

Sovereign immunity defeats IPR jurisdiction

Summary

In *Covidien LP v. University of Florida Research Foundation Inc.*, IPR2016-01274, -75, and -76 (P.T.A.B. January 25, 2017), the Patent Trial and Appeal Board held that the patent owner, being an arm of the State of Florida, was “entitled to a sovereign immunity defense to the institution of an *inter partes* review of the challenged patent,” and therefore dismissed licensee Covidien’s petitions. *Id.*, Order at 3. In the event that this decision survives a possible appeal, future private party patent licensees may try to avert such a result by negotiating license terms that provide that any state agency on the patentee side waive sovereign immunity in any relevant IPR proceeding. Readers should note that the patent owner UFRF filed a breach of contract claim in state court, and did not file an infringement suit in federal court, thus avoiding a potential waiver of its sovereign immunity. (Whether such a filing would constitute a waiver for IPR purposes has not been decided.)

Procedural Posture

In this case, UFRF sued Covidien in a Florida state court for breach of a license relating to U.S. Patent No. 7,062,251. Covidien filed a counterclaim seeking a declaratory judgment that it did not infringe and succeeded in having the case removed to federal district court. Covidien also filed three IPR petitions relating to claims 1-18 of the ’251 patent. In district court, UFRF argued that it is an arm of the State of Florida through the University of Florida, and therefore entitled to Eleventh Amendment immunity from the DJ counterclaim in federal court. The district court agreed and remanded the case to state court. Covidien appealed the district court decision to the Federal Circuit, where it remains pending (Appeal No. 16-2422).

Law, Facts, and Reasoning of the Board

The Eleventh Amendment of the United States Constitution provides that “[t]he 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, or by citizens or subjects of any foreign state.” The Board analyzed two primary issues: whether a state party generally can invoke sovereign immunity in an IPR proceeding, and whether the UFRF qualified as a state party.

The Board first observed that the Supreme Court has interpreted the scope of sovereign immunity under the Eleventh Amendment to extend not only to certain lawsuits in federal court but also to certain adjudicative administrative proceedings initiated by a private party against a nonconsenting state, citing *Fed. Mar. Comm’n v. South Carolina State Ports Auth.*, 535 U.S. 743, 753-61 (2002) (“*FMC*”) and also pointing to *Vas-Cath, Inc. v. Curators of Univ. of Missouri*, 473 F.3d 1376, 1383 (Fed. Cir. 2007) (applying *FMC* to interference proceedings before the BPAI). The Board noted that the reasoning in *FMC* relied in part on the degree to which the administrative adjudication at issue resembled a judicial proceeding. The Supreme Court in *FMC* concluded that the administrative proceeding at issue was so similar to civil

litigation that the Framers of the Constitution, having found it “an impermissible affront to a State’s dignity” for a private party to haul an unwilling State into federal court, would likewise not have found it “acceptable to compel a State to do exactly the same thing before the administrative tribunal of an agency.”

In *Vas-Cath*, the Federal Circuit held that, where the University of Missouri had provoked and participated in an interference, it could not subsequently assert Eleventh Amendment immunity to shield the Board’s decision from review in federal court. The interference proceedings were sufficiently similar to judicial proceedings that the University, by willingly participating in the interference, had essentially consented to such review. The Board in *Covidien* quoted the Federal Circuit’s detailing of the “strong similarities” between interference proceedings and civil litigation, including the presence of “adverse parties, examination and cross-examination by deposition of witnesses, production of documentary evidence, findings by an impartial adjudicator, and power to implement the decision.”

Petitioner Covidien’s arguments failed to persuade the Board. The Board rejected Covidien’s contention that, because a patent provides “a federally-issued property right” under statutory provisions and is obtained “subject to the Patent Office’s authority to review that property grant,” a patent grant is a “public right” subject to all statutory conditions for its grant. The Board reasoned that Covidien failed to cite persuasive authority that Eleventh Amendment immunity “may be limited or abrogated by a public rights exception.” The Board also rejected Covidien’s contention that an IPR is directed to the patent itself, and is not an adjudication of a private claim against another party. The Board noted, for example, that the “*inter partes*” in “*inter partes* review” literally means “between the parties.” Also, the rules that govern IPRs indicate that “the proceeding is directed to both parties over whom the Board exercises jurisdiction.” For example, the patent owner must be served with the IPR petition, and the IPR estoppel and other provisions function to protect patent owners from harassment. Further, an IPR is not comparable to an *in rem* proceeding such as a bankruptcy action, since the latter pits “one against the world,” whereas an IPR is “directed to evaluating the validity of the *patent owner’s* patent.” Thus, where there is an adverse judgment against the patent owner, the patent owner (and not the world at large) “is precluded from taking action inconsistent with the adverse judgment.” The Board likewise dispensed with the contention that an IPR is brought by the federal government against the patent owner. Rather, it is an action that any person other than the patent owner may bring. The Board’s functions of deciding whether to institute an IPR, reviewing the case on the merits, and issuing a final written decision “is not unlike that of the Commission in *FMC*.” The Board in *Covidien* therefore concluded that the analysis in *FMC* applied to this case.

The Board evaluated the similarities and differences between IPR and civil litigation and concluded that “the considerable resemblance between the two is sufficient to implicate” Eleventh Amendment sovereign immunity, pointing to, *inter alia*, the adversarial aspects of both, similarities in pleadings, procedure, and motion practice, the opportunity for discovery, and protection of confidential information. The Board discounted differences in remedies available, lack of personal jurisdiction over the patent owner in an IPR, standing requirements, opportunity to amend the claims in an IPR, the limits to discovery in an IPR, standards of proof, and pleading standard. The Board noted that the similarities in the present case resembled

those shared by interferences and civil litigation, which the Federal Circuit relied on in *Vas-Cath*.

The Board was not persuaded that the harms of immunizing potentially invalid state-owned patents from IPR challenge outweighed sovereign immunity, the point of which is “the preservation of the dignity afforded to sovereign states.” In mentioning that a state was free to waive its sovereign immunity in any given case, the Board pointed out that it was not deciding whether a patent owner bringing suit for infringement in federal district court would effect such a waiver. In consideration of the above, the Board concluded that Eleventh Amendment immunity bars the institution of an IPR against a non-consenting state that has not waived its immunity.

The Board further evaluated whether the UFRF was an arm of the State of Florida in view of the governing factors, which include how state law defines the entity, what degree of control the state maintains over the entity, where the entity derives its funds, and who is responsible for judgments against the entity. While conducting its own analysis, the Board also noted that the district court in the parallel litigation had already determined that the UFRF was an arm of the state. After careful consideration of each factor, the Board concluded that the UFRF was an arm of the state and thus “entitled to assert its sovereign immunity as a defense to the institution of an inter partes review of the '251 patent.” The Board therefore dismissed the three pending IPR petitions.

Additional details may be found in the accompanying copy of the Board’s issued decision.

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