

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

COVIDIEN LP,
Petitioner,

v.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION
INCORPORATED,
Patent Owner.

Cases

IPR2016-01274 (Patent 7,062,251 B2)

IPR2016-01275 (Patent 7,062,251 B2)

IPR2016-01276 (Patent 7,062,251 B2)

Before KRISTEN L. DROESCH, BRYAN F. MOORE, and
FRANCES L. IPPOLITO, *Administrative Patent Judges*.

IPPOLITO, *Administrative Patent Judge*.

ORDER

Dismissing Petitions for *Inter Partes* Review Based on Sovereign Immunity
37 C.F.R. §§ 42.5, 42.72

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I. INTRODUCTION¹

On June 28, 2016, Covidien LP (Petitioner) filed three petitions seeking *inter partes* review of claims 1–18 of U.S. Patent No. 7,062,251 B2 (Exhibit 1001, “the ’251 patent”) pursuant to 35 U.S.C. §§ 311–19. IPR2016-01274, Paper 2 (“Pet.”); IPR2016–01275, Paper 3; IPR2016-01276, Paper 3. Prior to the deadline for Patent Owner University of Florida Research Foundation Incorporated (“UFRF”) to file its Preliminary Response, Patent Owner requested a conference call with the Board for authorization to file (1) a motion to dismiss Petitioner’s Petition on the basis of UFRF’s sovereign immunity and (2) a motion to suspend the deadline for the filing of the Preliminary Response pending the Board’s decision on Patent Owner’s motion to dismiss based on sovereign immunity. IPR2016-01274, Paper 9 (“Order”). Our September 7, 2016 Order summarizes the August 31, 2016 conference call that took place between counsel for the parties and Judges Ippolito, Moore, and Droesch. Paper 9.

As indicated in our Order, we authorized the filing of Patent Owner’s Motion to Dismiss Based on UFRF’s Sovereign Immunity (Paper 12, “Mot.”), Petitioner’s Opposition to Patent Owner’s Motion (Paper 15, “Opp.”), and Patent Owner’s Reply to Petitioner’s Opposition (Paper 16, “Reply”)². We, however, denied Patent Owner’s request to suspend the

¹ This Decision addresses an issue that is identical in all three cases. Therefore, we exercise our discretion to issue one Decision to be filed in each of the three cases. The parties, however, are not authorized to use this style heading in subsequent papers.

² Unless indicated otherwise, citations refer to documents filed in IPR2016-01274.

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deadline for Patent Owner to file its Preliminary Response. Nonetheless, in consideration of the briefing schedule, we have extended the deadline for the filing of Patent Owner's Preliminary Response to March 3, 2017. *See* Papers 11, 17, 20.³

This Decision addresses the issue of whether Patent Owner UFRF is entitled to Eleventh Amendment immunity defense to the institution of an *inter partes* review of the '251 patent.

For the reasons discussed below, we determine that Patent Owner UFRF, as an arm of the State of Florida, is entitled to a sovereign immunity defense to the institution of an *inter partes* review of the challenged patent. Further, we dismiss Petitioner's Petitions in IPR2016-01274, -01275, and -01276 because UFRF has successfully raised this defense in these proceedings.

II. BACKGROUND

By way of background, Patent Owner filed an action in the Circuit Court of the Eighth Judicial District in Florida, Case No. 01 2016 CA 001366, against Petitioner alleging breach of a license contract between the parties involving the '251 patent. Mot. 1; Pet. 2. In that suit, Petitioner responded with a counterclaim seeking a declaratory judgment that it does not infringe the '251 patent. Mot. 1. On this basis, Petitioner successfully removed the state court suit to the United States District Court for the Northern District of Florida. Mot. 1; *Univ. of Fla. Res. Found., Inc. v.*

³ After filing its Reply, Patent Owner renewed its request to file a motion to suspend the filing deadline for its Preliminary Response. We denied that request, but extended the preliminary response filing date to March 3, 2017. Papers 17, 19, 20.

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Medtronic PLC, Case No. 1:16CV183-MW/GRJ, 2016 WL 3869877 (N.D. Fla. July 15, 2016) (“*UFRF v. Medtronic*”). Separately, Petitioner also filed three petitions requesting *inter partes* review of the ’251 patent. *See* Pet. 2–3.

Following removal of its dispute to district court, Patent Owner argued there that it is an arm of the State of Florida through the University of Florida. On this basis, UFRF argued that it is entitled to Eleventh Amendment immunity from Petitioner’s declaratory judgment counterclaim in the federal court. *UFRF v. Medtronic*, 2016 WL 3869877, at *1. The District Court agreed with Patent Owner and remanded the action back to state court. *Id.* at *1–16. Petitioner has since appealed the District Court’s decision, which is currently pending at the Federal Circuit (Appeal No. 16-2422).

III. ANALYSIS

a. Sovereign Immunity in Administrative Proceedings

The Eleventh Amendment of the United States Constitution provides that the “Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.” U.S. CONST. amend. XI. The Supreme Court has interpreted this amendment to encompass a broad principle of sovereign immunity, whereby the Eleventh Amendment limits not only the judicial authority of the federal courts to subject a state to an unconsented suit, but also precludes certain adjudicative administrative proceedings, depending on the nature of those proceedings, from adjudicating complaints filed by a private party

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against a nonconsenting State. *Fed. Mar. Comm'n v South Carolina State Ports Auth.*, 535 U.S. 743, 753–761 (2002) (“*FMC*”); *see also Vas-Cath, Inc. v. Curators of Univ. of Missouri*, 473 F.3d 1376, 1383 (Fed. Cir. 2007) (applying *FMC* to interference proceedings and observing that “contested interference proceedings in the PTO bear ‘strong similarities’ to civil litigation, . . . and the administrative proceeding can indeed be characterized as a lawsuit” (citation omitted)).

Of particular relevance to our inquiry is the Supreme Court’s decision in *FMC*. In *FMC*, South Carolina Maritime Services, Inc., a cruise ship company, filed a complaint against the South Carolina State Ports Authority (SCSPA) with the Federal Maritime Commission (Commission) seeking damages and injunctive relief from the SCSPA’s repeated denials of Maritime Services’ requests for permission to berth a cruise ship in the port facilities in Charleston, South Carolina. *FMC*, 535 U.S. at 747–749. Maritime Services’ Complaint was referred to an administrative law judge (ALJ) at the Commission for review. SCPSA moved to dismiss Maritime Services’ Complaint because the “Constitution prohibits Congress from passing a statute authorizing Maritime Services to file this Complaint before the Commission and, thereby sue the State of South Carolina for damages and injunctive relief.” *Id.* at 749. The ALJ handling the matter agreed with SCPSA and dismissed Maritime Services’ Complaint. *Id.*

The Commission then performed its own review of the ALJ’s dismissal and found that the doctrine of state sovereign immunity “is meant to cover proceedings before judicial tribunals, whether Federal or State, not executive branch administrative agencies like the Commission.” *Id.* at 750.

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SCSPA appealed the Commission’s findings to the Fourth Circuit Court of Appeals. *Id.* In reversing the Commission’s decision, the Fourth Circuit Court of Appeals reviewed the “precise nature” of the procedures employed by the Commission and determined that “the Commission’s proceeding walks, talks, and squawks very much like a lawsuit and . . . its placement within the Executive Branch cannot blind us to the fact that the proceeding is truly an adjudication.” *Id.* at 750–751.

At the Supreme Court, in a 5-4 majority decision, with Justice Thomas writing for the majority, the Supreme Court began with the sentiment that “[t]he Framers, who envisioned a limited Federal Government, could not have anticipated the vast growth of the administrative state.” *FMC*, 535 U.S. at 755. The Court further explained that, in these circumstances, a “*Hans* presumption” of sovereign immunity may apply where “the Constitution was not intended to raise up any proceedings against the States that were anomalous and unheard of when the Constitution was adopted.” *Id.* (citing *Hans v. Louisiana*, 132 U.S. 1, 18 (1890)). To decide whether the “*Hans* presumption” applies, the Supreme Court examined the nature of the Commission’s adjudication proceedings to “determine whether they are the type of proceedings from which the Framers would have thought the States possessed immunity when they agreed to enter the Union.” *Id.* at 756. The Court further noted generally that there are numerous common features shared by administrative adjudications and judicial proceedings:

Federal administrative law requires that agency adjudication contain many of the same safeguards as are available in the judicial process. The proceedings are adversary in nature. They

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are conducted before a trier of fact insulated from political influence. A party is entitled to present his case by oral or documentary evidence, and the transcript of testimony and exhibits together with the pleadings constitute the exclusive record for decision. The parties are entitled to know the findings and conclusions on all of the issues of fact, law, or discretion presented on the record. *Ibid.* (citations omitted).

Id. at 756–757.

The Court further observed that the similarities between the Commission’s proceedings and civil litigation were “overwhelming.” *FMC*, 535 U.S. at 759. For example, the Court found that the Commission’s Rules of Practice and Procedure “bear a remarkably strong resemblance to civil litigation in federal courts (e.g., similarity between the Commission’s rules governing pleadings and discovery and the Federal Rules of Civil Procedure). *Id.* at 757–58.

Additionally, the Court found that the role of the ALJ assigned to hear cases at the Commission was similar to that of an Article III judge. *Id.* at 758–59. In particular, the ALJ prescribed the order in which evidence shall be presented; disposed of procedural requests or similar matters; heard and ruled upon motions; administered oaths and affirmations; examined witnesses; directed witnesses to testify or produce evidence available to them; ruled upon offers of proof; and disposed of any other matter that normally and properly arose in the course of proceedings. *Id.* The Court noted the ALJ fixed the time and manner of filing briefs and issued a decision that included a statement of findings and conclusions, “as well as the reasons or basis therefor, upon all the material issues presented on the record, and the appropriate rule, order, section, relief, or denial thereof.” *Id.* at 759. The Court added that the ALJ’s ruling subsequently becomes the

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final decision of the Commission unless a party appeals to the Commission or the Commission decides to review the ALJ's decision "on its own initiative." *Id.* at 759.

Based on these similarities between the Commission's proceeding and civil litigation, the Court held that state sovereign immunity barred the Commission from adjudicating complaints filed by a private party against a nonconsenting State. *Id.* at 760. In doing so, the Court commented that

if the Framers thought it an impermissible affront to a State's dignity to be required to answer the complaints of private parties in federal courts, we cannot imagine that they would have found it acceptable to compel a State to do exactly the same thing before the administrative tribunal of an agency, such as the FMC. The affront to a State's dignity does not lessen when an adjudication takes place in an administrative tribunal as opposed to an Article III court. In both instances, a State is required to defend itself in an adversarial proceeding against a private party before an impartial federal officer. Moreover, it would be quite strange to prohibit Congress from exercising its Article I powers to abrogate state sovereign immunity in Article III judicial proceedings but permit the use of those same Article I powers to create court-like administrative tribunals where sovereign immunity does not apply.

Id. at 760–761 (citations omitted).

After *FMC*, the Federal Circuit decided *Vas-Cath, Inc. v. Curators of the University of Missouri*, 473 F.3d 1376 (Fed. Cir. 2007), in which the Federal Circuit reversed the district court's dismissal of Vas-Cath's appeal of the interference decision in favor of the Curators of the University of Missouri ("University of Missouri"). The Patent Office issued a patent to Vas-Cath while the University of Missouri's patent application was pending. *Id.* at 1379. The University of Missouri copied all the claims from Vas-

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Cath's patent to invoke an interference proceeding between the parties. *Id.* The Board awarded priority to the University of Missouri and granted the claims to the University of Missouri. *Id.* Vas-Cath appealed the Board's decision to the district court, pursuant to 35 U.S.C. § 146. *Id.* In response, the University of Missouri asserted Eleventh Amendment immunity from suit in federal court and moved to have the appeal dismissed. *Id.* The district court granted the University of Missouri's motion, which Vas-Cath appealed to the Federal Circuit.

In reversing the district court's dismissal, the Federal Circuit noted that the suit was not by an individual against an unconsenting state, but involved review of an agency adjudication to which the state had consented by requesting the interference and participating in the proceeding. *Id.* at 1383. The Federal Circuit concluded that "when the University initiated and participated in the interference, its participation included the ensuing statutory review procedures; the University cannot invoke Eleventh Amendment immunity, after it prevailed, to shield the agency decision from review." *Id.* at 1384.

In its decision, the Federal Circuit referred to the Supreme Court's *FMC* analysis and commented on similarities between an interference proceeding and civil litigation. *Vas-Cath*, 473 F.3d at 1382. The Federal Circuit stated

[i]n *Federal Maritime Comm'n v. South Carolina State Ports Authority*, 535 U.S. 743, 757–59, 122 S.Ct. 1864, 152 L.Ed.2d 962 (2002) the Court drew analogy between some agency proceedings and civil litigation, in that case to preserve the immunity of the non-consenting state in the agency proceeding. *Like proceedings in the Federal Maritime Commission*,

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contested interference proceedings in the PTO bear “strong similarities” to civil litigation, id. at 760, 122 S.Ct. 1864, and the administrative proceeding can indeed be characterized as a lawsuit. PTO interferences involve adverse parties, examination and cross-examination by deposition of witnesses, production of documentary evidence, findings by an impartial federal adjudicator, and power to implement the decision. *See, e.g., 37 C.F.R. § 1.651(a)* (during an interference, “an administrative patent judge shall set a time for filing motions (§ 1.635), for additional discovery under § 1.687(c) and testimony period for taking any necessary testimony.”); § 1.671(a) (“Evidence [for an interference] consists of affidavits, transcripts of depositions, documents and things.”); § 1.671(b) (“[T]he Federal Rules of Evidence shall apply to interference proceedings” except “[t]hose portions of the Federal Rules of Evidence relating to criminal actions, juries, and other matters not relevant to interferences.”).

Id. (emphases added).

With these cases in mind, we turn now to the facts, arguments, and evidence before us in the instant proceedings.

b. Whether the *FMC* Decision Applies to *Inter Partes* Review Proceedings

As a threshold issue, Petitioner argues that the *FMC* decision does not apply to *inter partes* reviews because these proceedings are a mechanism for the Office to take “‘a second look at an earlier administrative grant of a patent’ – a federally-issued property right that would not exist but for the statutory provisions in the Patent Act.” Opp. 1 (citing *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144 (2016)). Petitioner asserts the Office may issue a patent only if it appears that the applicant is entitled to a patent under standards defined by federal law because a patent is “created by the act of Congress; and no rights can be acquired in it unless authorized by statute,

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and in the manner the statute prescribes.” *Id.* at 3 (citing 35 U.S.C. § 131; *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 494 (1850)). Further, according to Petitioner, “a[] patent owner takes a patent *subject to* the Patent Office’s authority to review that property grant.” *Id.* at 2.

In this regard, Petitioner contends that the patent grant is not a private right but a *public right* subject to all statutory conditions for its grant. *Id.* at 3 (citing *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985)). Petitioner further relies on *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1289 (Fed. Cir. 2015), *cert. denied* (Oct. 11, 2016) (No. 15-1330), for the proposition that “because patent rights are public rights, ‘their validity is susceptible to review by an administrative agency.’” *Opp.* 4 (citing *MCM*, 812 F.3d at 1289). Petitioner adds that the Office has conducted proceedings that correct or cancel issued patents for decades without “any suggestion that this authority would be limited by sovereign immunity.” *Id.*

Petitioner’s arguments are unpersuasive. Petitioner does not cite to any case law, or persuasive authority otherwise, supporting its position that a state’s Eleventh Amendment immunity may be limited or abrogated by a public rights exception. In *MCM*, Petitioner MCM argued that *inter partes* reviews are unconstitutional because any action revoking a patent must be tried in an Article III court with the protections of the Seventh Amendment. *MCM*, 812 F.3d at 1288. Disagreeing with Petitioner MCM, the Federal Circuit noted that the public rights exception allows Congress to delegate disputes over public rights to non-Article III courts. *Id.* at 1289. The Federal Circuit further noted that prior Federal Circuit precedent,

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particularly *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985) and *Joy Technologies v. Mandbeck*, 959 F.2d 226 (Fed. Cir. 1992), have held that “the issuance of a valid patent is primarily a public concern and involves a ‘right that can only be conferred by the government even though validity often is brought into question in disputes between private parties.’” *MCM*, 812 F.3d at 1291 (citing *Joy*, 959 F.2d at 228; *Patlex*, 758 F.2d at 604).

Nonetheless, although the *MCM* decision held that *inter partes* reviews do not violate Article III or the right to a jury trial under the Seventh Amendment, this decision did not address the particular issue before us, which is whether *inter partes* reviews implicate the immunity afforded to a state by the Eleventh Amendment. Thus, Petitioner’s arguments based on the public rights exception are unpersuasive.

Next, Petitioner argues that sovereign immunity is irrelevant to *inter partes* reviews because these proceedings are directed to the patent itself, and are not suits or adjudications of a private claim *against* the state by another party. Opp. 5–7. Petitioner points to the fact that a patent owner is not subject to a monetary judgment in an *inter partes* review and that the Office may continue an *inter partes* review without the petitioner’s participation. Opp. 6 (citing 35 U.S.C. § 317(a); *Cuozzo*, 136 S. Ct. at 2131, 2136). Petitioner further describes the federal government as the acting party in an *inter parte* review, and argues that a state entity cannot use sovereignty to prevent the federal government from bringing an action against it. *Id.* at 7. In a separate section of its Opposition, Petitioner additionally analogizes *inter partes* reviews to in rem bankruptcy actions “in which jurisdiction of the adjudicating court or agency is predicated on the

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property such that the owner’s sovereign immunity is irrelevant.” Opp. 9 (citing *Tennessee Student Assistance Corp. v. Hood*, 541 U.S. 440, 446–447 (2004)). In this context, Petitioner argues that the Office does not exercise jurisdiction over a patent owner in an *inter partes* review and the identity of the patent owner is irrelevant. *Id.* at 10.

We do not agree that the *FMC* decision is inapplicable to *inter partes* reviews on this basis. First, in *FMC*, the Court observed that the type of relief sought is irrelevant to the issue of whether a suit is barred by the Eleventh Amendment. *FMC*, 535 U.S. at 765 (citing *Seminole Tribe*, 517 U.S. 44, 58 (1996)). “While state sovereign immunity serves the important function of shielding state treasuries . . . the doctrine’s central purpose is to accord the States the respect owed them as joint sovereigns. ***It is for this reason, for instance, that sovereign immunity applies regardless of whether a private plaintiff’s suit is for monetary damages or some other type of relief.***” *Id.* (internal citations omitted) (emphasis added).

Second, we are not persuaded that an *inter partes* review is an in rem action directed only to the patent and not *against* the patent owner. Initially, we observe that the term *inter partes* means between the parties, which in itself captures the notion that the proceeding is directed to both parties over whom the Board exercises jurisdiction. The statutes and rules governing *inter partes* reviews are consistent with this view. To start, the patent owner must be served with the petition for the petition to be considered “complete” and accorded a filing date. 37 C.F.R. § 42.105 (“The petition and supporting evidence must be served on the patent owner at the correspondence address of record for the subject patent. The petitioner may additionally serve the

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petition and supporting evidence on the patent owner at any other address known to the petitioner as likely to effect service.”); 37 C.F.R. § 42.106 (“A petition to institute *inter partes* review will not be accorded a filing date until the petition satisfies all of the following requirements . . . (2) Effects service of the petition on the correspondence address of record as provided in § 42.105(a).”).

Moreover, the statutory framework of Leahy-Smith America Invents Act, Pub. L. No. 112–29, 125 Stat. 284, 331 (2011) (AIA or Patent Act) includes procedural safeguards against the harassment of patent owners through successive petitions by the same or related parties. For example, 35 U.S.C. § 315(b) states that “an inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.” As discussed in our Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756 (Aug. 14, 2012), one of the core functions of this real party-in-interest/privy requirement is “to *protect patent owners from harassment* via successive petitions by the same or related parties, to prevent parties from having a ‘second bite at the apple,’ and to protect the integrity of both the USPTO and Federal Courts by assuring that all issues are promptly raised and vetted.” *Id.* at 48,759 (emphasis added). Additionally, the AIA estops relitigating in court those issues that a petitioner raised, or reasonably could have raised, during an *inter partes* review. 35 U.S.C. § 315(e)(1). The estoppel provision serves as a further safeguard to prevent patent owner harassment. *See* 157 CONG. REC. S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl)

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(Congress included “procedural limits on post-grant administrative proceedings that will prevent abuse of these proceedings for purposes of harassment or delay.”); *see also* 157 CONG. REC. S952 (daily ed. Feb. 28, 2011) (statement of Sen. Grassley) (*Inter partes* review “would include a strengthened estoppel standard to prevent petitioners from raising in a subsequent challenge the same patent issues that were raised or reasonably could have been raised in a prior challenge.”).

Third, Petitioner’s reliance on bankruptcy actions, such as those described in *Tennessee Student Assistance Corp. v. Hood*, 541 U.S. 440 (2004), is misplaced. In *Hood*, the Supreme Court reiterated the principle that a “bankruptcy court’s in rem jurisdiction permits it to determine all claims that anyone, whether named in the action or not, has to the property or thing in question. The proceeding is one against the world [and] . . . [b]ecause the court’s jurisdiction is premised on the res, however, a nonparticipating creditor cannot be subjected to personal liability.” *Id.* at 448 (citations and quotations omitted). In contrast, an *inter partes* review is not a proceeding “against the world,” but directed to evaluating the validity of the *patent owner’s* patent. This distinction is shown, for example, by the estoppel provisions in 37 C.F.R. § 42.73(d)(3)(i)–(ii) following an adverse judgment against the patent owner. Specifically, Rule 73(d)(3)(i)–(ii) provides:

(3) Patent applicant or owner. *A patent applicant or owner is precluded from taking action inconsistent with the adverse judgment, including obtaining in any patent:*

(i) A claim that is not patentably distinct from a finally refused or canceled claim; or

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(ii) An amendment of a specification or of a drawing that was denied during the trial proceeding, but this provision does not apply to an application or patent that has a different written description.

Emphases added. The effect of estoppel in this instance extends beyond the challenged patent at issue in the *inter partes* review to “any patent” that the *patent owner* may seek to obtain. Thus, the estoppel arising from an adverse judgment applies to a particular patent owner, not the world at large or otherwise.

Fourth, we are not persuaded that an *inter partes* review is an action brought by the federal government against a state. In general, any “person other than the owner of the patent may petition the PTO for [*inter partes*] review.” *St. Jude Med., Cardiology Div., Inc. v. Volcano Corp.*, 749 F.3d 1373, 1374 (Fed. Cir. 2014) (citing 35 U.S.C. § 311). A petition for *inter partes* review must identify “each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” 35 U.S.C. § 312(a)(3). The patent owner may file a response to the petition, and the PTO must decide within three months after receiving that response whether to institute an *inter partes* review. 35 U.S.C. § 314(b). The PTO may not institute an *inter partes* review unless “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” 35 U.S.C. § 314(a). After instituting *inter partes* review, the Board conducts the review on the merits. Unless the review is dismissed, the Board “shall issue a final written decision” addressing the patentability of the claims at issue in the proceeding. 35 U.S.C. § 318(a). In this capacity, the Board’s

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role in the *inter partes* review is not unlike that of the Commission in *FMC* (*see FMC*, 535 U.S. at 764), which is to assess the merits of the arguments presented by the parties in an impartial manner.

Thus, based on the foregoing, we determine that the analysis in *FMC* applies to the present issue before us. With the decision in *FMC* as guidance, we next examine whether an *inter partes* review is the type of proceeding from which the Framers would have thought the states possessed immunity.

c. *FMC* Analysis Applied to *Inter Partes* Review

In its Motion, Patent Owner argues that an *inter partes* review is an adjudicatory agency proceeding that meets all the requirements evaluated in *FMC* for sovereign immunity to apply. Mot. 11. Referring to legislative history, Patent Owner argues that when *inter partes* reviews replaced *inter partes* reexaminations, Congress intended to convert *inter partes* reexamination from an examinational to an adjudicative proceeding. *Id.* at 5 (citing H.R. Rep. No. 112–98, pt. 1, at 46, 2011 U.S.C.C.A.N. 45; 157 Cong. Rec. S1366 (Mar. 8, 2011) (Repub. Pol. Comm. Leg. Notice S.23 (Feb. 28, 2011 entered by Sen. Kyl))). Patent Owner adds that Congress required the Director to promulgate regulations for *inter partes* review proceedings that “enact many features common to judicial proceedings, including discovery, depositions, protective orders, the imposition of sanctions, and an oral hearing.” *Id.* at 6 (citing 35 U.S.C. § 316(a)).

Patent Owner argues that, under the enacted rules, *inter partes* review is similar to civil litigation for several reasons. This, according to Patent Owner, is because *inter partes* reviews are adversarial “contested cases

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between a patent owner and a petitioner in which the petitioner bears the burden of proof and initiates the proceeding by filing a petition requesting the institut[ion of] a trial.” *Id.* at 9 (citing 35 U.S.C. §§ 311–314). Patent Owner argues that *inter partes* reviews are routinely held before panels of three impartial administrative patent judges (APJs), immune from political influence, who serve a role functionally comparable to that of an Article III judge, including ruling on proffers of evidence, regulating the course of the proceeding, exercising independent judgment and having the power to compel testimony. *Id.* at 8–9 (citing 37 C.F.R. §§ 42.51–42.74).

Further, Patent Owner argues that *inter partes* reviews are governed by pleadings similar to those in civil litigation that include the petition, patent owner’s preliminary response, and post-institution patent owner’s response. *Id.* at 10. Patent Owner notes that *inter partes* reviews provide for discovery through which parties “can seek subpoenas for documents and witness testimony, which are governed by the Federal Rules of Civil Procedure. 35 U.S.C. § 24; see 37 C.F.R. § 42.52.” Mot. 11. Similarly, Patent Owner asserts that evidence provided in an *inter partes* review is governed by the Federal Rules of Evidence. *Id.* (citing 37 C.F.R. §§ 41.152(a), 42.62).

In its Opposition, Petitioner responds that there are several meaningful differences between *inter partes* review and civil litigation. Specifically, Petitioner argues *inter partes* review differs from district court litigation because: (1) the only remedy in an *inter partes* review is cancellation of claims; (2) there is no personal jurisdiction requirement over the patent owner; (3) an *inter partes* review may be requested by any person regardless

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of whether they have any stake in the outcome of the proceeding; (4) *inter partes* reviews are like patent examinations because a patent owner has an opportunity to amend its claims; (5) the discovery rights and obligations in *inter partes* review are limited compared to those available in district court litigation; (6) *inter partes* review and district court proceedings employ different stands of proof; and (7) the pleading standard of “reasonable likelihood” is higher in an *inter partes* review for the institution of a proceeding. Opp. 11–15 (citing *Cuozzo*, 136 S. Ct. at 2143–2145).

To start, we are not persuaded by Petitioner’s argument that the absence of monetary and injunctive relief matters for our determination of whether sovereign immunity applies. Opp. 11–12. “[S]overeign immunity applies regardless of whether a private plaintiff’s suit is for monetary damages or some other type of relief.” *FMC*, 535 U.S. at 766 (internal citations omitted) (emphasis added). We are also not persuaded by Petitioner’s argument that there is no personal jurisdiction over the Patent Owner. Opp. 12. As discussed above, an *inter partes* review is an action against the patent owner, who as a party, may suffer the consequences of an adverse judgment for failing to respond to the petition. See 37 C.F.R. § 42.73(d)(3).

In considering the nature of an *inter partes* review in the context of the *FMC* analysis, we are not persuaded by Petitioner that the differences in pleadings, discovery, relief, standards, and jurisdictional and standing requirements effectively distinguish *inter partes* reviews from civil litigation for the purposes of applying sovereign immunity. As Patent Owner discerns, *inter partes* reviews are adversarial “contested cases between a

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patent owner and a petitioner in which the petitioner bears the burden of proof and initiates the proceeding by filing a petition requesting the institution of a trial.” Mot. 9 (citing 35 U.S.C. §§ 311–314). In 2011, Congress overhauled and expanded the PTO’s processes for reconsidering the patentability of such claims. *See* AIA § 6. Enacted in response to “a growing sense that questionable patents are too easily obtained and are too difficult to challenge,” H.R. Rep. No. 98, 112th Cong., 1st Sess. Pt. 1, at 39 (2011) (2011 House Report), the AIA replaced *inter partes* reexamination with *inter partes* review, an adversarial proceeding before the new Patent Trial and Appeal Board (PTAB or Board). *See* 35 U.S.C. § 311 *et seq.*; *see also* 35 U.S.C. § 6. Congress created *inter partes* review to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.” 2011 House Report at 40.

Moreover, we note that the Board rules and procedures governing *inter partes* review resemble civil litigation in federal courts. The petitioner takes the first step to initiate an *inter partes* review proceeding by requesting review of a challenged patent through the filing of a petition, which in nature is similar to a complaint filed in civil litigation, and not unlike that at issue in *FMC*. A petition for *inter partes* review must identify “each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” 35 U.S.C. § 312(a)(3). The patent owner may file a preliminary response to the petition, and, in some circumstances, may be permitted to file a motion to dismiss the petition (which was authorized in the instant proceeding) prior to

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the Board's decision on whether to institute an *inter partes* review. 35 U.S.C. § 313; *see* 37 C.F.R. § 42.5(a). Post-institution, a patent owner may file a patent owner's response to the petition addressing any ground for unpatentability not already denied. 37 C.F.R. § 42.120.

After instituting *inter partes* review, the Board conducts a review on the merits. During the proceeding, the parties may conduct discovery and submit additional briefing that includes, for example, a patent owner response and petitioner's reply to the patent owner's response. *See* 37 C.F.R. §§ 42.23, 42.51–42.53, 42.120. The parties may also engage in motion practice whereby the parties must obtain authorization from the Board to file motions unless otherwise pre-authorized by the rules, statutes, etc. pertaining to the proceeding. 37 C.F.R. § 42.20(b) (“A motion will not be entered without Board authorization. Authorization may be provided in an order of general applicability or during the proceeding.”); *see, e.g.*, 37 C.F.R. § 42.64(c) (A motion to exclude evidence “may be filed without prior authorization from the Board.”), 37 C.F.R. § 42.121 (“A patent owner may file one motion to amend a patent, but only after *conferring* with the Board.”) (emphasis added).

In the way of discovery, the procedures of an *inter partes* review are similar, but limited in scope, to those in federal court litigation. The parties are entitled to “routine discovery” that includes production of “any exhibit cited in a paper or in testimony must be served with the citing paper or testimony,” cross-examination of affidavit testimony prepared for the proceeding, and “information that is inconsistent with a position advanced by the party during the proceeding concurrent with the filing of the

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documents or things that contains the inconsistency.” 37 C.F.R. § 42.51 (1)(i)–(iii). “Additional discovery” may be obtained by agreement between the parties, or through a showing by a moving party that “such additional discovery is in the interests of justice.” 37 C.F.R. § 42.51(2); *Garmin Int’l Inc. v. Cuozzo Speed Techs. LLC*, IPR2012-0001, Paper No. 26 at 6–7 (PTAB Mar. 5, 2013) (precedential).

Like civil litigation, discovery may be compelled in an *inter partes* review. 35 U.S.C. § 24; *see* 37 C.F.R. §§ 42.52 (a), 42.53(a). Through § 24, the Board may “issue a subpoena for any witness residing or being within such district, commanding him to appear and testify before an officer in such district authorized to take depositions and affidavits, at the time and place stated in the subpoena.” 35 U.S.C. § 24. Additionally, “[t]he provisions of the *Federal Rules of Civil Procedure* relating to the attendance of witnesses and to the production of documents and things *shall apply to contested cases* in the Patent and Trademark Office.” *Id.* (emphasis added). Further, the Board may issue sanctions against a party for violation of discovery rules, procedures, and orders. *See* 37 C.F.R. § 42.12. In addition, the Federal Rules of Evidence also apply to *inter partes* review with the exception of portions relating to criminal proceedings, juries, and other matters not relevant to proceedings under this subpart shall not apply. 37 C.F.R. § 42.62(b).

Inter partes reviews, like civil litigation, also provide for the protection of confidential information covered by a protective order. 37 C.F.R. § 42.54; *see* Practice Guide at 48,760 (“Confidential information: The rules identify confidential information in a manner consistent with

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Federal Rule of Civil Procedure 26(c)(1)(G), which provides for protective orders for trade secret or other confidential research, development, or commercial information.”). However, this protection is limited. If a final written decision in an *inter partes* review substantively relies on information in a sealed document, the document may be unsealed by an Order of the Board. If any sealed document contains no information substantively relied on in the final written decision, the document may be expunged from the record by an Order of the Board. 37 C.F.R. § 42.56.

There are also notable similarities between the role of the APJs in an *inter partes* review and that of an Article III judge in civil litigation. In an *inter partes* review, APJs serve as impartial officers designated, on behalf of the Director, to review the petition and preliminary response (if submitted) to determine whether the petitioner has demonstrated a “reasonable likelihood” of prevailing on the grounds of unpatentability presented in the petition. *See* 35 U.S.C. § 314. When an *inter partes* review is instituted, APJs issue a scheduling order setting due dates for each party to take action in the proceeding. During the course of the proceeding, APJs apply standards and procedures for discovery of relevant evidence; hear and rule upon motions; dispose of procedural requests or similar matters; prescribe, if necessary, sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding; and issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d). 35 U.S.C. §§ 316, 318; *see also* 37 C.F.R. § 42.20(a) (“Relief, other than a petition requesting the institution of a trial, must be requested in the form of a motion.”), § 42.21(a)

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(“The Board may require a party to file a notice stating the relief it requests and the basis for its entitlement to relief.”), § 42.21(b) (“The Board may set the times and conditions for filing and serving notices required under this section.”).

On the whole, considering the nature of *inter partes* review and civil litigation, we conclude that the considerable resemblance between the two is sufficient to implicate the immunity afforded to the States by the Eleventh Amendment. Although there are distinctions, such as in the scope of discovery, we observe that there is no requirement that the two types of proceedings be identical for sovereign immunity to apply to an administrative proceeding. Further, we note that there are several similarities between civil litigation and *inter partes* review that are not unlike those compared in *Vas-Cath* for interferences. As discussed, in *Vas-Cath*, the Federal Circuit noted that:

Like proceedings in the Federal Maritime Commission, contested interference proceedings in the PTO bear “strong similarities” to civil litigation, and the administrative proceeding can indeed be characterized as a lawsuit. ***PTO interferences involve adverse parties, examination and cross-examination by deposition of witnesses, production of documentary evidence, findings by an impartial federal adjudicator, and power to implement the decision. See, e.g., 37 C.F.R. § 1.651(a) (during an interference, “an administrative patent judge shall set a time for filing motions (§ 1.635), for additional discovery under § 1.687(c) and testimony period for taking any necessary testimony.”); § 1.671(a) (“Evidence [for an interference] consists of affidavits, transcripts of depositions, documents and things.”); § 1.671(b) (“[T]he Federal Rules of Evidence shall apply to interference proceedings” except “[t]hose portions of the Federal Rules of***

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Evidence relating to criminal actions, juries, and other matters not relevant to interferences.”).

Vas-Cath, 473 F.3d at 1382 (citation omitted) (emphasis added). While Petitioner contends that interference proceedings are “fundamentally” different from *inter partes* reviews, (Opp. 14 n.5), we, nevertheless, discern that the manner of discovery, adversarial nature of the proceeding, role of the APJ, and the applicability of the Federal Rules of Evidence in an *inter partes* review largely mirrors that involved in an interference proceeding.

Additionally, we are also not persuaded by Petitioner’s reliance on the Supreme Court’s decision in *Cuozzo* or the Federal Circuit’s decision in *MCM*. Neither decision addressed the particular issue of whether an Eleventh Amendment immunity applies as a defense to the institution of an *inter partes* review. The Court’s decision in *FMC*, not *Cuozzo*, lays out the framework for determining whether an administrative proceeding is subject to the limits of sovereign immunity. Further, *MCM* dealt with a challenge based on Article III and the protections of the Seventh Amendment. *MCM*, 812 F.3d at 1287. As discussed, Petitioner has not persuasively established that there is a public rights exception to Eleventh Amendment immunity.

Petitioner additionally argues that “immunizing patents owned by alleged state entities from IPR proceedings would have harmful and far-reaching consequences.” Opp. 15–17. Here, Petitioner’s arguments are three-fold. One, invalid patents would stand simply because they are assigned to a state entity. Two, a patent owned by a monetization foundation affiliated with a state university would be insulated from the *inter partes* review process. Three, determining whether an entity is entitled to

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sovereign immunity is a fact-intensive inquiry that the Patent Office is not designed to adjudicate.

With respect to the first two arguments, we are cognizant of the fact that applying an Eleventh Amendment immunity to *inter partes* review, absent waiver by the state entity⁴, precludes the institution of *inter partes* review against a state entity entitled to Eleventh Amendment immunity. This, indeed, is precisely the point of the Eleventh Amendment, which is the preservation of the dignity afforded to sovereign states. “The preeminent purpose of state sovereign immunity is to accord States the dignity that is consistent with their status as sovereign entities.” *FMC*, 535 U.S. at 760 (citing *In re Ayers*, 123 U.S. 443, 505 (1887)). When sovereign immunity conflicts with legislation, Congress may abrogate sovereign immunity if it has unequivocally expressed its intent to abrogate the immunity and has acted pursuant to a valid exercise of power. *Seminole Tribe*, 517 U.S. at 55. Petitioner does not point to, and we do not find there is, an unequivocal, express intent by Congress in the AIA to abrogate immunity for the purposes of *inter partes* review.

Further, we are not persuaded that an application of sovereign immunity to *inter partes* review will do violence to the patent system. The Supreme Court in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999) held that Congress does not have authority to abrogate Eleventh Amendment immunity with respect to

⁴ Because there is no related federal district court patent infringement (or declaratory judgment of validity) case brought by Patent Owner, we do not decide here whether the existence of such a case would effect a waiver of sovereign immunity.

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patent infringement by the States, for “Congress identified no pattern of patent infringement by the States, let alone a pattern of constitutional violations.” *Id.* at 640. Based on the record before us, there is no evidence that the harm to the patent system, described by the Petitioner, will come to pass, let alone exists as a basis to divest States of sovereign immunity.

Finally, we are not persuaded that our tribunal cannot perform the fact-finding duties that Petitioner alleges would be required to determine whether an entity is entitled to sovereign immunity. Our rules and procedures provide for discovery and motion practice which, at a minimum, would provide the parties an opportunity to present arguments and supporting evidence pertaining to sovereign immunity.

Thus, we are persuaded that Eleventh Amendment immunity bars the institution of an *inter partes* review against an unconsenting state that has not waived sovereign immunity.

d. UFRF is an Arm of the State of Florida

“The Eleventh Amendment largely shields States from suit in federal courts without their consent, leaving parties with claims against a State to present them, if the State permits, in the State’s own tribunals.” *Hess v. Port Auth. Trans–Hudson Corp.*, 513 U.S. 30, 39 (1994). “It has long been settled that the reference to actions ‘against one of the United States’ encompasses . . . certain actions against state agents and state instrumentalities.” *Regents of the Univ. of California v. Doe*, 519 U.S. 425, 429 (1997) (citing *Poindexter v. Greenhow*, 114 U.S. 270, 287 (1885); *In re Ayers*, 123 U.S. 443, 487 (1887); *Smith v. Reeves*, 178 U.S. 436, 438–439 (1900); *Ford Motor Co. v. Department of Treasury of Ind.*, 323 U.S. 459

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(1945)). The question whether a particular state entity is an arm of the State is a question of federal law, but that federal question can be answered only after considering the provisions of state law that define the state agency's character. *Doe*, 519 U.S. at 430. To determine whether an entity is an "arm of the State" in carrying out a particular function, courts look to factors that include: (1) how state law defines the entity; (2) what degree of control the State maintains over the entity; (3) where the entity derives its funds; and (4) who is responsible for judgments against the entity. *Manders v. Lee*, 338 F.3d 1304, 1309 (11th Cir. 2003) (en banc).

1. Function

Patent Owner UFRF argues that it is an arm of the State of Florida and that the District Court in *UFRF v. Medtronic* has already determined that UFRF is an arm of the State of Florida entitled to the protections of sovereign immunity in federal district court. *See* Mot. 13; *UFRF v. Medtronic*, 2016 WL 3869877, at *6. In its Decision, the District Court applied the four-factor test set forth in *Manders*, and determined that, on the whole, the factors weighed in favor of finding that UFRF is an arm of the State of Florida. *UFRF v. Medtronic*, 2016 WL 3869877, at *2–4.

The District Court determined that the "relevant function" performed by UFRF is the "licensing of patents and the collection of royalties from those license agreements." *Id.* at *2. This determination is consistent with our record, which includes the 2014–2015 University of Florida Annual Financial Report (Exhibit 2003, "Financial Report") which provides that the "University of Florida Research Foundation, Inc., promotes, encourages, and assists research activities of the University through income derived from or

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related to the development and commercialization of intellectual properties, which include inventions, discoveries, processes, and work products.” Ex. 2003, 17. Additionally, Exhibit B, attached to the Declaration of Mr. David P. Norton (Exhibit 2002), provides the Amended and Restated Articles of Incorporation of University of Florida Research Foundation, Inc. (“Articles of Incorporation”), which state that UFRF “shall provide means by which discoveries, inventions, processes, and work products of faculty, staff, and students of the University may be patented, developed, applied, and utilized in order that the results of such research shall be made available to the public and that funds be made available from such discoveries, inventions, processes, and work products for future research at the University of Florida.” Ex. 2002, 28.⁵ Further, on our record, neither party disputes the District Court’s finding in this respect. *See* Opp. 20 (“UFRF’s entire business is that of a technology licensor designed to monetize University of Florida patents.”). Thus, we agree with the District Court that the particular function performed by UFRF is the licensing of patents and the collection of royalties from those license agreements on behalf of the University of Florida. In fact, the underlying action between the parties in the state court action is a licensing dispute. Mot. 1–2.

2. How State Law Defines UFRF

According to the Financial Report, the University of Florida designates UFRF as one of its direct-support-organizations (“DSO”). Ex. 2003, 17. The Financial Report states, in relevant part, that

⁵ Page cites refer to the page numbers located at the top portion of Exhibit 2002.

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[t]he University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, are considered component units of the University of Florida and therefore the latest audited financial statements of these organizations are discretely presented in the financial statements of the University. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University.

Id. Per Section 1004.28, a university DSO is an organization that is

1. A Florida corporation not for profit incorporated under the provisions of chapter 617 and approved by the Department of State.

2. *Organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of a state university in Florida or for the benefit of a research and development park or research and development authority affiliated with a state university and organized under part V of chapter 159.*

3. *An organization that a state university board of trustees, after review, has certified to be operating in a manner consistent with the goals of the university and in the best interest of the state. Any organization that is denied certification by the board of trustees shall not use the name of the university that it serves.*

Fla. Stat. Ann. § 1004.28 (1)(a)1–3 (West) (emphasis added). Further, Patent Owner argues, and Petitioner does not dispute, that the University of Florida is an arm of the State of Florida. Mot. 14 n.7 (citing Fla. Stat. §§ 1000.21, 768.28; *Byron v. Univ. of Florida*, 403 F. Supp. 49, 51 (N.D. Fla. 1975); *UFRF v. Medtronic*, 2016 WL 3869877, at *3 (noting that the

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University of Florida is “indisputably” an arm of the State of Florida). Considering the record before us, particularly UFRF’s statutory origin and connection to the State of Florida as a DSO of the University of Florida, we agree with Patent Owner that this factor weighs in favor of finding that UFRF is an arm of the State of Florida.

3. Degree of Control the State Maintains Over UFRF

Next, we examine the degree of control that the State of Florida, through the University of Florida, exercises over UFRF. The District Court in *UFRF v. Medtronic* weighed this factor in favor of UFRF. *UFRF v. Medtronic*, 2016 WL 3869877, at *2–3. There, the District Court determined that the Board of Trustees for the University of Florida prescribes the conditions with which UFRF must comply in order to use property, facilities, or personal services at any state university. *Id.* at *2 (citing Fla. Stat. Ann. § 1004.28(2)(b)). The District Court further found that UFRF’s bylaws limit its independence from the University of Florida because UFRF’s annual operating budget must be approved by the President of the University or his or her designee who shall be a Vice President or other senior finance or business officer of the University reporting directly to the President or to a senior official who reports to the President. *Id.* The District Court also noted that any director may be removed for cause by the President of the University. *Id.*

Additionally, the District Court analogized the states’ control of UFRF to another Florida DSO entity, University of Central Florida Athletics Association, that the Supreme Court of Florida held was entitled to limited sovereign immunity under Florida state law. *Id.* at *3 (citing *Plancher v.*

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UCF Athletics Ass'n, Inc., 175 So. 3d 724, 729 (Fla. 2015)). The District Court commented that the “Plancher decision is important not only because of the parallels between the factual situation in that case and in this case – which bears on the ‘degree of control’ factor – but also because it makes clear that entities like UFRF are considered arms of the state under state law.” *Id.* The District Court concluded that UFRF, as a DSO, would be afforded sovereign immunity under § 768.28, and that this suggests that it is considered under Florida law to be an instrumentality of the state. *Id.*

Referring to UFRF’s bylaws, Patent Owner also asserts that UFRF is controlled by the University of Florida because

UFRF’s bylaws provide that University officials “shall serve as ex officio voting members by virtue of their University positions.” Bylaws Art. I, § 1. The President of the University or President’s appointee is “an ex officio voting Director.” *Id.* The University President or the Chair of the Board of Trustees of the University appoints another voting Director, and the University President nominates three additional directors for election by the Board, which contains only University employees or appointees. *Id.* The Board exercises all management functions. *Id.* at § 3. The University President nominates all elected officers, who receive no compensation “other than their usual salaries as employees of the University of Florida.” *Id.* Art. II, §§ 1, 3.

Mot. 14–15. Patent Owner also argues that UFRF is a DSO that is nearly identical to the DSO at issue in *Plancher*. *Id.* at 15.

In *Plancher*, the parents of Ereck Plancher, a college football player, brought a negligence action against the University of Central Florida (“UCF”) and University of Central Florida Athletics Association (“UCFAA”), claiming that UCF and UCFAA were responsible for the

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passing of their son, who died during football practice conditioning drills.

175 So. 3d at 725. At the trial court, the jury found UCFAA liable and awarded the Planchers \$10 million in damages. *Id.* On appeal, UCFAA argued that it was entitled to sovereign immunity, which pursuant to the limited waiver of immunity prescribed in § 768.28, would cap the recovery limit to \$200,000 per occurrence or incident. *Id.* at 726. The Supreme Court of Florida determined that the degree of control exercised by UCF over UCFAA weighed in favor of finding that UCFAA is entitled to sovereign immunity. Specifically, the Court concluded

UCF maintains the right to control and actually controls UCFAA's board of directors as well as UCFAA's continued existence. UCFAA's bylaws provide that the voting members of its board are composed of the following: (1) the president of UCF; (2) the chairman of the UCF Board of Trustees or designee; (3) the president of the UCF Alumni Association or designee; (4) the president of the UCF Golden Knights Club or designee; (5) two members of the public appointed by UCF's president for terms designated by UCF's president; and (6) such members of UCF's administration, faculty, or student body as appointed by UCF's president for terms designated by UCF's president. Further, the UCF Board of Trustees must approve any proposed amendments to UCFAA's bylaws. The UCF Board of Trustees also has the sole authority to decertify UCFAA as a DSO and dissolve it as a corporation. If the UCF Board of Trustees dissolves UCFAA, the articles of incorporation provide that UCFAA's assets "shall be distributed to the University of Central Florida Foundation, Inc. [or] as directed by the President of the University of Central Florida."

Additionally, UCF maintains and actually exercises its right to control UCFAA's operations and activities. UCFAA's bylaws provide that UCF's director of athletics serves as the executive vice president of UCFAA and "manage[s] the day to day activities of [UCFAA]." And, importantly, UCF's director of

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athletics is “hired by, reports to, and serves at the pleasure and direction of UCF’s [p]resident.” *Plancher*, 121 So.3d at 1105. Thus, through the president’s choice and direct supervision of the director of athletics, UCF maintains and exercises actual control over UCFAA’s day-to-day operations.

Id. at 728.

Based on our record, we agree that the degree of control exercised over UFRF by the State of Florida and the University of Florida weighs in favor of finding that UFRF is a state instrumentality entitled to sovereign immunity. Several aspects of UFRF’s bylaws and Articles of Incorporation parallel those emphasized in *Plancher* as evidencing a large degree of control by the UCF over UCFAA. *See Plancher*, 175 So. 3d at 728. Article I of its bylaws provides that UFRF’s Board of Directors has strong ties to the University of Florida and that the President of the University of Florida, directly or indirectly through an appointee, exercises control over the management of UFRF. Ex. 2002, 4. Specifically, “[s]even officials of the University of Florida (‘University’) shall serve as ex officio voting members by virtue of their University positions: the Provost, the senior vice presidents or vice presidents for Research, Business Affairs, Health Affairs and Agriculture and Natural Resources; and the deans of the College of Engineering and Liberal Arts and Sciences.” *Id.* Further, the President of the University or his appointed member will serve as an ex officio voting Director. *Id.* Article I further provides that an appointed member will be a senior University official who reports to the President of the University. *Id.* Additionally, the bylaws require three Directors of the Board to be nominated by the President of the University. *Id.* In Article II, UFRF’s bylaws provide that elected officers shall be nominated by the President of

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the University and that appointed officers “shall be appointed by the President of this Corporation with the approval of the Board of Directors, and the Chair of the Board, who shall be appointed by the University President.” *Id.* at 9, Art. II section 1-2.

Further, pursuant to Article VIII, any amendments of the bylaws “shall not be effective until reviewed and approved by the President of the University or his or her designee.” Ex. 2002, 21. Similarly, proposed amendments to UFRF’s articles of incorporation “shall be submitted for review to the President of the University of Florida.” Ex. 2002, 31, Art. X. Additionally, UFRF’s operating budget “must be approved by the Board of Directors . . . and the President of the University or his or her designee.” *Id.* at 14, Art. IV, sect. 1.

Accordingly, we agree that there is a significant degree of control of UFRF’s operation by the University of Florida.

4. Where UFRF Derives its Funds; and Who is Responsible for Judgments Against UFRF

With regard to the two remaining financial factors, Patent Owner argues that “UFRF’s finances are closely tied to UF” as evidenced by the University of Florida’s Financial Report, which shows UFRF’s assets and liabilities are considered to be part of the University’s assets and liabilities. Mot. 16. Patent Owner contends that as a component unit of the University of Florida, a judgment impacting UFRF’s finances would necessarily impact the University of Florida and the State of Florida. *Id.* In contrast, Petitioner contends that there is no evidence in the record that the State of Florida

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provides monetary funding to UFRF or that the State would be responsible for any financial judgments against UFRF. Opp. 20.

Here, we also agree with Patent Owner that the evidence of record weighs more in favor of determining that UFRF is an arm of the State of Florida than not. The Financial Report for the University of Florida states that “[t]he University’s direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, are considered component units of the University of Florida and therefore the latest audited financial statements of these organizations are discretely presented in the financial statements of the University.” Ex. 2003, 17. Per the Financial Report, UFRF’s assets and liabilities are considered to be a component of the University of Florida’s finances, including its assets and liabilities. Ex. 2003, 38, Table 33.

This description of the financial relationship between UFRF and the University of Florida in the Financial Report is consistent with UFRF’s bylaws, which demonstrate the University’s control over UFRF’s finances. For example, UFRF’s operating budget must be approved by the President of the University or his designee who reports “directly to the President or to a senior official who reports to the President, prior to the beginning of each fiscal year of” UFRF. Ex. 2002, 14 (Art. IV, sec. 1). Further, the annual audit of UFRF’s finances must be provided to the President of the University or his designee for ratification. *Id.* at Art. IV, sect. 2. Likewise, the bylaws provide that

[t]he Finance Committee shall develop and review financial policies and procedures and make detailed reports to the Board of Directors. Such policies and procedures shall be subject to

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approval by the Board of Directors and ratification by the President of the University or his or her designee prior to becoming effective.

Id. at Art. VI, sect. 2b. Moreover, UFRF investment policies “shall in any event be approved by the Board of Directors and shall not become effective unless ratified by the President of the University or his or her designee.” *Id.* at Art. VI, sect. 2e.

Additionally, the bylaws provide that UFRF Officers do not receive a salary or compensation other than their usual salaries as employees of the University of Florida. *Id.* at Art. II, sect. 3. Thus, in at least this respect, UFRF relies upon University of Florida for the compensation of members within its Board of Directors. Moreover, the President of UFRF is “authorized to transfer funds and assets of the corporation [UFRF] to and from the University for support of the University’s mission in accordance with the policies approved by the Board and approved by the President of the University or the President’s designee.” *Id.* at Art. III, sect. 1. This is in line with § 1004.28 which describes DSOs as being “[o]rganized and operated *exclusively* to receive, hold, invest, and administer property and to make expenditures to or *for the benefit of a state university in Florida* or for the benefit of a research and development park or research and development authority *affiliated with a state university.*” Fla. Stat. Ann. § 1004.28 (1)(a)2 (West) (emphasis added).

Petitioner contends that the most important factor for our inquiry is who is responsible for judgments against UFRF. Opp. 20. The District Court, in its Decision, acknowledged that there was also no indication in its record “who would pay a money judgment against UFRF.” *UFRF v.*

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Medtronic, 2016 WL 3869877, at *3. Nevertheless, the District Court reasoned that the remaining factors demonstrate UFRF is an arm of the State of Florida. *Id.* at *3–*4.

Although the record is less certain that the University of Florida is responsible for judgments against UFRF, we note, as the Florida Supreme Court in *Plancher* did, that generally the State of Florida places constraints on a DSO’s ability to issue debt. Fla. Stat. Ann. § 1010.62 (3)(a) (West) (“A state university or direct-support organization may not issue debt without the approval of the Board of Governors. The Board of Governors may approve the issuance of debt by a state university or a direct-support organization only when such debt is used to finance or refinance capital outlay projects.”). Further, section 1010.62 places limits on the how state universities may secure or pay the debt of DSOs. “The debt of direct-support organizations may not be secured by or be payable under an agreement or contract with a state university *unless the source of payments under such agreement or contract is limited to revenues that universities are authorized to use for payment of debt service.*” Fla. Stat. Ann. § 1010.62 (3)(a) (West) (emphasis added). Thus, we find that the State of Florida’s control of the UFRF’s ability to issue debt is, at a minimum, consistent with the considerable degree of control the state exercises over UFRF.

Moreover, based on the circumstances before us, we are not persuaded by Petitioner’s suggestion that, on balance, the fourth factor trumps all three other factors. In *Hess v. Port Auth. Trans-Hudson Corp.*, 513 U.S. 30 (1994), the Supreme Court determined that a bi-state agency (an entity created by two states under the Compact Clause of the Constitution) was not

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entitled to Eleventh Amendment immunity. *Hess*, 513 U.S. at 39–40. However, in *Hess*, the immunity factors pointed in different directions, whereas here, the majority of the factors are strongly aligned the same way. *See id.* at 42–51.

Thus, based on the facts before us, we agree with Patent Owner that the UFRF is an arm of the State of Florida.

IV. CONCLUSION

For the foregoing reasons, we conclude that Eleventh Amendment immunity applies to *inter partes* review proceedings, and that UFRF, having shown it is an arm of the State of Florida, is entitled to assert its sovereign immunity as a defense to the institution of an *inter partes* review of the '251 patent. Accordingly, the Petitions in IPR2016-01274, -01275, and -01276 are dismissed.

V. ORDER

Accordingly, it is

ORDERED that the Petitions in IPR2016-01274, IPR2016-01275, and IPR2016-01276 are dismissed.

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