

Keep an Eye on the Issue of Sovereign Immunity When Licensing State University-Based Patent Rights in Light of *Ericsson Inc. v. Regents of the University of Minnesota*

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For 2019 and the foreseeable future, product development collaborations between universities and private industry are expected to continue;¹ the number of university licenses executed—exclusive, options, or nonexclusive—remained consistent from 2015 to 2017.² However, in light of a recent decision by the Patent Trial and Appeal Board (PTAB), parties may want to consider the issue of sovereign immunity that may arise when licensing patent rights from a state university.

The *Ericsson* Ruling

In December 2017, the PTAB ruled on *Ericsson Inc. v. Regents of the University of Minnesota*,³ an inter partes review (IPR) with potentially game-changing ramifications, not only for technology transfers between universities and private entities, but also for pipeline deals involving university-based patented technology. In 2014, the University of Minnesota sued AT&T, Sprint, T-Mobile, and Verizon for patent infringement.⁴ Ericsson Inc., a telecommunications company that supplied the defendants with equipment, intervened in the action and subsequently filed a petition for IPR of the relevant University patents.⁵

In *Ericsson*, the University of Minnesota asserted that it was entitled to avoid the PTAB IPR proceeding entirely as a sovereign immune to PTAB authority under the Eleventh Amendment.⁶ The PTAB agreed with the University of Minnesota and found that public universities are entitled to Eleventh Amendment immunity in IPRs, citing previous PTAB decisions affording Eleventh Amendment immunity to sovereigns in analogous court proceedings.⁷

However, the inquiry did not end there. Having lost on the immunity issue, Ericsson subsequently argued that the University of Minnesota had waived its Eleventh Amendment immunity by filing an action in federal court alleging infringement of the same patent being challenged in the petition for IPR. This time the PTAB agreed

with *Ericsson*, stating that “it is reasonable to view a State that files a patent infringement action as having consented to an *inter partes review* of the asserted patent.”⁸ The court further determined:

It would be unfair and inconsistent to allow a State to avail itself of the federal government’s authority by filing a patent infringement action in federal court, but then selectively invoke its sovereign immunity to ensure that a defendant is barred from requesting an *inter partes review* of the asserted patent from a different branch of that same federal government.⁹

These findings from the PTAB have significant consequences for the patent enforcement strategies of state universities and research institutions.¹⁰ Given the deal value of pharma, medical, and biotech worldwide and the increase in research expenditures from the federal government, industrial sponsors, and other sources by approximately 2 percent from 2016 to \$1.3 billion, *Ericsson* will also affect licensing and acquisitions of university-owned patents.

Post-*Ericsson* Considerations

As patent owners and state universities are well aware, competitors, licensees, and other parties seeking to invalidate patent claims have historically fared well in invalidating patent claims in IPRs.¹¹ *Ericsson* and other recent rulings require state universities to strategically consider the prospect of waiving their Eleventh Amendment immunity when they offensively enforce patent infringement claims in federal court. State universities may become more reluctant to initiate patent infringement actions to enforce their patent rights, because universities may not offensively enforce a patent in federal court while defensively asserting sovereign immunity to bar a third party the benefits of an IPR of the asserted patent.¹² In light of a decrease in patent applications by research institutions overall,¹³ universities will have to think twice about the extent to which they choose to enforce their patents. As such, acquirers and licensees of university patents should correspondingly tailor any agreements made with state universities to account for such strategic decision-making.

A third party purchasing state university-owned intellectual property outright extinguishes the sovereign immunity issue as long as the buyer is not a sovereign entity itself. Universities typically retain ownership of their patented inventions, so the much more likely scenario is that a license for a university patent is acquired either directly or as part of an M&A transaction with the consent of the university as the licensor. When a state university is the licensor, then *Ericsson* raises other consideration for how the parties structure the license—nonexclusive or exclusive, and if exclusive in what fields and territories. Under certain circumstances, an exclusive licensee of worldwide rights may be deemed to be the patent “owner” for purposes of standing to initiate patent infringement actions.¹⁴ In those cases, the state university and private licensee should consider whether licensing lesser rights to potentially retain sovereign immunity has any defensive advantage to ward off IPR by would-be infringers seeking a declaratory judgment to have the patent invalidated.

In any form of deal,¹⁵ the acquiring entity will essentially step into the shoes of the previous licensee and inherit the same post-*Ericsson* considerations. Accordingly, acquiring entities should pay careful attention to a target’s licenses of state university or state-owned intellectual property, as well as any agreements by which the target

has exclusively licensed intellectual property from a university for research and development. For example, state universities have the right to sue nonexclusive patent licensees for patent infringement if their activities are alleged to fall outside of the licensed activities. Accordingly, for defensive strategies, the acquirer of a nonexclusive license should understand that any patent infringement claim by the state university licensor against the licensee in federal court will waive sovereign immunity, thus leaving a petitioner-friendly PTAB IPR as a viable forum to challenge the validity of the patent. As another consideration, an acquirer of an exclusive, worldwide license should understand that the state university may not be able to effectively shield patents from IPR simply by asserting Eleventh Amendment immunity. The PTAB and federal courts will consider whether the state university has engaged in conduct that waives its immunity.

Conclusion

While it remains unclear if or how *Ericsson* will impact the market for state university licenses, third parties buying or licensing patents from a state university should consider the implications of *Ericsson* in the structure and terms of their agreements. The number of university licenses executed—exclusive, options, or nonexclusive—remained relatively stagnant from 2015 to 2017.¹⁶ Interestingly, in 2017 the number of exclusive licenses executed dropped by 1.3 percent from 2016 and 3.3 percent from 2015, while there has been a slight increase in the number of options and nonexclusive licenses over the same period.¹⁷ Practitioners should look out for further developments on the sovereign immunity front in 2019.

Endnotes

1. See, e.g., Alan B. Bennett et al., *Specific Issues with Material Transfer Agreements*, in *INTELLECTUAL PROPERTY MANAGEMENT IN HEALTH AND AGRICULTURAL INNOVATION: A HANDBOOK OF BEST PRACTICES* 697 (Anatole Krattiger et al. eds., 2007), <http://www.iphandbook.org/handbook/chPDFs/ch07/ipHandbook-Ch%2007%2003%20Bennett-Streitz-Gacel%20MTAs.pdf>; Arti K. Rai & Rebecca S. Eisenberg, *The Public and the Private in Biopharmaceutical Research*, in *PROCEEDINGS OF THE CONFERENCE ON THE PUBLIC DOMAIN* (2001), <https://law.duke.edu/pd/papers/raieisen.pdf>.

2. ASS'N OF UNIV. TECH. MANAGERS, AUTM 2017 LICENSING ACTIVITY SURVEY 10 (2017) [hereinafter AUTM SURVEY].

3. No. IPR2017-01186, Paper No. 14 (P.T.A.B. Dec. 19, 2017).

4. *Regents of Univ. of Minn. v. AT&T Mobility LLC*, 135 F. Supp. 3d 1000, 1003 (D. Minn. 2015).

5. Petition for Inter Partes Review of U.S. Patent No. 8,774,309 at 1, *Ericsson Inc. v. Giannakis*, No. IPR2017-01186 (P.T.A.B. Mar. 28, 2017). Established by the America Invents Act, IPRs are trial proceedings before the PTAB instituted by a third party to review the patentability of one or more claims in a patent only on a ground that could be raised under § 102 or § 103 of the Act. They represent an opportunity for third parties to challenge the validity of a patent that has been asserted in federal court before a body with greater expertise.

6. *Ericsson*, No. IPR2017-01186, Paper No. 14.

7. *Id.* at 4–5 (citing *Reactive Surfaces Ltd., LLP v. Toyota Motor Corp.*, No. IPR2016-01914, Paper No. 36 (P.T.A.B. July 13, 2017) (granting in part motion to dismiss and dismissing the University of Minnesota from an IPR proceeding); *NeoChord, Inc. v. Univ. of Md., Balt.*, No. IPR2016-00208, Paper No. 28 (P.T.A.B. May 23, 2017) (granting motion to dismiss and terminating an IPR); *Covidien LP v. Univ. of Fla. Research Found. Inc.*, No. IPR2016-01274, Paper No. 21 (P.T.A.B. Jan. 25, 2017) (granting motion to dismiss and dismissing three petitions requesting an IPR)).

8. *Id.* at 8.

9. *Id.* at 8–9.

10. In *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals, Inc.*, 896 F.3d 1322 (Fed. Cir. 2018), the Federal Circuit Court of Appeals found that tribal immunity does not extend to administrative actions before the PTAB. Allergan Inc. had been trying to shield its patents from PTAB review by licensing them to Saint Regis Mohawk Tribe, which in turn would assert tribal immunity. Judicial prognosticators see both *Ericsson* and *Saint Regis Mohawk Tribe* as presenting an issue asking to be answered by the U.S. Supreme Court.

11. See Mark Cutler, *3 Years of IPR: A Look at the Stats*, Law360 (Oct. 9, 2015), <https://www.law360.com/articles/699867/3-years-of-ipr-a-look-at-the-stats> (“Overall, as of the IPR three-year anniversary, if your patent claims are targeted in an IPR petition, the odds of each claim surviving is now almost a flip of the coin: 51 percent.”); Daniel F. Klodowski et al., *Special Report—PTAB IPR Stats Over Time (Q4 2013–Q3 2018)*, FINNEGAN (Nov. 30, 2018), <https://www.finnegan.com/en/insights/blogs/america-invents-act/special-report-ptab-ipr-stats-over-time-q4-2013-q3-2018.html> (showing that the IPR cumulative average instituted claim survival rate by year has hovered between 20 percent and 25 percent since 2014). *But see* Josh Landau, *IPR Statistics—Success Is Sector Specific*, PAT. PROGRESS (June 23, 2017), <https://www.patentprogress.org/2017/06/23/ipr-statistics-success-sector-specific/> (finding that IPR claims against biotech patents are less likely to be instituted, and that those patents fare better even when they are).

12. This hypothetical posed by the PTAB in *Ericsson* is essentially what happened in *Saint Regis Mohawk Tribe*.

13. The number of patent applications filed in the United States by research institutions decreased from 12,114 in 2016 to 11,418 in 2017. AUTM SURVEY, *supra* note 2, at 8.

14. See *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1358–59 (Fed. Cir. 2010) (“A patent owner may transfer all substantial rights in the patents-in-suit, in which case the transfer is tantamount to an assignment of those patents to the exclusive licensee, conferring standing to sue solely on the licensee.” (citing *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SpA*, 944 F.2d 870, 873–74 (Fed. Cir. 1991))). In determining whether an exclusive license is tantamount to an assignment, the Federal Circuit looks to the intention of the

parties, manifested in the license agreement, and the substance of what was granted. *Mentor H/S, Inc. v. Med. Device All., Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001).

15. Asset purchases, forward mergers, and forward triangular mergers are likely to be treated as assignments of the target's license, whereas reverse triangle mergers and stock purchases constitute changes in control. For more information on the most common types of mergers and how deal structure can affect intellectual property rights, see Elaine D. Ziff, *The Effect of Corporate Acquisitions on the Target Company's License Rights*, 57 *BUS. LAW.* 767 (2002).

16. AUTM SURVEY, *supra* note 2, at 10.

17. *Id.*

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