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# Are State University-Owned Patents Immune from Validity Challenges at the USPTO?

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In three parallel decisions issued January 25, 2017, the Patent Trial and Appeal Board (PTAB) of the US Patent and Trademark Office (USPTO) ruled that state university-owned patents could not be challenged in *inter partes* review proceedings.* Specifically, the PTAB found that the Eleventh Amendment to the US Constitution "bars the institution of an *inter partes* review against an unconsenting state that has not waived sovereign immunity." The decisions dismissed three challenges by Covidien to patents owned by the University of Florida Research Foundation Incorporated (UFRF), which the PTAB determined is an arm of the State of Florida. This outcome strengthens the value of university-owned patents at the expense of parties with competing patent claims. It also could expand the involvement of many intellectual-property-driven industries with state-run institutions of higher learning.

Congress created *inter partes* review and post-grant review proceedings as a way to improve patent quality by offering a simpler, less expensive, and more expedient vehicle to challenge the validity of a patent than federal district court litigation. In general, the proceedings permit any party to petition the PTAB to invalidate a granted patent and have the matter decided within about 12 months. Since these USPTO patent challenges became available in 2012, over 6,000 patents have been challenged. The PTAB has instituted review in more than half of those cases, and has invalidated at least some of the claims in more than half of the patents it has reviewed. While these statistics may temper the PTAB's reputation as a "patent death squad," immunity from *inter partes* review still would be of significant value to state universities and their research partners.

Under the Eleventh Amendment, 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, or by Citizens or Subjects of any Foreign State." In its decisions, the PTAB noted that "[t]he Supreme Court has interpreted this amendment to encompass a broad principle of sovereign immunity, whereby the Eleventh Amendment limits not only the judicial authority of the federal courts to subject a state to an unconsented suit, but also precludes certain adjudicative administrative proceedings." On this point, the PTAB primarily relied on the US Supreme Court decision in *Federal Maritime Commission v. South Carolina State Ports Authority*, 535 U.S. 743 (2002) (*FMC*). The PTAB read the Court as holding that when an administrative proceeding is similar to civil litigation, "state sovereign immunity bar[s] … adjudicating complaints filed by a private party against a nonconsenting State."

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* *See* Orders Dismissing Petitions for Inter Partes Review Based on Sovereign Immunity, IPR2016-01274 (US Patent No. 7,062,251 B2); IPR2016-01275 (US Patent No. 7,062,251 B2); and IPR2016-01276 (US Patent No. 7,062,251 B2).

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Applying the principles of *FMC* to *inter partes* review proceedings, the PTAB determined that USPTO patent challenges are sufficiently similar to civil litigation to warrant state sovereign immunity. For example, the PTAB agreed with UFRF that Congress intended them to be "adjudicative" proceedings, and authorized litigation-type features, "including discovery, depositions, protective orders, the imposition of sanctions, and an oral hearing." *See* 35 U.S.C. § 316(a). The PTAB also agreed with UFRF that USPTO rules governing the proceedings make them litigation-like, such as the emphasis on the "pleadings" and decisions rendered by "panels of three impartial administrative patent judges (APJs) … who serve a role functionally comparable to that of an Article III judge," and "hav[e] the power to compel testimony." The PTAB also found it significant that the Federal Rules of Evidence, which govern civil litigation, also govern USPTO patent challenges.

The PTAB rejected the petitioner's arguments that *inter partes* review proceedings are sufficiently distinct from civil litigation so as to not raise state sovereign immunity concerns. For example, the PTAB disagreed that proceedings are *in rem* proceedings against "the patent itself," noting that "the term *inter partes* means *between the parties*" (emphasis added). It also cited the legislative history discussing "the [possible] harassment of *patent owners* through successive petitions by the same or related parties" (emphasis added). The PTAB cited the patent owner estoppel provisions of 37 C.F.R. § 42.73(d)(3)(i)-(ii) as further indication that a given proceeding "extends beyond the challenged patent at issue," and reaches "'any patent' that the patent owner may seek to obtain." Although the PTAB acknowledged specific differences between *inter partes* review proceedings and civil litigation, it determined "[o]n the whole" that "the considerable resemblance between the two is sufficient to implicate the immunity afforded to the States by the Eleventh Amendment."

Having determined that state-owned patents cannot be challenged in *inter partes* review proceedings, the PTAB next considered whether UFRF is an arm of the State of Florida. To do so, the PTAB applied the four factors set forth in *Manders v. Lee*, 338 F.3d 1304, 1309 (11th Cir. 2003) (*en banc*): (1) how state law defines the entity; (2) what degree of control the state maintains over the entity; (3) where the entity derives its funds; and (4) who is responsible for judgments against the entity. Weighing the facts of record under these factors, the PTAB determined that "UFRF is an arm of the State of Florida." The PTAB decisions also note that the US District Court for the Northern District of Florida reached the same conclusion in related litigation between the parties, and remanded the dispute to state court.

In view of its determinations that "Eleventh Amendment immunity applies to *inter partes* review proceedings," and that UFRF "is an arm of the State of Florida," the PTAB dismissed the *inter partes* review petitions that had been filed against the UFRF patents. Although PTAB decisions not to institute *inter partes* review are not reviewable, *see* 35 U.S.C. § 314(d), since these decisions were not made on the merits of the petitions, the US Court of Appeals for the Federal Circuit may have jurisdiction over an appeal. However, the petitioner did not seek Federal Circuit review.

Until the Federal Circuit weighs in, the ability to challenge a state university-owned patent in a USPTO proceeding will remain an open question. If state university-owned patents are indeed immune to *inter partes* review and post-grant review, that would make them inherently stronger than other patents, because they only could be challenged by a defendant whom the university has sued for infringement. (The PTAB left open the question whether sovereign immunity would obtain if the university had asserted the patent at issue in a parallel patent-infringement suit.) This application of sovereign immunity could incentivize greater investment in university-based technologies and impact the terms of joint-research agreements. For example, while corporate research partners often prefer to own all patent rights, this ruling favors at least joint ownership with state universities. It may also give state universities a leg up on their private university competitors.

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