CLIENT ALERT

INTELLECTUAL PROPERTY

SOVEREIGN SHIELD DOES NOT EXTEND TO INTER PARTES REVIEWS

by Steven A. Caloiaro, Esq. and Caleb L. Green

On Friday, July 20, 2018, the Court of Appeals for the Federal Circuit addressed the controversial application of sovereign immunity for inter partes review ("IPR") in *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.* In *Mylan*, the Federal Circuit rejected the use of tribal sovereign immunity as an effective defense to an IPR. IPRs are relatively new United States Patent Trial and Appeal Board ("PTAB" or the "Board") proceedings that allow individuals or companies to request that the reexamination of claims in an already issued patent.

Like the individual U.S. States, federally recognized Native American Tribes are immune from lawsuits. This means, generally, Native American Tribes—like the Saint Regis Mohawk Tribe (the "Tribe")—may not be sued without express waiver. However, immunity does not apply where the federal government acting through an agency engages in an investigative action or pursues an adjudicatory agency action. *See, e.g., Pauma v. NLRB*, 888 F.3d 1066 (9th Cir. 2018).

In 2016, the Board instituted IPR proceedings for six of Allergan, Inc.'s ("Allergan") patents. After institution, but prior to the PTAB's review, Allergan sold the patents to the Tribe, who in turn granted Allergan an exclusive license to the patented drugs. The Tribe then asserted the IPR proceedings should be dismissed based on sovereign immunity. The Board ultimately denied the Tribe's motion. The Tribe then appealed to the Court of Appeals for the Federal Circuit. Ultimately, the Federal Circuit affirmed the PTAB decision to dismiss the Tribes motion.

Prior to *Mylan*, there existed no controlling precedent or statutory basis to apply tribal sovereign immunity to IPR proceedings. The Tribe relied heavily upon *Federal Maritime Commission v. South Carolina State Port Authority*, 535 U.S. 743 (2002) to support its claim that sovereign immunity should apply. In *FMC*, the United States Supreme Court considered whether state sovereign immunity precluded the Federal Maritime Commission ("FMC") from adjudicating a private party's complaint regarding a state-owned port. The Court recognized a difference between adjudicative proceedings brought by private party against a state and agency-initiated enforcement proceedings. In *FMC* the Court noted the "overwhelming similarities" with civil litigation in federal courts and the *FMC* proceeding, and held sovereign immunity applied.

The Tribe argued IPR proceedings are similar to those in FMC and are "contested, adjudicatory proceedings between private parties in which the petitioner, not the USPTO, defines the contours of the proceedings" and therefore are subject to the legal doctrine of sovereign immunity. Appellees contested that the Tribe may not invoke sovereign immunity to bypass IPR proceedings because IPR proceedings are more like a traditional agency action, not an action by a private party.

The Federal Circuit reasoned the agency proceedings are both functionally and procedurally different from civil litigation. The court considered four factors to draw contrast between the *FMC* proceedings and IPRs: (1) the USPTO Director's ("Director") role in IPR proceedings, (2) the role of the parties in an IPR proceeding, (3) the similarity of IPR procedures and the Federal Rules of Civil Procedure ("FRCP"), and (4) the Congressional intent of sovereign immunity.

In consideration of the first factor, the Federal Circuit noted that the Director—not a private party—wields the power to decide whether to proceed against sovereign groups. Another factor that weighed against the application of tribal immunity was that the Director also has the right to continue the review of patents when the challengers and patent owners drop out of the proceedings. By illuminating the lack of private party participation in IPR proceedings, the court drew further contrast between the *FMC* proceedings and bolstered the positon that IPRs are agency actions. The court also distinguished between IPRs and the procedures in FMC noting the functional and procedural differences between their respective amendment and discovery rules. Finally, the court relied on a recent Supreme Court case *Cuozzo Speed Techs.,* LLC v. Lee, 136 S. Ct. 2131, 2143–44 (2016) that held IPRs were simply agency proceedings that were designed to improve patent quality by giving the USPTO "a second look at an earlier administrative grant of a patent." *Cuozzo*, 136 S. Ct. at 2144. These proceedings were not the "type of proceedings from which the Framers would have thought the States possessed immunity," according to the Federal Circuit. Therefore, sovereign immunity did not extend to IPR proceedings by the PTAB.

Though not mentioned in the *Mylan* opinion, in addition to its reasoning, the Federal Circuit was likely motivated by policy concerns and public criticism of the transfer of Allergan patents to the Tribe. Many critics were concerned with the threat of large companies hindering market competition by bypassing administrative reexamination of its patents through tribal sovereign immunity. Notably, in an effort to provide a statutory remedy, United States Senator Claire McCaskill of Missouri introduced U.S. Senate Bill S.1948 that would strip patent holders of the ability to shield themselves from IPR through sovereign immunity. This piece of legislation may become increasingly important if the Tribe and Allergan can persuade the Federal Circuit to review the decision *en banc*, or directly petition the Supreme Court to reverse the Federal Circuit on appeal.

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Steven A. Caloiaro is Of Counsel in Dickinson Wright's Reno office. He can be reached at 775-343-7506 or scaloiaro@dickinsonwright.com