

THE CASES

A. Facts and Procedural History

College Savings Bank (CSB) develops and sells CollegeSure CDs.¹ CSB designed and patented an administration program for their CDs that ensures a return adequate to pay future college expenses despite those expenses being unknown at the time of purchase.² Florida Prepaid Postsecondary Expense Board (Florida Prepaid), an arm of the State of Florida, also administers a program designed to provide Florida residents with adequate funds to pay uncertain future college expenses.³

CSB sued Florida Prepaid in federal court, claiming infringement of its '055 patent under the Patent Act, 35 U.S.C. § 271.⁴ Later, CSB brought a second suit against Florida Prepaid under the false advertising prong of the Lantham Act, claiming that Florida Prepaid failed to disclose CSB's patent infringement action in its annual report.⁵

Following the Supreme Court's decision in *Seminole Tribe*,⁶ Florida Prepaid moved to dismiss both CSB's actions as barred by the Eleventh Amendment.⁷ The district court rejected CSB's argument that Florida Prepaid waived its immunity under the *Parden* doctrine,⁸ holding that provision of educational funds is a core government function to which the constructive waiver doctrine does not apply.⁹

¹ See *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 948 F. Supp. 400, 401 (D. N.J. 1996).

² See *id.*

³ See *id.* at 401-2.

⁴ See *id.* at 402.

⁵ See *id.*

⁶ *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996) held that Congress could not abrogate state sovereign immunity pursuant to its Article I powers.

⁷ See *College Savings Bank*, 948 F. Supp. at 406.

⁸ *Parden v. Terminal Ry. Of Ala. State Docs Dep't*, 377 U.S. 184 (1964) (holding that Alabama constructively waived its immunity by operating a railroad which could be regulated under the Federal Employers' Liability Act).

⁹ See *id.* at 418. Alternatively, the district court held that *Seminole Tribe* implicitly overruled *Parden*. See *id.* at 419.

Examining CSB's patent act claim, the district court held that the Patent and Plant Variety Protection Remedy Clarification Act (Patent Remedy Act)¹⁰ validly abrogated Florida's sovereign immunity.¹¹ The district court agreed with Florida Prepaid that after *Seminole Tribe* Congress could not exercise its Article I powers to abrogate Florida's Eleventh Amendment immunity.¹² However, because the Patent Remedy Act protects patent owners from deprivation of their property rights without due process of law, the court found it to be a valid exercise of Congress' enforcement powers under §5 of the Fourteenth Amendment.

Turning to CSB's Lanham Act claim, the district court noted that CSB claimed a violation of the false advertising prong of the Act.¹³ The court held that a right to be free from false advertising does not constitute property within the meaning of the Fourteenth Amendment.¹⁴ Thus, the Trademark Remedy Clarification Act of 1992 (TRCA),¹⁵ did not validly abrogate Florida's Eleventh Amendment immunity.¹⁶

Florida Prepaid appealed the district court's denial of its motion to dismiss the Patent Act claim, and CSB appealed the dismissal of its Lanham Act claim. The Federal Circuit heard Florida Prepaid's Patent Act appeal,¹⁷ and the Third Circuit reviewed CSB's Lanham Act appeal.¹⁸ Both courts of appeals agreed with the district court that after *Seminole Tribe*

¹⁰ 35 U.S.C. §296(a).

¹¹ See *College Savings Bank*, 948 F. Supp. at 425-26.

¹² See *id.* at 421.

¹³ See *id.* at 426.

¹⁴ See *id.* at 426-37.

¹⁵ Congress passed the TRCA in 1992 to abrogate states' Eleventh Amendment immunity from suit under the Lanham Act. See *College Savings Bank v. Florida Prepaid Postsecondary Educ. Bd.*, 131 F.3d 353, 357 (3rd Cir. 1997).

¹⁶ See *College Savings Bank*, 948 F. Supp. at 426.

¹⁷ See *College Savings Bank*, 148 F.3d at 1346.

¹⁸ See *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 131 F.3d 353 (3rd Cir. 1997).

Congress can abrogate states' sovereign immunity only when it legislates pursuant to its power to enforce the Fourteenth Amendment.

The Federal Circuit affirmed the denial of Florida Prepaid's motion to dismiss, finding the Patent Remedy Act a valid exercise of Congress' Fourteenth Amendment powers. The court held that the Patent Remedy Act clearly manifested Congress' intent to abrogate the Eleventh Amendment.¹⁹ Additionally, the court found that preventing states from infringing patents without compensating the owner protected the patentee's property rights from deprivation without due process of law.²⁰ Thus, the Patent Remedy Act constituted a permissible Congressional objective under the Fourteenth Amendment.²¹ Finally, the court held that the Patent Remedy Act was "appropriate" legislation within the meaning of the Fourteenth Amendment, because it places only a slight burden on states relative to the grave harm to patentees who would otherwise be unable to enforce their patent rights against infringing states.²²

The Third Circuit affirmed the dismissal of the Lantham Act claim, agreeing with the district court that Florida Prepaid performed a core government function and thus could not constructively waive its sovereign immunity under *Parden*.²³ The court of appeals also agreed with the district court that the right to be free from false advertising does not constitute a property right protected by the Fourteenth Amendment.²⁴ Therefore, the TRCA did not constitute a valid exercise of Congress' Fourteenth Amendment powers, and

¹⁹ See *College Savings Bank*, 148 F. 3d at 1347.

²⁰ See *id.* at 1352.

²¹ See *id.*

²² See *id.* at 1355.

²³ See *College Savings Bank*, 131 F.3d at 364. Unlike the district court, the court of appeals declined to speculate whether *Seminole Tribe* implicitly overruled *Parden*. See *id.* at 365.

²⁴ See *id.* at 361.

Congress could not validly abrogate Florida's immunity from suit for false advertising under the Lanham Act.²⁵

B. The Supreme Court's Decisions

1. Lanham Act Claim

The Supreme Court notes that the Eleventh Amendment bars CSB's suit unless (1) the TRCA validly abrogated Florida's sovereign immunity under the Fourteenth Amendment; or (2) Florida Prepaid waived immunity.²⁶ Addressing the abrogation issue, the Court reaffirmed its holding in *Seminole Tribe* that Congress can abrogate the Eleventh Amendment only when it acts to enforce the Fourteenth Amendment.²⁷ To be a valid under the Courts recent reinterpretation of Congress's section 5 powers²⁸, the TRCA must be tailored to remedy and prevent Congressionally-identified state transgressions of the Fourteenth Amendment's substantive provisions, in this case deprivation of property without due process.²⁹ The Court rejected CSB's argument that the right to be free from false advertising and the right to be secure in one's own business interests constitute property rights which Congress could protect from unconstitutional state deprivation under the Fourteenth Amendment. Crucial to the Court's reasoning was the fact that the proposed property rights did not give CSB a right to exclude others, a right the Court considered "the hallmark of a protected property interest."³⁰ Because it found no protected property interest, the Court held that the Fourteenth Amendment gave Congress no power to enact the TRCA.

²⁵ *See id.*

²⁶ *See College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 119 S. Ct. 2219, 2223 (1999).

²⁷ *See id.* at 2224.

²⁸ *See City of Boerne v. Flores*, 521 U.S. 507, 520 (1997).

²⁹ *See College Savings Bank*, 119 S.Ct. at 2224.

³⁰ *Id.*

The Court also rejected CSB’s argument that Florida Prepaid waived its immunity under the *Parden* doctrine by engaging in activity regulated by the Lanham Act. The Court reviewed the doctrine of constructive waiver first espoused in *Parden*, noting that subsequent case law had severely limited *Parden*’s holding.³¹ The Court noted that the *Parden* doctrine could not be reconciled with other cases holding that a state’s waiver must be unequivocal.³² Finding that “the constructive-waiver experiment of *Parden* was ill conceived,” the Court held that “[w]hatever may remain of ... *Parden* is expressly overruled.”³³ Waiver of sovereign immunity requires an express statement by the State.³⁴ Because Florida Prepaid made no such statement, it could claim sovereign immunity from CSB’s Lanham Act lawsuit.³⁵

2. Patent Act Claim

Reversing the Federal Circuit, the Supreme Court held that Florida Prepaid could not be sued in federal court for patent infringement.³⁶ The Court noted that the Patent Remedy Act’s abrogation of state’s sovereign immunity could be sustained only if the Act constituted a valid exercise of Congress’ power under the Fourteenth Amendment.³⁷ Section 5 of the Fourteenth Amendment mandates that legislation enacted pursuant to its enforcement powers be “appropriate.” The Court explained that to enact appropriate legislation, Congress “must identify conduct transgressing the Fourteenth Amendment’s substantive provisions, and must tailor its legislative scheme to remedying or preventing such conduct.”³⁸

³¹ *See id.* at 2226-28.

³² *See id.* at 2228.

³³ *Id.*

³⁴ *See id.* at 2229.

³⁵ *See id.* at 2233.

³⁶ *See Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 119 S. Ct. 2199, 2202 (1999).

³⁷ *See id.* at 2205.

³⁸ *Id.* at 2207.

Applying this standard to the Patent Remedy Act, the Court conceded that patents could be considered property for purposes of the Fourteenth Amendment analysis.³⁹ However, the Court held that Congress failed to identify a pattern of patent infringement by states sufficient to justify the Patent Remedy Act as remedial legislation to enforce the due process clause.⁴⁰ Congress also neglected to examine the adequacy of available state law remedies, such as actions in tort or for restitution, that would assure a patentee of due process.⁴¹ Rejecting arguments that the Patent Remedy Act was necessary to ensure the uniformity of the patent system, the Court noted that while uniformity of patent rights was a proper Article I concern, Article I does not give Congress the power to abrogate sovereign immunity.⁴² Because Congress failed to sufficiently identify a pattern of state abuse, the Court found the Patent Remedy Act's provisions too out of proportion to the threatened harm of infringement.⁴³ Therefore, the Act was not a valid exercise of Congress' Fourth Amendment powers, and did not effectively abrogate Florida Prepaid's sovereign immunity.⁴⁴

³⁹ *See id.* at 2210.

⁴⁰ *See id.* at 2207-8.

⁴¹ *See id.*

⁴² *See id.* at 2211.

⁴³ *See id.* at 2210.

⁴⁴ *See id.* at 2210-11.