing a proof of claim—was established by this Court more than 60 years ago, in *Gardner* v. *New Jersey*, 329 U.S. 565, 573-574 (1947).

Rose and *Lazar* addressed a different issue. As the Ninth Circuit explained in *Lazar*, "[t]he question in this case * * * is not whether a state waives its Eleventh Amendment immunity by filing a proof of claim in bankruptcy. *Gardner* establishes that it does. Rather, the relevant question[] [is] the extent of this waiver * * * ." 237 F.3d at 976-977 (citation omitted). The Eighth and Ninth Circuits answered *that* question by holding that the waiver extends to separate cases involving the same transaction or occurrence—the legal rule that the Federal Circuit rejected here.[4] There is no basis in either opinion—

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[3] At most, the intervening decision bears on whether DHS is judicially estopped from invoking immunity. We raised that issue below, see Pet. App. 23a-27a, but have not raised it here.

[4] See *Rose*, 187 F.3d at 930 ("[the state agency's] submission of proofs of claims in [the] bankruptcy case waived its immunity in related proceedings"); *Lazar*, 237 F.3d at 980 ("because the [state agency] filed proofs of claim in the bankruptcy proceeding that arise out of the same transaction or occurrence as the

and no basis in logic—to conclude that the holding is limited to the circumstance in which the initial waiver is effected by filing a proof of claim in bankruptcy.

Contrary to DHS's assertion (Opp. 15-18), the decision below also conflicts with the First Circuit's decision in *New Hampshire* v. *Ramsey*, 366 F.3d 1 (2004); see Pet. 18-19. DHS tries to distinguish *Ramsey* on the ground that it involved "repeated and affirmative actions by the state entity." Opp. 17. But the state's actions here were affirmative too—invoking federal court jurisdiction with respect to the very issues involved in the present case. Pet. App. 66a-69a. And it is irrelevant that the state *repeatedly* waived its immunity in *Ramsey*. DHS cites no authority, and we are unaware of any, holding that an unambiguous one-time waiver is any less effective.

B. A State Waives Its Immunity In Patent Actions By Repeatedly Invoking Federal Jurisdiction To Enforce Its Patent Rights.

1. In addition to having waived immunity by voluntarily invoking federal jurisdiction in the initial action, California has waived immunity as to patent actions more generally by repeatedly calling upon the jurisdiction of federal courts in invoking patent remedies. See Pet. 21-26. DHS responds to this argument by mischaracterizing it as one of constructive waiver and insisting, mistakenly, that DHS's sover-

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[bankruptcy] [t]rustee's claims against [another state agency] in the [m]andamus [action], the [other state agency] has waived its Eleventh Amendment immunity in the [m]andamus [action]").

eign immunity is distinct from that of other California agencies. Opp. 18-21.

a. Contrary to DHS's characterization (Opp. 18-20), our claim is not one of constructive waiver. See Pet. 24-25. Like the first question presented in the petition, the second question involves waiver by litigation conduct—as applied in *Lapides*—and the scope thereof. As a result, this case does not implicate *College Savings Bank*, where the Court held that a state's mere participation in the marketplace does not result in waiver. 527 U.S. 684. *College Savings Bank* expressly distinguished situations—like this one—in which "the State has affirmatively invoked [the court's] jurisdiction." *Id.* at 676; see also *id.* at 681 n.3 ("a State waives its sovereign immunity by voluntarily invoking the jurisdiction of the federal courts"). California remains free to operate in the patent marketplace without interference from the federal judiciary. What it may not do is use the courts to advance its fiscal interests while blocking mirror-image actions by private parties.

b. Nor can DHS avoid federal jurisdiction by distinguishing between its own actions and those of the state's principal patent owner, the Regents of the University of California. Opp. 20-21. If DHS's position were correct, states would be able to create separate agencies for holding and enforcing patents (or other rights) and entirely avoid waiver by litigation conduct. More fundamentally, DHS's position is inconsistent with the nature of Eleventh Amendment immunity, which belongs to the State of California and extends to DHS and the Regents only as arms of that state. See, *e.g.*, *Trevelen* v. *Univ. of Minn.*, 73 F.3d 816, 818 (8th Cir. 1996).

The Eleventh Amendment protects the states as sovereign entities, *Fed. Maritime Comm'n* v. *S.C. State Ports Auth.*, 535 U.S. 743, 760 (2002), as well as state treasuries, *Regents of the Univ. of Cal.* v. *Doe*, 519 U.S. 425, 430 (1997). Both DHS and the Regents are components of the same sovereign—the State of California—and both draw from the same treasury. See, *e.g.*, *Vaughn* v. *Regents of the Univ. of Cal.*, 504 F. Supp. 1349, 1353-1354 (E.D. Cal. 1981); CAL. CONST. art. XVI, § 8(a). It is no surprise, then, that courts have routinely found a waiver by one state agency to bind another agency of the same state. See, *e.g.*, *In re Charter Oak Assocs.*, 361 F.3d 760, 772 (2d Cir. 2004); *Lazar*, 237 F.3d at 979 n.13; *Wyo. Dep't of Transp.* v. *Straight (In re Straight)*, 143 F.3d 1387, 1391 (10th Cir. 1998). DHS cites no decision that has reached a contrary conclusion.

2. As the petition explains (at 26-27), the question whether the pervasive invocation of federal patent jurisdiction operates as a waiver of sovereign immunity is enormously important, given the number of patent suits filed by states and the amount of money at stake. See Pet. App. 99a-117a. The importance of the question is confirmed by the brief of *amici* Chamber of Commerce and Software & Information Industry Association urging the Court to grant review. As that brief explains, the rule adopted by the Federal Circuit is harmful, not only to "the particular party" affected, but also to "society at large," because it suppresses competition and expands states' patent monopolies beyond their legitimate scope. Br. 11. DHS does not dispute any of this. Instead, it contends that review is unwarranted because there is no circuit conflict and the issue is unlikely to arise in other cases. Opp. 21-22. Those are not reasons to deny certiorari.

a. There is no circuit conflict on the general-waiver question because the Federal Circuit has exclusive jurisdiction over patent appeals. See 28 U.S.C. §§ 1295(a)(1), 1338. This Court has not hesitated to grant review of an important issue that arises in an appellate court with exclusive jurisdiction. Indeed, in the last two Terms alone, the Court has heard at least seven cases in which there was not, and could not be, a circuit split. *United States* v. *Clintwood Elkhorn Mining Co.*, No. 07-308 (argued Mar. 24, 2008); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, No. 06-937 (argued Jan. 16, 2008); *John R. Sand & Gravel Co.* v. *United States*, 128 S. Ct. 750 (2008); *KSR Int'l Co.* v. *Teleflex Inc.*, 127 S. Ct. 1727 (2007); *Microsoft Corp.* v. *AT&T Corp.*, 127 S. Ct. 1746 (2007); *Massachusetts* v. *EPA*, 127 S. Ct. 1438 (2007); *Limtiaco* v. *Camacho*, 127 S. Ct. 1413 (2007).

It is true, as DHS points out, that not "all *immunity* cases come up through the Federal Circuit." Opp. 21 n.6. But this immunity-waiver question decided by the court below, and presented in the petition, is limited to patent suits. And there is no reason to think that a similar question could arise in other contexts. There is no other area in which states participate in the market and routinely exploit federal jurisdiction for massive financial gain but claim sovereign immunity in reciprocal actions.

b. DHS is fundamentally mistaken in its assertion that the issue decided by the Federal Circuit is "unlikely to recur." Opp. 21. As the *amici* explain, the "obvious and inordinate imbalance" created by the decision below "pervades all aspects of intellectual property relationships between States and the private sector." Br. 3. Accordingly, the issue will recur every time a state infringes a patent with impu-

nity, employs bullying tactics in negotiations for licenses, or makes it impossible for a competitor to bring an innovation to market because of an inability to obtain a declaratory judgment that a state's patent is invalid or not being infringed. See Br. of *Amici Curiae* 5-12. And each time the issue recurs, there will be substantial costs to the operation of the marketplace for innovation.

It may be true that the issue will not recur frequently *in litigation*. But that is simply because the Federal Circuit has now settled the issue. Other parties are unlikely to bring patent suits against states, only to have them dismissed, just so they can appeal to the Federal Circuit, only to have the dismissal affirmed, just so they can file a petition for a writ of certiorari seeking review of the same issue presented here. Far from being a reason to deny certiorari, the fact that the Court is unlikely to have another opportunity to decide the issue is precisely why certiorari should be granted.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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