

Tribal sovereign immunity does not apply to PTAB proceedings

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On February 23 2018 a panel of three administrative patent judges at the Patent Trial and Appeal Board (PTAB) unanimously agreed that tribal sovereign immunity does not apply to PTAB proceedings in *Mylan v Saint Regis Mohawk Tribe*. Although likely to be applauded by Congress and the general public alike as a common-sense ruling, aspects of this decision may reverberate through the patent licensing community for years to come.

The PTAB has ruled in a series of decisions that public universities enjoy sovereign immunity to *inter partes* review proceedings by way of the Eleventh Amendment (see *NeoChord, Inc v University of Maryland, Baltimore* (IPR2016-00208, PTAB May 23 2017); *Covidien LP v University of Florida Research Found Inc* (IPR2016-01274, PTAB January 25 2017); and *Reactive Surfaces Ltd, LLP v Toyota Motor Corporation* (IPR2016-01914, PTAB July 13 2017).

However, in an act that was deemed clever by some and crazy by many others, Allergan, Inc attempted to leverage this apparent get-out-of-*inter-partes*-review-free card to protect patents directed towards their blockbuster drug Restasis. Allergan effectively gave their patents to a Native American tribe so that the tribe can claim tribal sovereign immunity as an *inter partes* review shield against petitions filed by Mylan Pharmaceuticals, Inc, Teva Pharmaceuticals USA, Inc and Akorn Inc.

Patent assignment

Allergan entered into a patent assignment agreement with the Saint Regis Mohawk Tribe, a federally recognised Indian tribe with reservation land in New York and more than 15,600 enrolled tribal members. Allergan assigned to the tribe multiple US patents and patent applications. On the same day as the execution of the assignment agreement the parties also entered into a patent licence agreement, in which Allergan licensed back the patents covering all US Food and Drug Administration-approved uses in the United States. Consideration for the agreements included an upfront payment of \$13.75 million from Allergan to the tribe for the assignment agreement and an additional \$15 million annually from Allergan during the royalty term of the licence agreement. As the assignee and owner of the issued patents, the tribe filed a motion to dismiss a series of *inter partes* review proceedings previously brought by Mylan, Teva and Akorn for lack of jurisdiction based on tribal sovereign immunity.

Panel decision

In its decision, the panel of three administrative patent judges unanimously agreed that, unlike state sovereign immunity, tribal sovereign immunity does not apply to PTAB proceedings. The judges stated that:

"The Tribe and its supporting amici... have not pointed to any federal court or Board precedent suggesting that... state sovereign immunity can or should be extended to an assertion of tribal immunity in similar federal administrative proceedings." (Page 8.)

Nor were the judges "persuaded that the tribal immunity doctrine applies to [*inter partes* review] proceedings" (page 11).

Unsurprisingly, much of the panel's reasoning lies in the differences between sovereign immunity enjoyed by states and Native American tribes. Unlike state sovereign immunity, which is protected under the Constitution, a tribe's sovereignty is derived from an act of Congress and "is of a unique and limited character" that "exists only at the sufferance of Congress and is subject to complete defeasance" (*United States v Wheeler* (435 US 313, 323 (1978))). The judges indicated that "[c]ourts have recognized only limited exceptions when a generally applicable federal statute should not apply to tribes" (page 12), and that none of these exceptions apply in this instance, including whether:

- the law touches exclusive rights of self-governance in purely intramural matters;
- the application of the law would abrogate the rights guaranteed by Native American tribes; and
- there is proof that Congress intended the law to not apply to Native Americans on their reservations.

Of interest to IP owners and licensees alike, the judges bolstered their decision further by taking aim at who the "true owner of the challenged patents is".



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The panel determined that, regardless of whether tribal immunity applies to *inter partes* review proceedings, the proceedings "can continue even without the Tribe's participation in view of Allergan's retained ownership interests in the challenged patents" (page 4). Dispensing with executed documents such as assignment agreements recorded with the US Patent and Trademark Office (USPTO) while simultaneously stating that they are not commenting on whether the agreements constitute a "sham transaction", the panel went so far as saying that "the proceedings can continue because Allergan is the true owner of the challenged patents" (page 19). It cited a Federal Circuit ruling where a "party that has been granted all substantial rights under the patent is considered the owner regardless of how the parties characterize the transaction that conveyed those rights" (*Speedplay, Inc v Bebop, Inc* (211 F3d 1245 (Fed Cir 2000))).

The judges completed an exhaustive analysis of the rights transferred to Allergan and the rights maintained by the tribe in making this determination, which included a review of the following factors:

- the right to sue for infringement;
- the right to make, use and sell products under the patents;
- the right to sub-license;
- the reversionary rights in patents;
- the right to litigation or licensing proceeds;
- the obligation to control patent prosecution and other USPTO proceedings and pay maintenance fees; and
- the right to assign interests in patents.

Further, the judges held that "in sum, upon considering the relevant License terms, [they] find that Allergan obtained all substantial rights in the challenged patents" (page 34). Patent owners should take stock of this decision when negotiating such clauses in their own patent licence agreements.

Comment

This decision is yet another blow to a system that has been repeatedly bruised in recent years. The constitutionality of *inter partes* review proceedings remains unclear and under consideration at the Supreme Court (see *Oil States Energy Services, LLC v Green's Energy Group, LLC*).

Patent owners' confusion and frustration towards the *inter partes* review process is reflected in a recent report from the [Chamber of Commerce](#) that dropped the US patent system to 12th in the world, stating that "this change is primarily driven by relative weakness in patentability requirements and patent opposition" and that "the opposition system in the U.S. provides a channel for bad faith actors and injects a great deal of cost and uncertainty for patent owners."

For patent owners and licensees, the confusion may be here to stay as this clearly is not the end of the story.

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