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## Burden Of Proof At PTAB: Will Magnum Oil And Aqua Mix?

Law360, New York (September 30, 2016, 11:55 AM EDT) -- Only five years into the America Invents Act, the Patent Trial and Appeal Board, an administrative tribunal within the U.S. Patent and Trademark Office, is now widely considered to be the de facto venue for determining patent validity for issued patents. The AIA's PTAB proceedings[1] are now integral to well-laid patent litigation strategies for both plaintiffs and defendants. While the PTAB institutes trial for a majority of the petitions, and once instituted most often finds the challenged claims unpatentable, the tide for reviewing these decisions at the appellate level appears to be shifting.

The Federal Circuit initially gave the PTAB great deference, typically affirming the PTAB's decisions with no written opinion. Within the last year however, the court began providing substantially more written opinions as a percentage of all of its opinions, at a time when the Federal Circuit hears more appeals from the PTAB than all of the district courts combined:[2]



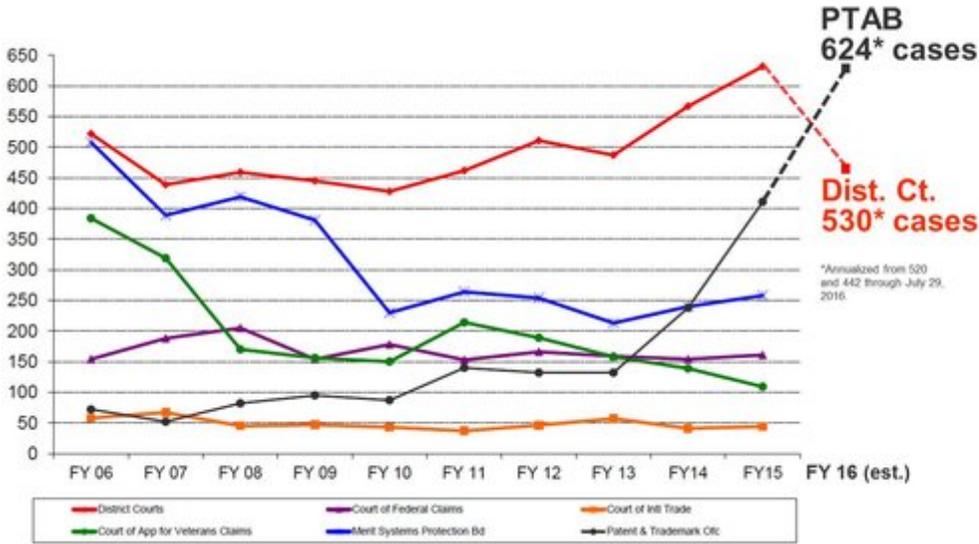
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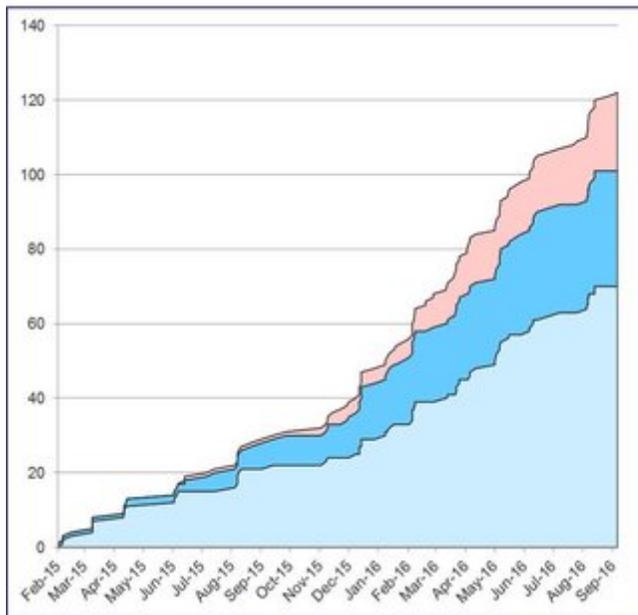
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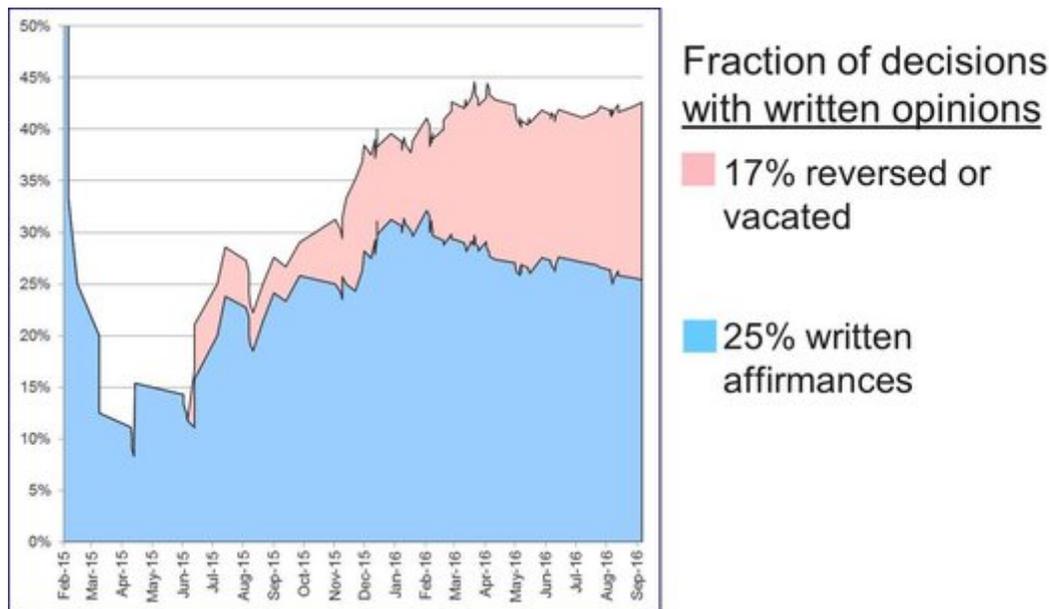


And the Federal Circuit has increasingly found it necessary to reverse or vacate the PTAB's decisions in full or in part:



122 total decisions

- 21 reverse or vacate (in whole or in part)
- 31 written affirmances
- 70 Rule 36 summary affirmances



(Source: Latham & Watkins LLP internal statistics as of Sept. 14, 2016).

The Federal Circuit is focusing much of its attention lately on procedural issues that go beyond particular patents and prior art analysis, and affect the relative procedural burdens placed on either petitioners and patent owners. This gives guidance and consistency to such issues that may arise in all PTAB proceedings. This article focuses on two such cases, *In re Magnum Oil Tools International Ltd.* and *In re Aqua Products Inc.*

In *Magnum*, the Federal Circuit reversed the PTAB's decision finding all of the challenged claims unpatentable, holding that the PTAB erred when it shifted the burden to the patent owner to show that its claims are valid. Although the U.S. Supreme Court held in *Cuozzo* that the PTAB's institution decision is not reviewable on appeal, the Federal Circuit reasoned that the institution decision does not relieve the petitioner of its burden of showing the challenged claims are unpatentable.

Additionally, an en banc Federal Circuit panel in *Aqua* will address which party carries the burden from a different angle: when amended claims are presented. As it currently stands, the patent owner, instead of the petitioner, bears the burden of showing the amended claims are patentable.

## Magnum Oil

In this case, the Federal Circuit concluded that "the [PTAB] erred in shifting the burden of proof on obviousness in this inter partes review from the petitioner, McClinton, to the patent owner, *Magnum*" and that "[t]he [PTAB] further failed to articulate a sufficient rationale for why a skilled artisan would have sought to combine the asserted prior art to achieve the claimed invention." In *re Magnum Oil Tools Int'l Ltd.*, No. 2015-1300, slip op. at 26 (Fed. Cir. July 25, 2016). Because the PTAB's decision was premised on the wrong legal standard and was not supported by substantial evidence, the court reversed the PTAB. *Id.* at 26-28.

### ***The Proceedings Before the PTAB***

The patent at issue in *Magnum* involved bore hole plugs used in hydraulic fracturing, or fracking, to get oil. McClinton Energy's petition for inter partes review proposed two separate obviousness grounds. The first contended that the claims would have been obvious over a product description in an Alpha Tools Oil catalog combined with two U.S. patents ("Cockerall" and "Kristiansen"). The second obviousness ground contended that the claims would have been obvious over a published U.S. patent application ("Lehr") combined with Cockerall and Kristiansen. But rather than articulate a separate rationale for combining Cockerall and Kristiansen with Lehr, McClinton merely stated that the "same analysis" for Alpha applied to Lehr.

Nonetheless, the PTAB instituted the IPR based on the Lehr combination and declined to institute on the Alpha combination. Ultimately, the PTAB issued its final written decision holding all of the challenged claims unpatentable in view of the Lehr combination. Magnum appealed, and because Magnum and McClinton settled, the PTO intervened to defend the PTAB's decision.

### ***Initial Matter: The Scope of Appellate Review***

The Federal Circuit first considered whether it possessed jurisdiction over the appeal. The PTO argued that Magnum's appeal was impermissible since the PTAB's institution decision, which is final and not appealable under 35 U.S.C. § 314(d) and the Supreme Court's decision in *Cuozzo*, was being challenged along with the final decision.

The Federal Circuit, however, agreed with Magnum Oil that it may review the PTAB's final decision, including the PTAB's determinations in the institution decision that were ultimately relied upon in the final written decision. "Nothing in either 35 U.S.C. § 314(d) or [*Cuozzo*] shields aspects of a [PTAB] decision which are critical to its ultimate judgment merely because its final analysis relies on statements made when it initially considered the petition." *In re Magnum*, slip op. at 12.

Although the Supreme Court held in *Cuozzo* that the PTAB may institute on grounds not expressed in the petition, and that the institution decision is not itself reviewable, the PTAB's final determination of patentability is reviewable. And because the petitioner, not the PTAB, bears the burden of showing patentability, the PTAB cannot "shield" its ultimate patentability decision from judicial review by placing its underlying factual findings into its decision to institute.[3] If the PTAB's final decision is not supported by substantial evidence or is predicated on legal error, the court can reverse.

### ***Who Has the Burden of Proof?***

Magnum argued on appeal that petitioner McClinton did not meet its burden of demonstrating obviousness over the combination of Lehr, Cockrell and Kristiansen: The combination does not disclose all of the limitations and McClinton did not sufficiently articulate a motivation to combine them. In response, the PTO argued that when the PTAB instituted the IPR, the burden shifted to the patent owner Magnum to show that its claims would not have been obvious over these three references, even though under the AIA, "the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence" in an IPR. *Id.* at 13 (quoting 35 U.S.C. § 316(e)).

The Federal Circuit disagreed with the PTO, concluding that in enacting 35 U.S.C. § 316(e), Congress placed the ultimate burden squarely on the petitioner throughout the proceeding. As in district court litigation, the burden-shifting procedural tool used in patent prosecution (which is called the "prima facie case" and allocates the burden of going forward between the examiner and the applicant) is not appropriate "in the adjudicatory context of an IPR." *Id.* at 15. Likewise, the related but distinct burden of production[4] does not apply in IPRs because the ultimate burden of persuasion[5] remains on the petitioner, and the fact finder must consider all evidence before making an obviousness determinations. *Id.* at 16. "Where, as here, the only question presented is whether due consideration of the four Graham factors renders a claim or claims obvious, no burden shifts from the patent challenger to the patentee." *Id.* at 16-17. Further, the PTAB's decision to institute is preliminary, not final, and made under a significantly different standard of proof: likelihood of prevailing instead of preponderance of evidence. *Id.* at 17.

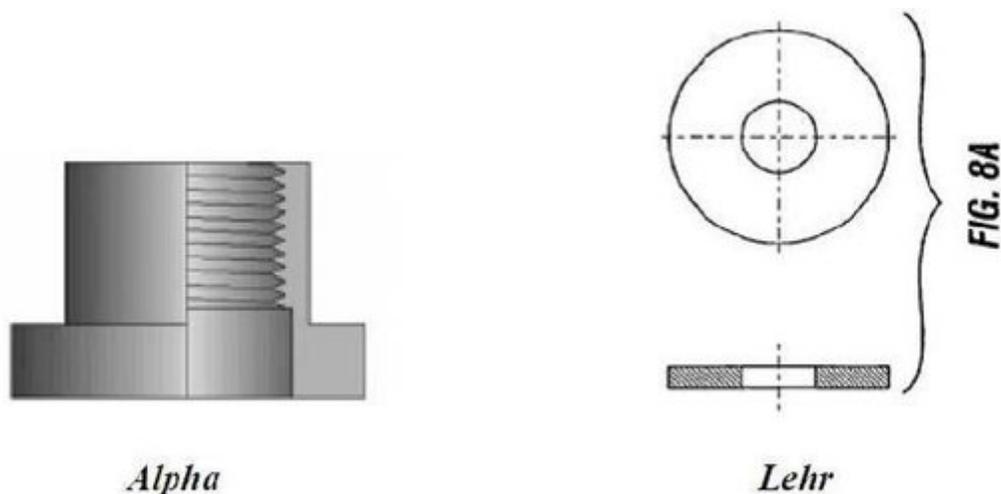
The Federal Circuit recognized exceptions to this rule. As in litigation, the patent owner bears the burden when asserting affirmative defenses, such as when "establishing that its claimed invention is entitled to an earlier priority date than an asserted prior art reference." *Id.* at 16.

This case did not present any such exceptions, however. The Federal Circuit listed several examples where the PTAB improperly shifted the burden to Magnum to disprove the factual underpinnings of its obviousness conclusion, such as "Magnum does not explain adequately why the same analysis [that McClinton provided for Alpha] is not applicable to Lehr" and "Magnum does not provide sufficient or credible evidence that [a particular] substitution is beyond the level of an ordinarily skilled artisan." *Id.* at 20. But as explained in the following section, no evidence supported the PTAB's factual findings supporting its conclusion of obviousness. *Id.* at 20-21.

### ***Deciding Unpatentability Based on Theories Not In The Petition***

Magnum argued that the PTAB's final written decision was not supported by substantial evidence. Specifically, Magnum argued McClinton (and the PTAB) did not articulate a motivation to make the Lehr combination. *Id.* at 19. The PTO disagreed, arguing that it is "not error for the [PTAB] to rely on an unpatentability theory that could have been included in a properly-drafted petition." *Id.* at 18-19. But the PTAB improperly shifted the burden to Magnum, never requiring or pointing to evidence supporting its underlying factual findings.

The Federal Circuit reversed because it was particularly clear that McClinton's attempt to incorporate the arguments regarding the Alpha combination into the obviousness analysis for Lehr combination were not enough to show obviousness. The Federal Circuit explained that Alpha and Lehr "plainly operate in different manners," reproducing the relevant portion of their drawings to illustrate structural differences between the references:



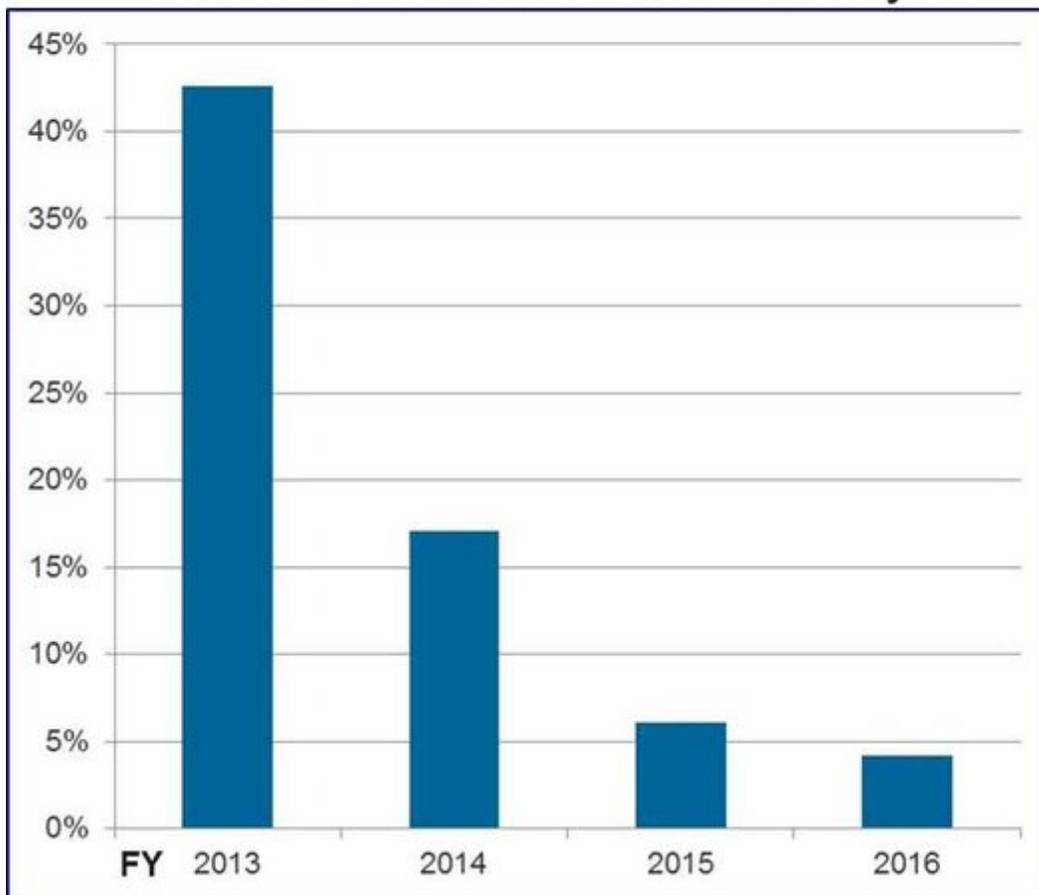
*Id.* at 21, 24. Additionally, McClinton failed to explain why a skilled artisan would have combined Lehr with Cockrell and Kristiansen. *Id.* at 24.

McClinton's conclusory statements are not substantial evidence, and it was error for the PTAB to rely on unsupported conclusions in its decision to institute. The PTAB does not have the authority to adopt arguments that could have been, but were not, raised by the petitioner. *Id.* at 26. Rather, the decision must be based "on arguments that were advanced by a party, and to which the opposing party was given a chance to respond." *Id.* at 26 (citing *SAS Inst. Inc. v. ComplementSoft LLC*, No. 2015-1347, 2016 U.S. App. LEXIS 10508, at \*20-21 (Fed. Cir. June 10, 2016)).

### **Will Aqua Mix With Magnum Oil?**

As mentioned earlier, one exception to the rule that the petitioner bears the burden of proof are affirmative defenses. *Id.* at 16. Another exception is in the context of proving patentability of claims introduced in motions to amend. As movant, the patent owner currently bears the burden of showing it is entitled to amend its claims, i.e., it must show that its claims are patentable over the known prior art. In *re Aqua Prods., Inc.*, 823 F.3d 1369 (Fed. Cir. 2016), reh'g en banc granted, 2016 WL 4375651 (Fed. Cir. Aug. 12, 2016). And despite recent rule changes ostensibly directed at helping patent owners carry that burden,[6] patent owners have practically given up trying to amend their claims:

## Fraction of instituted proceedings with motion to amend in each year



Under the status quo, patent owners have evidently arrived at a consensus: motions to amend are a losing proposition.[7] Aqua argues this is not what Congress intended. In enacting 35 U.S.C. § 316(e), Congress placed the burden of proving all propositions of unpatentability on the petitioner, including those raised by a motion to amend.

Should the Federal Circuit reverse the current framework, and require the petitioner to show that the amended claims are unpatentable? If it did, that could effectively create a mini-IPR proceeding within the IPR proceeding. Is this what Congress intended? Can a petitioner reasonably be expected to find prior art and supporting evidence and then address new claims introduced after institution in the timeframe allotted under the statute for these proceedings? And how would the PTAB consider the new prior art arguments, and under what timeframe? Under typical scheduling orders, the PTAB requires the patent owner to file its motion to amend with its response and the petitioner's reply and opposition to the motion to amend are due two to three months later. The PTAB may, for good cause, grant itself extensions of up to six months for the final decisions. If the process were the other way around, could the entire proceeding be completed within the statutory timeframe, even with such an extension?

In its order granting en banc rehearing in Aqua, the Federal Circuit asked a second question as well: if the petitioner decides to not challenge the patentability of a proposed amended claim, or the PTAB thinks the challenge is inadequate, may the PTAB raise patentability challenges to such a claim on its own? If so, where would the burden lie under these circumstances? 2016 WL 4375651, at \*1. Clearly, in the context of claim amendments, the court appears to be looking very carefully at the relative procedural burdens on petitioners and patent owners and yet still balance the public's interest and Congress' intent in passing the AIA as a mechanism to cheaply and efficiently reduce improperly issued patents, rather than create new ones.[8]

## Conclusion

Magnum, Aqua and later cases[9] suggest there may be an emerging trend of the Federal Circuit taking a more active role in reviewing PTAB final decisions. In particular, this increased review is taking on decisions that could affect the relative procedural burdens placed on the petitioners versus patent owners, perhaps in an effort to level the playing field between the parties. Time will only tell whether the Federal Circuit manages to reshape this balancing act between petitioners and patent owners and yet still satisfy the public's interest for having speed and cost efficiency. With the increasing volume of appeals of PTAB decisions and the Federal Circuit's appetite for their review, this balancing act appears to be rapidly unfolding. We'll all stay tuned.

—By Bob Steinberg, Jonathan Link and Jonathan Strang, Latham & Watkins LLP

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[1] Including inter partes reviews ("IPRs") and covered business method reviews ("CBMs").

[2] United States Court of Appeals for the Federal Circuit, Statistics: Year-to-Date Activity (2016), [http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/YTD\\_Activity\\_8.31.16.pdf](http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/YTD_Activity_8.31.16.pdf).

[3] See also *Husky Injection Molding Sys. Ltd. v. Athena Auto. Ltd.* (Rejecting assignor estoppel arguments "[b]ecause the question for review involved who could petition for review rather than whether the Board could ultimately invalidate the patent, we held that we lacked jurisdiction to review the time-bar determination from the institution decision." (citing *Achates*, 803 F.3d at 659.)) This differs from *Magnum*, which goes to the issue of whether the PTAB properly invalidated the patent rather than who could petition for review.

[4] The burden of production "may entail 'producing additional evidence and presenting persuasive argument based on new evidence or evidence already of record.'" (quoting *Dynamic Drinkware, LLC v. Nat'l Graphics, Inc.*, 800 F.3d 1375, 1378 (Fed. Cir. 2015). *Id.*

[5] The burden of persuasion "'is the ultimate burden assigned to a party who must prove something to a specified degree of certainty,' such as by a preponderance of the evidence or by clear and convincing evidence." *Id.* (quoting *Dynamic Drinkware*, 800 F.3d at 1378).

[6] 80 Fed. Reg. 28,561 (May 19, 2015); 81 Fed. Reg. 18,750 (Apr. 1, 2016).

[7] Source data: Lex Machina and USPTO, Patent Trial and Appeal Board Motion to Amend Study (Apr. 30, 2016), <https://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf>.

[8] See, e.g., 157 Cong. Rec. S1326 (daily ed. Mar. 7, 2011) (statement of Sen. Sessions) (opining that post-grant review "will allow invalid patents that were mistakenly issued by the PTO to be fixed early in their life, before they disrupt an entire industry or result in expensive litigation").

[9] For example, as this article was going to press, the Federal Circuit overturned another final written decision of no unpatentability by the PTAB, finding that the prior art patent did incorporate by reference another patent. The Federal Circuit remanded the IPR to the PTAB to evaluate the patentability of certain claims in light of the ruling. *Husky v. Athena*.