



Sovereign immunity protects patent owners from what some see as PTAB's kangaroo court, says tribe lawyer

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The recent news that pharma giant Allergan and tech company SRC Labs have licensed patents to a Native American tribe in an attempt to protect the patents from *inter partes* review (IPR) has once again catapulted the controversial post-issuance review process into the wider business press. With the Supreme Court due to hear *Oil States*, a case concerning the constitutionality of IPRs, in its next term, the Patent Trial and Appeal Board (PTAB) is in the spotlight like never before.



Richard Lloyd

Since the move by the pharma giant was announced early last week there has been an avalanche of press and blog coverage (you can read what this blog had to say here and another piece on Indian tribes and sovereign immunity, which is particularly worth reading, here). The Saint Regis Mohawk Tribe was clearly unimpressed by some of the ensuing coverage and so yesterday put out a statement in what it described as a clarification. Clearly keen to play to the patent gallery the statement ended with: "A strong patent system is in everyone's best interest, which is why patent protection is one of our original constitutional rights."

As the tribe pointed out, the idea of using sovereign immunity as a shield against IPRs is nothing new. The University of Florida Research Foundation was the first to raise it as a defence earlier this year in a review brought by Covidien. Since then a number of other universities have claimed sovereign immunity, but the cases involving Allergan and SRC Labs appear to be the first where an entity that enjoys immunity has proactively approached patent owners and proposed to take ownership of their IP.

One of the University of Florida's law firm, Dallas-based Shore Chan DePumpo is also acting for Saint Regis alongside the tribe's strategic IP advisers at Soryn IP Group. Yesterday I caught up with Saint Regis general counsel Dale White, and tribe's advisers from Shore Chan and Soryn to hear more about how the two deals with the tribe came about.

Shore Chan counts a number of state universities among its client base and first used sovereign immunity in a case involving the University of Texas back in the mid-2000s. After the firm's success in the University of Florida case (which Shore says forced Covidien to settle with the university within hours of the PTAB's decision for "a lot of money"), Shore and Evans started to consider other entities that enjoy sovereign immunity.

"We realised that there's an arbitrage here — there's the value of a non-sovereign patent which is much lower than the value of a sovereign patent," Shore commented. However, according to Shore, bureaucracy and politics mean it can be difficult to convince state universities to more actively take advantage of their sovereign status. That led them to contacting several native American tribes, but they struggled to convince any of them to agree to a deal. "We could not get any traction for a while because it was such a new concept and some of the tribes we talked to didn't understand it," Shore said. "We went to the St Regis through a contact we had in the tribal economic development community and if they hadn't gone for it we probably would have given up. But we got lucky and ran into a tribe with a very sophisticated business operation."

The Allergan and SRC Labs deals have placed the St Regis tribe and its advisers at the heart of the debate around the fairness of the IPR process that has dogged it for much of the last five years. Unless the courts or Congress somehow step in to limit the application of sovereign immunity in patent cases, native American tribes could suddenly become significant players in the IP value creation market. It's probably fair to say that no one who helped hash out the America Invents Act (AIA) saw that one coming.

The tribe's lawyers, however, are clearly well aware of any accusation that tribe-owned IP now has a pass against any validity challenges. "We want to make it really abundantly clear that the tribe is not going to insulate a patent from being attacked on validity — if a patent is invalid, it's invalid. But what they are insulating it from is what has been perceived as a kangaroo-court type atmosphere where all the expectations of patentees that have existed for 150 years are thrown out of the window," Shore stated.

"So now if you want to invalidate a patent where fees have been paid, costs have been incurred, investments have been made then you have to go to court, you have to face a jury and you have to have an Article III judge, not some associates that have been appointed by Michelle Lee, an ex-Google lawyer. Plus you get a presumption of validity and a clear and convincing evidence standard — basically the expectations of the patentee that existed for 150 years are respected."

While the patent transfer involving SRC Labs was the first to go through, many of its details - such as the motivation for doing it - remain private (you can see details of the assignment here). But Shore did reveal that the planned commercialisation deal involving the assets is "not an IPR-centred transaction" and added that it "would be either a go or no-go by the end of the month".

For the St Regis tribe there's no doubt that these agreements have the potential for transformational change. As part of the Allergan deal the tribe has netted \$13.75 million up front and stands to make a further \$15 million a year in royalties. "This is a game changing development in terms of the needed revenue that it will bring to tribe," commented White, who is both the tribe's GC and a tribal member. So far they have received the initial \$13.75 million payment and have set up a special operation to help manage the patents and possible technology-related projects.

"We're probably going to sit on the upfront money for a while as we decide what to do but the vision of the tribe is to use all the funds that we receive, including putting some back into our technology, research and patent office," White said. "This is diversification for us and the remaining monies will be used in areas like housing, for elders and for youth programmes." On the technology front White revealed that they were looking at a possible data storage centre. "The ultimate goal is to be nearly identical to a technology transfer office at a major research university," he added.

Although this latest development in IPR sovereign immunity will no doubt be of interest to many patent owners, it could be particularly powerful for the pharma sector where brand name companies derive hundreds of millions of dollars from the IP behind their drugs. As Soryn IP Group's Michael Gulliford pointed out: "In life sciences you have companies of all sizes who are disproportionately exposed to the IPR process because you have drugs and billions of dollars in R&D that are supported by a handful of patents." That creates opportunities both for generic manufacturers and investors (as was the case with Kyle Bass and Erich Spangenberg) to challenge brand name drugs at the PTAB and profit from any successful IPRs.

Not surprisingly, the news about the Allergan deal has generated a huge amount of interest in the tribe and its lawyers. Shore estimated that he had fielded 200 calls from interested parties since the news broke. But he cautioned against this becoming a motivation for lots of copycat agreements. "This is not a high volume business — this is a high quality, very heavily vetted business plan," he said. "We're going to continue to execute our strategy in a responsible way and hopefully that will result in more deals but if they're not the right deals it won't."

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