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Patent Board's Immunity Finding A Win For State Universities

By **Matthew Bultman**

Law360, New York (January 27, 2017, 10:35 PM EST) -- The Patent Trial and Appeal Board's decision that state sovereign immunity applies to America Invents Act inter partes reviews is a significant win for state universities with patent portfolios, but attorneys said it will also likely increase the calls that certain PTAB institution decisions can be appealed.

The PTAB this week dismissed petitions from Covidien LP challenging a University of Florida patent that relates to health care computer information systems. The patent has been at the center of a licensing dispute between the medical device supplier and the university.

In what is believed to be a first-of-its-kind decision, the board held that states' protections against legal actions under the U.S. Constitution's 11th Amendment extend to inter partes reviews, and that the University of Florida, as an arm of the state of Florida, was immune to Covidien's challenge.

"Obviously, it's a big win for public universities that have significant patent portfolios," said Dorothy Whelan, a principal at Fish & Richardson PC. "You've potentially insulated them from consideration at the PTAB, which historically has not been favorable for patent owners."

Perhaps just as significant, Whelan said, is that the board's decision Wednesday is going to add to the chorus of voices calling for appellate review of PTAB institution decisions, an issue that was already going to be front and center in the coming months.

"This was a true legal issue. It was whether the 11th Amendment's sovereign immunity applied to PTAB proceedings," she said. "I could see why people might want an Article III court reviewing the PTAB's determination. And right now that's not possible."

Under the 11th Amendment, states are largely shielded from lawsuits in federal courts without their consent, and the U.S. Supreme Court has interpreted those protections to extend to certain administrative proceedings.

The issue of sovereign immunity in patent litigation is not altogether new. UF, for instance, raised the argument after Covidien sought to have an underlying breach of contract case moved from state to federal court.

But UF seems to be the first to raise sovereign immunity as a defense in an AIA proceeding.

"This is the biggest, most important decision for public universities and sovereigns that has ever come out of the Patent Trial and Appeal Board," said Michael Shore of Shore Chan DePumpo LLP, one of the attorneys who represented UF in the case.

"Any entity that can claim sovereign status, their patent portfolios just got a lot more valuable," he added.

Shore, who mostly represents universities in intellectual property and other select litigation matters, said the issue has been building, citing a patent case he helped litigate for the University of Texas before the Federal Circuit more than a decade ago.

That case involved a company called Tegic Communications, which had filed suit in Washington federal court seeking a judgment that a UT patent was invalid and the company did not infringe it. Tegic hadn't been sued, but telephone companies to which it licensed software had faced infringement complaints in Texas.

The Federal Circuit in 2006 upheld the lower court's decision to dismiss Tegic's suit. The appeals court said UT, by suing in Texas federal court, waived any immunity it might have had with respect to its claims and counterclaims in the Texas cases. But that waiver did not extend to Tegic's case in Washington.

"We established with that case that you can send threatening letters, you can threaten to sue somebody as a public institution and they can't do anything about it until you sue them," Shore said. "And then the only thing they can do is file a counterclaim in the venue where you sued them."

"This is the second step," he said, "which is because an IPR is a quasi-litigation or a litigation-like proceeding, and it's a forum that the university did not choose, then … it gets thrown out on sovereign immunity."

The PTAB's decision came with the caveat that there was not an underlying patent infringement suit in the case. The board gave no indication on whether the filing of such a suit would have affected a waiver of sovereign immunity.

That open question aside, state entities and public universities with large patent portfolios — the University of California, for instance — are no doubt cheering the decision. There might be others who are less enthused.

Covidien, for its part, had warned of "far-reaching consequences" of insulating state entities from IPRs.

"I can see where state universities or other entities of the state may want to exercise sovereign immunity or assert that sovereign immunity is applicable," said Eldora Ellison, a director at Sterne Kessler Goldstein & Fox PLLC. "Yet, at the same time I can also see where some potential challengers may deem this decision as being unfair."

Whether the Federal Circuit can wade into the debate remains to be seen.

Under the America Invents Act, decisions from the PTAB about whether to institute review are "final and nonappealable." In June, the U.S. Supreme Court held in Cuozzo Speed Technologies LLC v. Lee that "mine-run" issues in such decisions are indeed not subject to judicial review.

The justices did, however, leave the door open for a limited number of exceptions, including when there are constitutional questions about whether the board exceeded its authority. Some said it appears this could be exactly the sort of issue the Supreme Court had in mind.

"It does seem strange to me that the PTAB would be empowered to make a decision on the basis of interpretation of the U.S. Constitution without that decision being subject to judicial review," said Scott Kamholz, a former administrative patent judge in Washington, D.C. "This issue does seem to fall right within the area that the Supreme Court left open in Cuozzo."

Those kinds of questions have generated a good deal of interest as of late.

And the Federal Circuit has started to provide some concrete answers with a series of recent rulings. For example, the court has said it doesn't have jurisdiction to review a PTAB decision that found the doctrine of assignor estoppel did not apply in IPRs.

The full appeals court also agreed earlier this month to hear a case that involves a question of whether patent owners can appeal PTAB decisions finding that AIA petitions challenging their patents were filed in a timely manner.

But questions still remain, which only adds to the intrigue should Covidien pursue an appeal.

"I'd be curious to get the Federal Circuit's take on … whether or not sovereign immunity applies in these circumstances," said Brenton Babcock of Knobbe Martens Olson & Bear LLP. "But I think there's an open question of whether or not the Federal Circuit will punt, whether it falls within the enumerated exceptions."

The patent at issue is U.S. Patent Number 7,062,251.

Covidien is represented by Mary Sooter, David Cavanaugh and Natalie Pous of WilmerHale.

UF is represented by Richard Giunta, Gerald Hrycyszyn and Elisabeth Hunt of Wolf Greenfield & Sacks PC and Michael Shore and Alfonso Chan of Shore Chan Depumpo LLP.

The cases are Covidien LP v. University of Florida Research Foundation Inc., case numbers IPR2016-01274, IPR2016-01275 and IPR2016-01276, before the Patent Trial and Appeal Board.

--Editing by Mark Lebetkin and Jill Coffey.
