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Constitutional Law - Seventh Circuit Denies Sovereign Immunity Defense to Counterclaims for Appealing State Agency - Board of Regents of the University of Wisconsin System v. Phoenix International Software, Inc., 653 F.3D 448 (7th Cir. 2011)

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CONSTITUTIONAL LAW—SEVENTH CIRCUIT DENIES SOVEREIGN IMMUNITY DEFENSE TO COUNTERCLAIMS FROM APPEALING STATE AGENCY—*BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM V. PHOENIX INTERNATIONAL SOFTWARE, INC.*, 653 F.3D 448 (7TH CIR. 2011)

The Eleventh Amendment to the United States Constitution declares that 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."[1] States and state agencies have often invoked this amendment, commonly referred to as the sovereign immunity clause, to avoid facing litigation brought by private citizens in the federal court system.[2] However, recent decisions have shed light on the sovereign immunity waiver distinction between a state party that is involuntarily dragged into federal court, and a state party that enters the federal system as a part of their adversarial plan for defense or appeal in lawsuits.[3] In *Board of Regents of the University of Wisconsin System v. Phoenix International Software, Inc.*,[4] the United States Court of Appeals for the Seventh Circuit considered whether a state plaintiff who initiated an action in a federal district court after an adverse administrative ruling had waived its sovereign immunity rights as to the defendant's counterclaims within the same suit.[5] The Seventh Circuit held that, because the state plaintiff had voluntarily availed itself of the federal district court, it had

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[1] U.S. CONST. amend. XI.

[2] *See, e.g.*, Alden v. Maine, 527 U.S. 706, 710 (1999) (holding state can exercise immunity defense in some cases while consenting to jurisdiction in others); Edelman v. Jordan, 415 U.S. 651, 674 (1974) (holding state agency properly raised Eleventh Amendment defense to action in district court); Hans v. Louisiana, 134 U.S. 1, 10 (1890) (barring suit against state merely because it was brought under federal laws).

[3] *See* Lapides v. Bd. of Regents of the Univ. Sys. of Ga., 535 U.S. 613, 622 (2002) (identifying agency's involuntary presence in state court versus voluntary presence upon removal to federal court); Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 690 (1999) (ruling sovereign immunity not waived by state's participation in interstate commerce); *see also* Taylor v. U.S. Dep't of Labor, 440 F.3d 1, 9 (1st Cir. 2005) (holding state properly invoked immunity against tort claims when opposition did not oppose immunity defense).

[4] 653 F.3d 448 (7th Cir. 2011).

[5] *Id.* at 450 (stating issue before court).

thus waived its right to sovereign immunity.[6]

In 1997, Phoenix International Software, Inc. ("Phoenix"), a small software developer, registered its mainframe computer software that provides online programming development, library management, and systems development under the trademark name "CONDOR."[7] Four years later in 2001, the Board of Regents of the University of Wisconsin System ("Wisconsin") registered the identical "CONDOR" trademark for a software product that "takes advantage of unused processing power across a network of computers."[8] Seeking to avoid consumer confusion, Phoenix filed a petition to cancel Wisconsin's trademark registration with the Trademark Trial and Appeal Board ("TTAB") in 2004.[9] In its defense during the administrative proceedings, Wisconsin failed to raise the defense of sovereign immunity and challenged the petition on the merits.[10] The TTAB agreed that confusion between the two competing trademarks was likely and granted Phoenix's petition for the cancellation of Wisconsin's registration.[11]

Wisconsin immediately decided to challenge the TTAB ruling in federal district court pursuant to 15 U.S.C. § 1071(b).[12] In response to this action filed in the United States District Court for the Western District of Wisconsin, Phoenix defended both the TTAB decision and asserted counterclaims against Wisconsin for trademark infringement and false designation of origin under 15 U.S.C. § 1071(b).[13] Wisconsin then

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[6] *Id.* at 471 (announcing court's holding).

[7] *Id.* at 450 (introducing parties and discussing underlying factual history).

[8] *Id.* at 450-51.

[9] *Phoenix*, 653 F.3d at 451. Phoenix argued that Wisconsin's similar product design and trademark name would cause confusion in trade, in violation of 15 U.S.C. §§ 1114 and 1125(a). *Id.*; *see also infra* note 13 (discussing trademark infringement and false designation of origin statutes).

[10] *Phoenix*, 653 F.3d at 464 (discussing Wisconsin's failure to raise immunity defense during initial proceedings).

[11] *Id.* at 451; *see also* Bd. of Regents of the Univ. of Wis. v. Phoenix Software Int'l, No. 07-cv-665-bcc, 2008 WL 4950016, at *2 (W.D. Wis., Nov. 18, 2008) (discussing parameters for TTAB ruling on likelihood of confusion); Phoenix Software Int'l v. Bd. of Regents of the Univ. of Wis. Sys., Cancellation No. 92042881 (T.T.A.B. Sept. 26, 2007) (cancelling Wisconsin's trademark).

[12] *Phoenix*, 653 F.3d at 451 (discussing Wisconsin's challenge to TTAB ruling in federal district court). The court recognized that Wisconsin had a variety of options available to challenge the TTAB decision as laid out in 15 U.S.C. § 1071(b), otherwise known as the Lanham Act. *Id.* The code provides that parties who are "dissatisfied with the decision of the . . . Trademark Trial and Appeal Board . . . may, unless appeal has been taken to said United States Court of Appeals for the Federal Circuit, have remedy by a civil action." 15 U.S.C. § 1071(b) (2006).

[13] *Phoenix*, 653 F.3d at 451 (discussing Phoenix's defense to suit brought in district court along with assertion of counterclaims). Phoenix's trademark infringement counterclaim stems

petitioned the court for summary judgment on the TTAB ruling and a dismissal of all federal counterclaims on the ground that they were barred by the doctrine of sovereign immunity.[14] The court granted Wisconsin's motions for dismissal and summary judgment, and thus reversed the TTAB's decision to cancel Wisconsin's trademark registration.[15] On appeal, the Seventh Circuit evaluated both the likelihood of confusion question raised in the summary judgment motions as well as whether Wisconsin should be granted immunity against Phoenix's federal counterclaims.[16] The Seventh Circuit concluded that the summary judgment dismissal on the likelihood of confusion issue was premature, and more importantly, that because Wisconsin availed itself of the advantages of a fresh lawsuit in district court and Phoenix's counterclaims were compulsory in nature, Wisconsin had effectively waived its shield of sovereign immunity against such claims.[17]

The Lanham Act provides parties who are dissatisfied with decisions made at the administrative board level of patent infringement cases with a variety of avenues for appeal, starting with a direct appeal to the governing administrative board.[18] The guidelines set forth in the

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from 15 U.S.C. § 1114, in that Wisconsin's product would "cause confusion" amongst consumers, and thus Wisconsin was "liable in a civil action by the registrant." 15 U.S.C. § 1114(1) (2006); *Phoenix*, 653 F.3d at 451. In addition, Phoenix's false designation of origin claim stems from 15 U.S.C. § 1125(a), in that Wisconsin's product would cause consumer confusion based on its "likel[ihood] to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." 15 U.S.C. § 1125(a) (2006); *Phoenix*, 653 F.3d at 451.

[14] *Phoenix*, 653 F.3d at 451 (summarizing district court motions considered by court).

[15] *Id.* (stating district court's holding).

[16] *Id.* (stating issues before the court).

[17] *Id.* (announcing holding and remanding action for further proceedings). The court pointed out that Phoenix's counterclaims would be properly defined as compulsory by Fed. R. Civ. P. 13(a), as they "arise[] out of the transaction or occurrence that is the subject matter of the opposing party's claim." *Id.* at 469. The Seventh Circuit held that the Supreme Court's decision in *Lapides v. Board of Regents of the University System of Georgia* "requires us to find that Wisconsin waived its sovereign immunity when it filed suit in the federal district court seeking to overturn the decision of the TTAB." *Id.* at 451.

[18] *See* 15 U.S.C. § 1071 (2006) (providing system of appeals for entitled persons); *see also supra* note 12 (discussing Lanham Act appeal procedure). S*ee generally* 5 U.S.C. § 706 (2006) (stating duties of court reviewing administrative decision).

> To the extent necessary to decision and when presented, the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of an agency action. The reviewing court shall—
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> . . . .
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> (2) hold unlawful and set aside agency action, findings, and

Lanham Act provide parties with the option to obtain a civil judgment, both in the Federal Circuit and in the federal district court systems.[19] Once a party has availed itself of the federal court system, however, it opens itself up to attack by its opposing party, as is required by the Federal Rules of Civil Procedure.[20] When appealing to a district court, a party essentially initiates both an appeal and a new action, which "allows the parties to request additional relief and to submit new evidence."[21]

The Eleventh Amendment to the Constitution, announced by President John Adams, guarantees that "an unconsenting State is immune from suits brought in federal courts by her own citizens as well as by citizens of another State," and the amendment has been commonly referred to as the sovereign immunity clause.[22] There are two main exceptions to sovereign immunity that have developed over the years, beginning with

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> conclusions found to be—
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> (E) unsupported by substantial evidence in a case . . . on the record of an agency hearing provided by statute . . . .

Id.

[19] *See* 15 U.S.C. § 1071 (2006). Section (a) provides that a dissatisfied party can appeal to the United States Court of Appeals for the Federal Circuit, while section (b) provides a process of appeal through a civil action in the federal district court system. *Id.*

[20] *See* FED. R. CIV. P. 13(a) (dictating parameters for compulsory counterclaims in district courts). Phoenix was required by the Federal Rules of Civil Procedure to file its counterclaims against Wisconsin, as its counterclaims "ar[ose] out of the transaction or occurrence that is the subject matter of the opposing party's claim." FED. R. CIV. P. 13(a)(1)(A). *But see* FED. R. CIV. P. 13(d) (declining to expand right to assert counterclaims against United States or United States' agency).

[21] CAE, Inc. v. Clean Air Eng'g, Inc., 267 F.3d 660, 673 (7th Cir. 2001) (acknowledging duality of appeal action in district courts).

[22] Edelman v. Jordan, 415 U.S. 651, 663 (1974) (applying language developed through Eleventh Amendment case law); *see also* Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 669 (1999) (discussing Supreme Court's understanding of Eleventh Amendment). In *College Savings Bank*, the Supreme Court discussed the transition of the Eleventh Amendment from merely a state's defense against suits brought by citizens of another state, to a complete defense against the assumption that "the jurisdictional heads of Article III superseded the sovereign immunity that the States possessed before entering the Union." 527 U.S. at 669; *see also* Great N. Life Ins. Co. v. Read, 322 U.S. 47, 53-54 (1944) (holding state's consent to jurisdiction in federal court must be present to defeat immunity); Duhne v. New Jersey, 251 U.S. 311, 313 (1920) (acknowledging federal jurisdiction limitation against states who are unwilling participants); Hans v. Louisiana, 134 U.S. 1, 10 (1890) (barring suit against state brought under federal laws). *See generally* Katherine H. Ku, Comment, *Reimaging the Eleventh Amendment*, 50 UCLA L. REV. 1031, 1042 (2003) (describing immunity doctrine's central purpose). Ku quotes Justice Thomas in noting that "[w]hile state sovereign immunity serves the important function of shielding state treasuries . . . the doctrine's central purpose is to 'accord the States the respect owed them as' joint sovereigns." *Id.* (quoting P.R. Aqueduct & Sewer Auth. v. Metcalf & Eddy, Inc., 506 U.S. 139, 146 (1993)).

congressional authorization of a lawsuit against a state in the exercise of its power to enforce the Fourteenth Amendment.[23] The second and more common exception to sovereign immunity, known as the party consent exception, occurs when a state waives its immunity by consenting to the suit.[24] A state can consent to federal jurisdiction, and in doing so, waive its right to sovereign immunity, either explicitly or through its behavior.[25] A state's behavior and the resulting waiver of sovereign immunity has been the center of the most recent discussion amongst the varying circuits and the United States Supreme Court.[26]

While there has been some discussion on the effects of a state's actions within federal trademark litigation, all courts agree that the mere entry into the trademark system by a state party will not suffice as a general, constructive waiver of its sovereign immunity.[27] Other state party

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[23] *See Coll. Sav. Bank*, 527 U.S. at 670 (evaluating Fourteenth Amendment's designated function to alter "the federal-state balance"); *see also* Matthew McDermott, Note, *The Better Course in the Post-*Lapides *Circuit Split: Eschewing the Waiver-by-Removal Rule in State Sovereignty Jurisprudence*, 64 WASH. & LEE L. REV. 753, 763 (2007) (discussing limits on state sovereign immunity). McDermott also acknowledges the *Ex parte Young* exception for individual state officers, which provides an avenue for "citizens [to] sue state officers to enjoin violation of federal law." *Id.* at 764. *See generally* Jonathan R. Siegel, *Waivers of State Sovereign Immunity and the Ideology of the Eleventh Amendment*, 52 DUKE L.J. 1167, 1178-86 (discussing limited exceptions for state sovereign immunity). Siegel also introduces a fourth exception, explaining that "states have no immunity from suits brought by other states or by the United States." *Id.* at 1181.

[24] *See Coll. Sav. Bank*, 527 U.S. at 670 (explaining party consent exception to sovereign immunity); *see also* Lapides v. Bd. of Regents of the Univ. Sys. of Ga., 535 U.S. 613, 619 (2002) (holding state waived sovereign immunity by voluntarily removing state case to federal court); Wis. Dep't of Corr. v. Schacht, 524 U.S. 381, 393-95 (1998) (Kennedy, J., concurring) (discussing immunity waiver at various stages of litigation); Gardner v. New Jersey, 329 U.S. 565, 574 (1947) (holding state waived immunity when it became an "actor and file[d] a claim"); Gunter v. Atl. Coast Line R.R. Co., 200 U.S. 273, 284 (1906) (noting state waives immunity rights upon voluntary entrance into a cause); Clark v. Barnard, 108 U.S. 436, 447 (1883) (concluding immunity belonging to state is personal privilege that may be waived by appearance).

[25] *See Coll. Sav. Bank*, 527 U.S. at 675-76 (discussing various methods of waiver of sovereign immunity through action or intention); *see also* Gil Seinfeld, *Waiver-in-Litigation: Eleventh Amendment Immunity and the Voluntariness Question*, 63 OHIO ST. L.J. 871, 888-89 (2002) (analyzing circuit court treatment of state behavior and resulting waiver of immunity).

[26] *See Lapides*, 535 U.S. at 624 (ruling voluntary removal to federal district court aligns with general principles of sovereign immunity waiver); *see also* Regents of the Univ. of N.M. v. Knight, 321 F.3d 1111, 1124-25 (Fed. Cir. 2003) (holding state suing in federal court to enforce patent consents to all compulsory counterclaims).

[27] *See Coll. Sav. Bank*, 527 U.S. at 680 (stating certain state actions are not constructive waiver of sovereign immunity); *see also* Tejas N. Narechania, Note, *An Offensive Weapon?: An Empirical Analysis of the "Sword" of State Sovereign Immunity in State-Owned Patents*, 110 COLUM. L. REV. 1574, 1580-81 (2010) (evaluating established waiver parameters for state litigation conduct). Narechania acknowledges that in deciding *Lapides*, the Supreme Court has "determined it would be anomalous to allow a state '(1) to invoke federal jurisdiction . . . and [then] (2) to claim Eleventh Amendment immunity.'" Narechania, *supra*, at 1581 (omission and

actions, such as removal from state to federal court, have been considered as voluntary or explicit expressions of waiver to sovereign immunity.[28] Recent circuit court decisions have split with regard to state parties that voluntarily enter the federal court system in response to an adverse administrative ruling and consistently assert their immunity at both the administrative board and the federal court levels.[29] As described by the United States Court of Appeals for the First Circuit, the "challenge of interpreting *Lapides* has divided the courts of appeals."[30] However, the Supreme Court has yet to specifically address the question of whether the

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alteration in original) (quoting *Lapides*, 535 U.S. at 619).

[28] *See Lapides*, 535 U.S. at 624 (holding voluntary removal to federal district court aligns with general principles of sovereign immunity waiver); *see also Knight*, 321 F.3d at 1125 (holding state suing in federal court to enforce patent consents to all compulsory counterclaims); Sean M. Monahan, Note, *A Tempest in the Teapot: State Sovereign Immunity and Federal Administrative Adjudications in* Federal Maritime Commission v. South Carolina State Ports Authority, 88 CORNELL L. REV. 1794, 1823-24 (2003) (discussing consent to federal suit as "gift" waiver).

[29] *Compare* Taylor v. U.S. Dep't of Labor, 440 F.3d 1, 9 (1st Cir. 2005) (holding state's failure to raise immunity defense in administrative setting results in immunity defense failure), *and* New Hampshire v. Ramsey, 366 F.3d 1, 20 (1st Cir. 2004) (holding state who sought judicial review of administrative decision was insufficient to infer waiver), *and* R.I. Dep't of Envtl. Mgmt. v. United States, 304 F.3d 31, 49 (1st Cir. 2002) (holding state does not waive immunity by consistently asserting immunity in administrative proceeding and court), *with* United States v. Metro. St. Louis Sewer Dist., 578 F.3d 722, 725 (8th Cir. 2009) (holding state's voluntary litigation conduct was sufficient to waive immunity). In *Metropolitan St. Louis Sewer*, the State of Missouri was forced to be a party in an enforcement action filed by the United States against a municipal sewer district as a result of the Clean Water Act. 578 F.3d at 723-24. The United States Court of Appeals for the Eighth Circuit concluded that Missouri was not immune from the municipality's counterclaims in the suit, despite being compelled to join in the suit, because it elected to join as a plaintiff as opposed to a defendant. *Metro. St. Louis Sewer*, 578 F.3d at 725-26. Although Missouri raised the defense of immunity, it waived such a defense by filing a suit in federal court. *Id.* Additionally, the Eighth Circuit has also held that "[a] state is not required to give up other valid defenses in order to preserve its immunity defense." Skelton v. Henry, 390 F.3d 614, 618 (8th Cir. 2004).

[30] Bergemann v. R.I. Dep't of Envtl. Mgmt., 665 F.3d 336, 342 (1st Cir. 2011). The *Bergemann* decision, issued four months after the *Phoenix* decision, characterized the competing circuits as those aligned with decisions based on fairness, as opposed to those who take a more "mechanical" view when considering waiver of immunity. *Id.* *Bergemann* recognizes that both the Fourth and D.C. Circuits have "concluded that removal does not waive a state's sovereign immunity to a claim unless the state previously had waived its immunity to such a claim in state court proceedings." *Id.* The *Bergemann* court then described the Seventh, Ninth, and Tenth Circuits reading of "*Lapides* as operating more mechanically and take the position that, regardless of the circumstances, removal always waives immunity." *Id.* (citing *Phoenix*). "The focus throughout the Eleventh Amendment inquiry was on consistency, fairness, and preventing States from using the Amendment 'to achieve unfair tactical advantages.'" Stewart v. North Carolina, 393 F.3d 484, 490 (4th Cir. 2005). The First Circuit has stated, "Where a state avails itself of the federal courts to protect a claim, we think it reasonable to consider that action to waive the state's immunity with respect to that claim *in toto* and, therefore, to construe that waiver to encompass compulsory counterclaims even though they could require affirmative recovery from the state." Arecibo Cmty. Health Care, Inc. v. Puerto Rico, 270 F.3d 17, 28 (1st Cir. 2001).

default rule on state sovereign immunity should be one of absolute or restrictive immunity.[31]

In *Board of Regents of the University of Wisconsin System v. Phoenix International Software, Inc.*, the United States Court of Appeals for the Seventh Circuit considered whether a state agency, having voluntarily entered the federal district court system by appealing an adverse administrative ruling, may invoke sovereign immunity protection against the opposing party's compulsory counterclaims.[32] The court recognized that state agencies would normally be able to invoke this type of protection from actions that were filed against them in district courts.[33] However, the court was reluctant to grant Eleventh Amendment protection to those agencies that voluntarily enter the federal system in hopes of gaining a favorable decision when other methods were available to achieve the same results.[34] The court relied heavily on the Supreme Court precedent addressing the issue of a state's waiver to such protection through voluntary actions, noting that when a party chooses the path of the federal district courts, it is essentially both filing an appeal of the previous ruling and commencing a new action.[35]

The Seventh Circuit found that when Wisconsin filed its appeal in the district court, it had availed itself of the federal district courts in a purposeful effort to gain a more favorable ruling to its adverse decision.[36] This voluntary action, while possibly advantageous from a litigation

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[31] *See* Bd. of Regents of the Univ. of Wis. v. Phoenix Int'l Software, Inc., 653 F.3d 448, 476 (7th Cir. 2011) (discussing lack of Supreme Court direction on sovereign immunity rule).

[32] *Id.* at 450-51 (discussing issue on appeal).

[33] *Id.* at 457 (analyzing Supreme Court's traditional application of Eleventh Amendment sovereign immunity).

[34] *Id.* at 464 (discussing alternatives to federal appeal). The court identified the variety of options available to Wisconsin to challenge the TTAB decision. *Id.* Specifically, Wisconsin had five available options:

> (1) the state could have done nothing and let the TTAB's decision stand; (2) it might have refused to acquiesce in the agency's decision or the TTAB proceedings in the first place; (3) it could have taken action against Phoenix in state court before the agency proceedings began; (4) it could have appealed the TTAB's decision directly to the Federal Circuit, 15 U.S.C. § 1071(a); or (5) it could have filed (as it did) a civil action in district court challenging the agency's decision, 15 U.S.C. § 1071(b).

Id.

[35] *Id.* at 463-64 (addressing results of Wisconsin's decision to proceed in federal court); *see also* CAE, Inc. v. Clean Air Eng'g, Inc., 267 F.3d 660, 673 (7th Cir. 2001) (acknowledging duality of appeal action in district courts).

[36] *Phoenix*, 653 F.3d at 466-67 (analyzing Wisconsin's procedural choice to litigate in federal district court).

standpoint, effectively waived Wisconsin's sovereign immunity defense to any and all compulsory counterclaims that resulted from the same transaction.[37] The court reasoned that Wisconsin should not be afforded Eleventh Amendment protection when they have only themselves to blame for litigating in the federal courts.[38] The court dismissed Wisconsin's argument that it had been forced into the federal courts to appeal the administrative ruling and found the situation to be similar to those cases in which state parties remove a state claim to federal court.[39] As has been held in removal actions, the court held that the facts of this case were such that Wisconsin voluntarily waived its right to sovereign immunity, and, thus, was subject to federal jurisdiction.[40]

In *Board of Regents of the University of Wisconsin System v. Phoenix International Software, Inc.*, the Seventh Circuit correctly identified Wisconsin's voluntary entrance into the federal court system as a successful waiver when it denied Wisconsin's defense of sovereign immunity.[41] In line with recent Supreme Court precedent, the Seventh Circuit reasoned that Wisconsin waived its sovereign immunity defense upon filing an action in federal district court.[42] The court rightfully discredited Wisconsin's argument that it was compelled to appeal the adverse administrative ruling in the district court by identifying the numerous available alternatives to litigation in the federal courts.[43] The court also recognized that Wisconsin failed to raise the immunity defense

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[37] *Id.* at 471 (announcing holding of court with regard to counterclaims).

[38] *Id.* at 463-71 (discussing holding and reasoning of court's decision).

[39] *Id.* at 466-67 (discussing sovereign immunity waiver requirements). The court dismissed Wisconsin's position that it was an unwilling party merely appealing an adverse agency decision by relying on the *Lapides* decision. *Id.* at 466. The *Lapides* decision created precedent for immunity waiver where a state party voluntarily removed a state action to a federal court. *Id.* at 459. Similarly, Wisconsin was the master of its own strategy in this case, and by choosing the district court option, it effectively waived its right to sovereign immunity. *Id.* at 466-67. The court also noted that Wisconsin failed to raise its immunity objection in the administrative proceeding, thus strengthening the court's decision that waiver was successfully achieved. *Id.*

[40] *Id.* at 461-62 (comparing decision in *Lapides* to facts of *Phoenix* and ruling that waiver had been achieved).

[41] 653 F.3d 448, 463-64 (7th Cir. 2011) (explaining court's analysis in holding immunity defense waived); *see also* McDermott, *supra* note 23, at 766-67 (discussing established parameters for state waiver of immunity).

[42] *Phoenix*, 653 F.3d at 459-63 (discussing application of *Lapides* decision to facts at bar); *see also* Lapides v. Bd. of Regents of the Univ. Sys. of Ga., 535 U.S. 613, 620 (2002) (holding state waived sovereign immunity by voluntarily removing state case to federal court); Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd., 527 U.S. 666, 670 (1999) (ruling immunity waiver achieved only through voluntary conduct or congressional authorization).

[43] *Phoenix*, 653 F.3d at 463-67 (listing various alternatives to appeal through district courts); *see also* sources cited *supra* note 12 and accompanying text (describing methods of appeal provided by 15 U.S.C. § 1071).

in its initial administrative proceedings, and in doing so, strayed further from any claim that waiver was not achieved in its appeal to the district court.[44] The court correctly surmised that without raising the immunity claim on the administrative level, and by voluntarily filing suit in the federal district court, Wisconsin effectively waived all claims to traditional sovereign immunity from the counterclaims asserted against them as required by the Federal Rules of Civil Procedure.[45]

While the Seventh Circuit correctly applied appropriate Supreme Court precedent to the facts of the case at bar, the ruling in this case did little to advance the law for competing circuits surrounding sovereign immunity, as it failed to take the opportunity to adopt a strict test for determining waiver in an administrative appeals process.[46] While the law has been settled to decide when a state party takes actions into its own hands and voluntarily enters the federal district court system, the Seventh Circuit missed an opportunity to expand established precedent to address administrative appeals.[47] The First Circuit's "fairness" approach of allowing a state to retain its immunity from further claims by simply raising the immunity defense at the outset of the judicial appeal fits nicely within the established precedent of the courts.[48] Unfortunately, the

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[44] *Phoenix*, 653 F.3d at 464 (discussing repercussions of failing to assert immunity defense at initial proceedings); *see also* Taylor v. U.S. Dep't of Labor, 440 F.3d 1, 9 (1st Cir. 2005) (holding state's failure to raise immunity defense in administrative setting results in immunity defense failure). *But see* New Hampshire v. Ramsey, 366 F.3d 1, 20 (1st Cir. 2004) (holding state who sought judicial review of administrative decision was insufficient alone to infer waiver); R.I. Dep't of Envtl. Mgmt. v. United States, 304 F.3d 31, 49 (1st Cir. 2002) (holding state does not waive immunity if asserted in both administrative proceeding and federal court). The First Circuit cases set a precedent for state parties to raise the immunity defense when challenging an administrative ruling as a method to avoid waiver. *See Ramsey*, 366 F.3d at 20; *R.I. Dep't of Envtl. Mgmt.*, 304 F.3d at 49.

[45] *Phoenix*, 653 F.3d at 463-64 (explaining waiver of immunity); *see also supra* note 20 (discussing rules governing counterclaims); *supra* note 44 and accompanying text (discussing raising immunity defense at administrative level).

[46] *Phoenix*, 653 F.3d at 463-64 (announcing holding without deciding on issue of raising waiver immunity in early proceedings). The *Phoenix* court recognized the differences in various circuits, specifically in the First and Eighth Circuits, for evaluating when waiver was achieved for a state party who raised the immunity defense. *Id.* However, with Wisconsin failing to raise the immunity defense at the TTAB level, the Seventh Circuit felt it was not necessary to hand down a specific ruling on when waiver is achieved, as such a ruling would be moot under the circumstances. *Id.*

[47] *See Phoenix*, 653 F.3d at 463-64 (declining to expand further on issue of raising immunity defense); cases cited *supra* note 24 and accompanying text (discussing parameters for state's waiver through voluntary litigation action); *see also* Monahan, *supra* note 28, at 1809 (suggesting it improper to deny state's immunity claims at administrative level).

[48] *See* Bergemann v. R.I. Dep't of Envtl. Mgmt., 665 F.3d 336, 343 (1st Cir. 2011) (holding state gains no unfair advantage when consistently asserting immunity in state and federal court); *Taylor*, 440 F.3d at 9 (holding state's failure to raise immunity defense in administrative setting

Supreme Court has yet to address this issue, and the Seventh Circuit failed to take the opportunity to do so here.[49]

The Seventh Circuit also declined to address the question concerning the Supreme Court's treatment of the Eleventh Amendment as a protection of absolute or restrictive immunity for the states.[50] The Supreme Court has yet to determine whether states are immune from suits in federal court as a result of their public functions as a state, their private acts in commercial activities, or both.[51] By allowing a state to claim immunity while engaged in private sector commercial business, as Wisconsin was trying to invoke in this case, the Eleventh Amendment would offer protections against lawsuits for states that are not available to private businesses engaged in the same commercial field.[52] While the Seventh Circuit certainly acknowledged this disparity, it aligned with the Supreme Court and did nothing to opine on the limits of immunity that must be

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results in immunity defense failure); *Ramsey*, 366 F.3d at 20 (1st Cir. 2004) (holding state who sought judicial review of administrative decision was insufficient alone to infer waiver); *R.I. Dep't of Envtl. Mgmt.*, 304 F.3d at 49 (holding state does not waive immunity by consistently asserting immunity in administrative proceeding and court); *see also* Monahan, *supra* note 28, at 1809 (suggesting it improper to deny state's immunity claims at administrative level). "[T]o deny states immunity [during] administrative proceedings would create a paradox, permitting Congress to use its Article I powers to adjudicate private claims against the states in front of administrative tribunals while prohibiting it . . . from using those same powers to abrogate state sovereign immunity in Article III judicial proceedings." Monahan, *supra* note 28, at 1809; *see also* Siegel, *supra* note 23, at 1228 (discussing waiver of immunity). "[T]he traditional rule, requiring timely assertion of state sovereign immunity, is in no way incompatible with state dignity or state prerogatives." Siegel, *supra* note 23, at 1228; *see also* Seinfeld, *supra* note 25, at 930 (stressing importance of Supreme Court-issued solution to delayed assertions of immunity). Seinfeld argues for a Supreme Court ruling that would correct "constructive waiver jurisprudence simply by bringing the law relating to this issue more in line with the other waiver-in-litigation cases." Seinfeld, *supra* note 25, at 930.

[49] *Phoenix*, 653 F.3d at 463-64 (announcing holding without deciding on issue of raising waiver immunity in early proceedings); *see also* Seinfeld, *supra* note 25, at 894-94 (discussing lack of Supreme Court direction). "In the absence of a federal law effectively governing the question of whether a state has waived its immunity, states are able to parlay the advantages they enjoy as possessors of sovereign immunity into other benefits in the litigation process." Seinfeld, *supra* note 25, at 894-95.

[50] *Phoenix*, 653 F.3d at 476-77 (discussing Supreme Court's lack of attention to default rule for immunity). The *Phoenix* court acknowledged the lack of Supreme Court attention to a default rule for immunity standards in dicta, but refused to take a stance on restrictive versus absolute immunity. *Id.* The court traced the foundation of a state's immunity to the "principles of public international law" that were afforded to foreign states from the times of the Federalist Papers. *Id.*

[51] *Id.* at 473-77 (evaluating different state functions and application of sovereign immunity).

[52] *Id.* at 476 (discussing competitive advantage enjoyed by states involved in commercial activities as result of immunity); *see also* Narechania, *supra* note 27, at 1584-86 (discussing state agencies as market participants). Narechania argues that states enjoy a "Patent Shield" and a "Patent Sword" in the context of intellectual property disputes, thus giving them a significant advantage over their private competitors. Narechania, *supra* note 27, at 1584-86.

placed on states and state agencies.[53] Some legal commentators have championed a legislative approach to solve this dilemma if the courts refuse to act.[54] However, until this discrepancy is decided once and for all, either by the courts or legislative action, it is likely that the courts will continue to face similar disputes between state agencies engaged in commercial activities and their private competitors.[55]

In *Board of Regents of the University of Wisconsin System v. Phoenix International Software, Inc.*, the Seventh Circuit considered whether a state plaintiff who initiated an action in a federal district court to appeal an adverse administrative ruling had waived its sovereign immunity rights as to the defendant's counterclaims within the same suit. The court correctly held that the state agency waived its right to sovereign immunity by voluntarily initiating the action in the federal district court system, as the agency had a plethora of options that were available in the alternative that could have been utilized in order to achieve the same result as a judicial review in the district courts. While the Seventh Circuit ruled correctly on the facts at bar, it failed to take the opportunity to expand on the existing sovereign immunity doctrine. Without a definitive ruling by the Supreme Court, a collective circuit court consensus, or legislative action, the issues of waiver of immunity and restrictive versus absolute immunity remain murky, at best. As a result, the courts will be forced to consider countless cases centered on the issue of sovereign immunity protection until a firm stance on the doctrine is entrenched in law.

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[53] *Phoenix*, 653 F.3d at 476-77 (acknowledging the discrepancy but refusing to rule on either restrictive or absolute immunity).

[54] *See* Narechania, *supra* note 27, at 1609-11 (suggesting legislative solution). Narechania discussed the possibility of a new law that would override the *College Savings Bank* decision and force states to "'opt-in' to the federal system of intellectual property by waiving their immunity to any action" which seeks a declaration on federal intellectual property rights. *Id.* at 1609; *see also* Ku, *supra* note 22, at 1061 (proposing restrictive immunity). Ku argues that a restrictive immunity regime would "afford formal immunity from private suit only to states' core sovereign attributes . . . and to states in cases explicitly covered by the text of the Eleventh Amendment. In all other instances, states would be directly liable for damages and for injunctive relief." Ku, *supra* note 22, at 1061.

[55] *See* Ku, *supra* note 22, at 1062 (predicting confusion amongst courts regarding state's functions and immunity). Ku notes that the distinction "between commercial and noncommercial activity or immunizing only core sovereign attributes . . . are unlikely to prevail in the Court's decisions, at least in the near future." *Id.*