

## PTAB Deals A Crippling Blow To Sovereign Immunity

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Patent Trial and Appeal Board Chief Judge David Ruschke recently dealt sovereign immunity a crippling blow.[1] Although Judge Ruschke confirmed that Eleventh Amendment immunity does apply to sovereign actors, he held that when a sovereign actor files a patent infringement lawsuit, immunity is waived. [2] Given that 80 percent of inter partes reviews involve patents in parallel litigation,[3] Judge Ruschke's order markedly blunts sovereign immunity strategies.

Judge Ruschke's opinion was given in an order denying a motion to dismiss for sovereign immunity. This article (1) describes the background of the parties and their arguments for and against the motion to dismiss, (2) analyzes the order denying the motion to dismiss, and (3) explores the future of sovereign immunity in the Patent Trial and Appeal Board (PTAB).



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### Background

The Regents of the University of Minnesota ("Minnesota") filed suit in November 2014 against four Ericsson Inc. customers. Ericsson moved to intervene in that suit and Minnesota did not oppose. On March 30, 2017, Ericsson filed petitions for inter partes review (IPR) challenging each of Minnesota's asserted patents.

In its petitions, Ericsson acknowledged that PTAB panels had found sovereign immunity shields state actors from IPRs,[4] but argued that Minnesota waived that immunity by asserting the challenged patents in district court.[5] Ericsson contended that filing patent litigation waives sovereign immunity with regard to all compulsory counterclaims[6] and that inter partes review is a compulsory counterclaim.[7] Finally, Ericsson quoted Minnesota in an unrelated case, *Reactive Surfaces*, where Minnesota addressed PTAB concerns of "gamesmanship" when a sovereign actor first files a patent lawsuit: "By voluntarily invoking federal jurisdiction in the infringement litigation, the state entity could be deemed to have waived its sovereign immunity to the IPR process ... ."[8]

Minnesota's motion to dismiss argued against waiver with two main points.[9] First, Minnesota contended that waiver only applies to proceedings in the same forum and that the PTAB and district court are not the same forum.[10] Second, IPRs are not compulsory counterclaims to a district court

complaint because IPRs are not pleadings in the district court.[11] Further, Minnesota argued that an IPR petition was not compulsory here because Ericsson voluntarily intervened in the lawsuit.[12] To defend its position in *Reactive Surfaces* regarding state waiver of sovereign immunity, Minnesota pointed out that it had simply identified the PTAB's options to curb abuses.[13]

Ericsson responded with case law. In response to Minnesota's forum argument, Ericsson argued that "[o]nce a state university avails itself of federal district court, it also subjects itself to *all* mechanisms available to a defendant to respond to and defend itself against a university's action." [14] Ericsson focused on *Vas-Cath, Inc. v. Curators of Univ. of Mo.*[15] which found waiver when a state appealed to a district court (rather than the Federal Circuit) in a state-initiated interference proceeding. In response to Minnesota's arguments about compulsory counterclaims, Ericsson argued that waiver is not limited to compulsory counterclaims[16] and, in the alternative, that IPRs are like compulsory counterclaims.[17] Ericsson distinguished Minnesota's cases on the facts[18] and argued that Ericsson's intervention in the litigation did not impact the waiver analysis.[19] Finally, Ericsson argued that sovereign immunity should not apply to IPRs in general.[20]

Minnesota's reply focused entirely on explaining relevant case law. For *Vas-Cath*, Minnesota argued that an appeal of an interference is a "*phase of the same proceeding.*" [21] Minnesota argued that New Mexico did not hold that waiver applies to all "*foreseeable*" actions but that waiver applies to all "*foreseeable aspects of fully resolving the state's claims.*" [22] Minnesota's argued that IPRs are not necessary to fully resolve the state's claims.[23]

### **Order Denying the Motion to Dismiss**

Judge Ruschke's order denying the motion to dismiss ("the order") was joined by Deputy Chief Judge Scott Boalick, Vice Chiefs Jacqueline Wright Bonilla and Scott Weidenfeller, and two original panel members, Judges Robert Weinschenk and Charles Boudreau.[24] The third original panel member, Judge Jennifer Bisk, authored a separate opinion concurring in the judgement.[25]

Judge Ruschke began by justifying the expanded panel through the "*exceptional nature of the issues presented*" [26] and "*to ensure uniformity of the Board's decisions involving*" issues of Eleventh Amendment immunity.[27] The order then turned to the general question of sovereign immunity before the PTAB.

Judge Ruschke agreed with prior PTAB decisions finding sovereign immunity applies to IPRs.[28] The order relied on the U.S. Supreme Court's finding of sovereign immunity in maritime law and the Federal Circuit's finding of sovereign immunity in interference proceedings.[29] Judge Bisk disagreed. In her concurrence, Judge Bisk argued that sovereign actors cannot invoke immunity in the PTAB because an IPR is an administrative procedure and not "*like a lawsuit.*" [30]

Judge Ruschke next turned to sovereign immunity waiver, finding "*that the filing of an action in federal court alleging infringement effectively waives Patent Owner's Eleventh Amendment immunity defense.*" [31] Judge Ruschke focused his waiver analysis almost entirely on "*fairness*": "*the rule governing waiver of immunity by litigation conduct rests on the need to avoid unfairness and inconsistency, and to prevent a State from selectively using its immunity to achieve a litigation advantage.*" [32]

The order first analogized an IPR petition to the compulsory counterclaims in New Mexico, finding a patent defendant must file a petition within one year "*or be forever barred from doing so.*" [33] Chief

Judge Ruschke made clear that he did not find an IPR petition to be a compulsory counterclaim, but noted that “the rationale [for waiver of a compulsory counterclaim] in New Mexico ... similarly supports that [Minnesota] waived its Eleventh Amendment immunity as to this proceeding.”[34]

Next, Chief Judge Ruschke observed that Minnesota’s litigation conduct triggered the one-year IPR bar and then found that Minnesota’s conduct justified waiver.[35] Specifically, “[i]t would be unfair and inconsistent” if a state could file a patent infringement suit and also “selectively invoke its sovereign immunity” to bar an inter partes review.[36] The order also found that Minnesota’s statements in Reactive Surfaces supported waiver, then found Minnesota’s distinguishing arguments to be unpersuasive: “We fail to see, though, how a State selectively asserting its sovereign immunity to achieve a litigation advantage for itself, rather than a PAE, is less unfair to a defendant.”[37]

The order then cited case law to support its “fairness” arguments, starting with the Supreme Court: “An animating principle of *Lapides* is that a state should not reap litigation advantages through its selection of a forum and subsequent assertion of sovereign immunity as a defense.”[38] Judge Ruschke distinguished Minnesota’s interpretation of case law, finding that the private party in Minnesota’s cases “did not suffer any substantial unfairness from [sovereign immunity] because the private party could still assert the exact same claims in the forum where the State filed its action.”[39]

### **The Future of Sovereign Immunity in the PTAB**

Although the order finds sovereign immunity does apply in the PTAB, waiver is a tough blow for patent owners seeking shelter behind sovereign immunity. First, the vast majority of IPR petitions come to the PTAB after an infringement complaint.[40] Second, those patent owners seeking to purchase tribal sovereign immunity must now accept the possibility of an IPR if the patent owner wants to assert a patent. In practice, this will severely devalue “immunity for hire” because a patent worth the price of sovereign immunity is a patent likely headed to litigation.

Although the Ericsson case did not involve “immunity for hire,” the expanded panel did address third parties sheltering behind sovereign immunity. Minnesota did not explicitly raise a patent assertion entity (PAE) when explaining its position in Reactive Surface, but Judge Ruschke did: “We fail to see, though, how a State selectively asserting its sovereign immunity to achieve a litigation advantage for itself, rather than a PAE, is less unfair to a defendant.”[41] This focus on third parties and fairness seems to map well to arguments that immunity-for-hire is unfair. [42] Further, given Judge Ruschke’s statements about fairness and uniformity in the order, we might expect to find a similarly populated (and predisposed) panel in the motion to dismiss in *Mylan v. Allergan* to “ensure fairness and uniformity.” [43]

Although not (yet) precedent, the order is as close as it gets to a binding decision. The order is authored by Judge Ruschke and cosigned by his deputy chief judge and vice-chief judges. Further, Judge Ruschke justified the expanded panel by his desire for “uniformity.” It is difficult to see a future panel of ALJs taking an approach at odds with the chief judge, his deputy chief judge and his vice chief judges.

For those seeking to preserve sovereign immunity in the PTAB, the next step is the Federal Circuit. The order offers fodder for a Minnesota appeal. For one, the order seems to presuppose state actors can waive sovereign immunity in the PTAB. For example, the order finds that the one-year statutory bar requires the petitioner to “file now or be forever barred.” Well, if sovereign immunity cannot be waived by filing a complaint, then the petitioner is already “forever barred” and the one-year statutory bar is moot. Similarly, the order frequently concludes that allowing a state to avail itself of litigation then

invoke sovereign immunity for IPRs would be “unfair and inconsistent.” But the order never explains why. Indeed, this same fairness rationale could justify post-litigation waiver in any circumstance. Further, the PTAB has previously limited itself to statutes to justify avoiding equitable determinations,[44] but the order sounds like a court in equity, citing “fairness” and “uniformity” in a policy-centric decision. Although “fairness” considerations appear to be at least consistent with Supreme Court precedent, such considerations are arguably inconsistent with an administration judge’s powers.[45]

In conclusion, Judge Ruschke’s opinion has severely curtailed sovereign immunity at the PTAB. For those patent owners relying on an “immunity for hire” strategy to strengthen litigation positions, the order is perhaps a fatal blow. Further, the order’s focus on “fairness” portends that the PTAB will not suffer patent owners licensing their patents to purchase sovereign immunity. But the order fails to answer some critical questions and raises important questions as to whether the PTAB is even the proper forum for sovereign immunity issues. The order is likely just round one and the final determination will come from the Federal Circuit or beyond.

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[1] IPR2017-01186, Paper 14, “Order Denying Patent Owner’s Motion to Dismiss” (PTAB Dec. 19, 2017); IPR2017-01068, Paper 19, “Order Denying Patent Owner’s Motion to Dismiss” (PTAB Dec. 19, 2017). This article focuses on Minnesota’s motion for dismissal in Ericsson’s inter partes review; LSI, Minnesota, and Board made largely the same arguments in LSI’s inter partes review.

[2] IPR2017-01186, Paper 14.

[3] <https://www.patexia.com/feed/patexia-chart-44-80-percent-of-ipr-filings-are-for-defensive-purposes-20171107> (accessed Dec. 20, 2017).

[4] IPR2017-01186, Paper 1 (Mar. 30, 2017), Page 10 (citing Covidien LP v. Univ. of Fla. Res. Found., IPR2016-01274, Paper 21 (PTAB Jan. 25, 2017)).

[5] Id. at 10-12.

[6] Id. at 11 (citing Regents of New Mexico v. Knight, 321 F.3d 1111 (Fed. Cir. 2003)).

[7] Id. (citing SAS Institute v. Complementsoft, LLC, 825 F.3d 1341, 1354 (Fed. Cir. 2016) (Newman, J. Dissenting)).

[8] Id. at 12 (quoting Reactive Surfaces Ltd. LLP v. Toyota Motor Corp, IPR2016-01914, Paper 23 at Pages 19-20 (PTAB Mar. 3, 2017)).

[9] IPR2017-01186, Paper 8 (PTAB Mar. 30, 2017), Page 1.

[10] Id. at 12-14 (citing Tegic Commc’ns Corp. v. Bd. of Regents of Univ. of Tex. Sys., 458 F.3d 1335,

1337-45 (Fed. Cir. 2006); *A123 Systems, Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1219-20 (Fed. Cir. 2010); *Mull v. Salisbury Veterans Admin. Med. Ctr.*, 2011 WL 3882479, at \*4 (DOL Admin. Rev. Bd. Aug. 31, 2011).

[11] *Id.* at 15 (citing *Vermont v. MPHJ Tech. Invs.*, 803 F.3d 635, 644 (Fed. Cir. 2015)).

[12] *Id.*

[13] *Id.* at 14.

[14] IPR2017-01186, Paper 10 (PTAB Jul. 5, 2017), Page 3 (citing *Gunter v. Atlantic Coast Line R. Co.*, 200 U.S. 273, 281-82, 289-90 (1906)) (emphasis in original).

[15] *Id.* at 4-5 (citing *Vas-Cath*, 473 F.3d 1376 (Fed. Cir. 2017)).

[16] *Id.* at 9-12.

[17] *Id.*

[18] *Id.*

[19] *Id.* at 12-13.

[20] *Id.* at 13-15.

[21] IPR2017-01186, Paper 11 (PTAB Jul. 12, 2017), Page 1 (emphasis in original).

[22] *Id.* at 2 (quoting *Tegic* at 1343-44) (emphasis in original).

[23] *Id.*

[24] Order at Cover Page.

[25] *Id.* In LSI's inter partes review, Judge Harlow filed a concurrence identical to Judge Bisk's in Ericsson's inter partes review. IPR2017-01068, Paper 19.

[26] Order at 3.

[27] *Id.* at 4.

[28] *Id.* at 4-5 (citing *Covidien*, Paper 21; *Neochord Inc., v. Univ. of Md., Baltimore*, IPR2016-00208, Paper 28 (PTAB May 23, 2017); *Reactive Surfaces Ltd v. Toyota Motor Corp*, IPR2016-01914, Paper 36 (PTAB Jul. 13, 2017)).

[29] *Id.* at 5-6 (citing *Fed. Mar. Comm'n v. S.C. State Ports Auth.*, 535 U.S. 743, 757-58, 765-66 (2002); *Vas-Cath* at 1381-82.)

[30] *Id.*, Bisk concurring.

[31] Id. at 7.

[32] Id. at 7 (citing *Lapides v. Bd. of Regents of Univ. Sys. of Ga.*, 535 U.S. 613, 620 (2002)).

[33] Id. at 8 (emphasis in original).

[34] Id. at 8, n.4.

[35] Id. at 8.

[36] Id. at 8-9 (citing *Lapides*, 535 U.S. at 619-20; *Tegic*, 458 F.3d at 1341-42).

[37] Id. at 9-10.

[38] Id. at 10 (quoting *Bd. of Regents of Univ. of Wis. Sys. v. Phoenix Int'l Software Inc.*, 635 F.3d 448, 466 (7th Cir. 2011)).

[39] Id. at 10-11 (quoting *A123 Sys.*, 626 F.3d at 1216; *Tegic*, 458 F.3d at 1344).

[40] <https://www.patexia.com/feed/patexia-chart-44-80-percent-of-ipr-filings-are-for-defensive-purposes-20171107> (accessed December 20, 2017).

[41] Order at 9-10.

[42] Mylan did not include a detailed argument about waiver argument in its “Opposition to St. Regis Mohawk Tribe’s Motion to Dismiss.” IPR2016-01127, Paper 87. After the Ericsson and LSI decisions, Mylan requested — and the Board granted — leave to file a two-page brief addressing St. Regis’ waiver of sovereign immunity.

[43] St. Regis seems to also expect the same panel. In the Mylan IPR, St. Regis filed a request for discovery for information from the Board. See, e.g., IPR2016-01127, “Patent Owner’s Request for Oral Hearing” (PTAB Jan. 2, 2018). Specifically, St. Regis requested discovery on, inter alia: the circumstances of the expanded panel (i.e., the inclusion of Chief Judge Rushcke, Deputy Judge Boalick, and Vice Chief Judges Bonilla and Wedenfeller) in Ericsson and LSI; any communications the panel has had with other ALJs, members of the executive branch, or members of congress; communications between Judges Bisk (Ericsson concurrence) and Harlow (LSI concurrence); and annual bonus and annual reviews of each member of the Mylan panel.

[44] See, e.g., *Athena Automaton Ltd. v. Husky Injection Molding Systems Ltd.*, IPR2013-00290, Paper 18 (PTAB Oct. 12, 2013) (designated precedential) Page 13 (“Because we are not persuaded that assignor estoppel, an equitable doctrine, provides an exception to the statutory mandate that any person who is not the owner of a patent may file a petition for an inter partes review, we decline to deny this Petition based on the doctrine of assignor estoppel.”).

[45] Accord, Order, Bisk concurring, Page 2, n.1 (“I am mindful that resolution of the instant motion requires us to address important constitutional issues that “are unsuited to resolution in administrative hearing procedures,” and further highlight that “access to the courts is essential to the decision of such questions.”) (internal citations omitted).