

## State-Held Patents Fair Game At PTAB After Fed. Circ. Ruling

By **Matthew Bultman**

*Law360 (June 17, 2019, 6:46 PM EDT)* -- The Federal Circuit's ruling that state sovereign immunity doesn't apply in inter partes review removes a shield that was believed to increase the value of state-owned patents, while highlighting a simmering tension among U.S. Supreme Court justices in how they view Patent Trial and Appeal Board proceedings.

In a case involving the University of Minnesota, the appeals court held Friday the protections that states enjoy against being sued do not extend to inter partes reviews at the PTAB. The ruling follows the court's decision last summer that tribal sovereign immunity also does not apply in IPR.

It's not uncommon for state universities and research institutions to own a sizable portfolio of patents. The PTAB had taken the stance that these patents are, in many circumstances, shielded from challenges at the board. Not anymore.

"After today they're on equal footing with all other patents owners," Tyson Benson of Harness Dickey & Pierce PLC said.

The PTAB initially waded into the sovereign immunity issue in 2017, holding that the University of Florida, as an arm of the state of Florida, was immune to Covidien LP's challenge to a patent the university owns related to computer information systems.

The board reaffirmed in subsequent decisions its position that state immunity applies in IPRs, although it ruled in the University of Minnesota case that those protections can be waived when the patent owner files an infringement lawsuit in district court.

Minnesota was awarded close to 90 patents last year alone, according to a recent report from the National Academy of Inventors and the Intellectual Property Owners Association. Other public universities, such as Texas, Wisconsin and Michigan, were granted more than 130.

Being largely immune from IPR — which has proved to be an effective mechanism for challenging patents — was seen as a significant advantage for these schools, increasing the value of their patent

portfolios. Following the Florida decision, an attorney representing UF called it the "biggest, most important decision for public universities" to come out of the PTAB.

But not everyone cheered these rulings. America's Health Insurance Plans, for example, expressed concern about the potential for companies to insulate questionable patents from PTAB review by transferring them to a sovereign entity.

"If this decision remains the law it effectively has eliminated the last of the major potential loopholes to IPR review," Eliot Williams of Baker Botts LLP said.

### **Just a Second Look**

States are typically shielded from lawsuits brought by private parties. Central to the Federal Circuit's ruling was the idea that IPRs are less like civil litigation and more like an enforcement action brought by a federal agency, where sovereign immunity typically does not apply.

Drawing from its July 2018 decision in the tribal immunity case, *St. Regis v. Mylan*, the court made various distinctions between civil litigation and IPRs. For example, while a private party must file a petition for PTAB review to begin, the court said it is the director of the U.S. Patent and Trademark Office who ultimately decides whether to proceed.

The court also noted the PTAB can complete its review of a patent even if the owner decides not to participate. This is in contrast to a district court lawsuit, where the case will be dismissed when there is no longer a "case or controversy."

"It is clear from the history and operation of IPR that these proceedings are designed to allow the USPTO to harness third parties for the agency to evaluate whether a prior grant of a public franchise was wrong," the court wrote.

In other words, IPRs are simply a chance for the USPTO to take a second look at an issued patent.

"They're not seeing it as a competing litigation but really just a quality control mechanism that you're potentially outsourcing to other individuals that would be the petitioner," Benson said.

U.S. Circuit Judge Timothy Dyk, the author of the opinion, set the stage for the court's ruling with several pages dedicated to the history of IPRs and the reason that Congress created the proceedings with the America Invents Act.

The judge touched upon the amount of time, or lack thereof, patent examiners are able to spend on each application (roughly 22 hours) and the "inevitability" that there will be patents issued in error. He ran through Congress' creation of reexamination proceedings in the 1980s and late '90s — along with those proceedings' perceived shortcomings — and up to the passage of the AIA in 2011.

"The court seems to recognize that you can't expect the patent office to issue perfect patents all the time," Eldora Ellison of Sterne Kessler Goldstein & Fox PLLC said. "There's been quite a long history of the agency being able to take another look at the patents it has granted and reconsider that grant."

## **Supreme Court Tension**

The sovereign immunity cases have highlighted a tension in how Supreme Court justices view AIA review.

Last year in *Oil States v. Greene's Energy*, the court wrote that IPR is a "second look at an earlier administrative grant of a patent," quoting the court's 2016 ruling in *Cuozzo v. Lee*. Justice Clarence Thomas wrote the *Oil States* opinion, and Justice Stephen Breyer wrote the one in *Cuozzo*.

In another case, *SAS Institute v. Iancu*, decided the same day as *Oil States*, Justice Neil Gorsuch described IPRs as a "party-directed, adversarial process" that "mimics civil litigation." Justice Sonia Sotomayor also described AIA reviews as "adversarial" recently in *Return Mail v. U.S. Postal Service*.

"Clearly not all the justices on the court have the same views on whether IPRs are agency-type proceedings or more adversarial-type proceedings," Williams said. "The tension that was raked over in [SAS and *Oil States*] is important to decide these sovereign immunity cases."

That tension hasn't gone unnoticed by judges at the Federal Circuit. During a June 2018 hearing in the tribal immunity case, U.S. Circuit Judge Kimberly Moore said the two cases "really come to loggerheads" in the context of sovereign immunity questions.

"How do you reconcile *Oil States* and *SAS*, that came out on the same day, one written by the guy [Justice Gorsuch] that wrote the dissent in the other one?" Judge Moore asked one of the attorneys arguing the case.

Along with the main opinion in the *University of Minnesota* case Friday, the panel included nine pages of "additional views," in which it suggested an additional reason that state sovereign immunity doesn't apply in IPRs: the reviews are an "in rem proceeding."

In rem is Latin for "against a thing," as opposed to a person.

"I think these judges took the view that IPRs are in rem proceedings, and while they didn't need to reach this issue, this is something that occasionally percolates at the Supreme Court level," Matthew Rizzolo of Ropes & Gray LLP said.

He and others said the section appears to be written with an eye toward the justices.

It may be "the panel didn't want to set it forth as Federal Circuit precedent but wanted to put forward those views so that if, but presumably when, a cert petition is filed the justices will not only have the

rationale based on Oil States ... but also have this additional rationale which is rooted in the Supreme Court's jurisprudence on in rem actions," Igor Timofeyev of Paul Hastings LLP said.

--Editing by Brian Baresch and Kelly Duncan.

---

All Content © 2003-2019, Portfolio Media, Inc.