

Who bears the burden?

Will the PTAB heed the Federal Circuit's holding that the petitioner always bears the burden of proof? **Cy Morton, Ryan Schultz, Shui Li and Miles Finn** explore

On 25 July 2016, the US Court of Appeals for the Federal Circuit (CAFC) held in *In re Magnum Oil Tools Intl* that, in the context of *inter partes* reviews (IPRs), the burden of proof to show unpatentability does not shift to a patent owner following the Patent Trial and Appeal Board's (PTAB's) institution decision. The Federal Circuit effectively rejected the US Patent and Trademark Office's (USPTO's) argument that PTAB proceedings should follow the same burden-shifting framework as patent prosecution. For practitioners, the USPTO's position raises some questions:

Has the PTAB – especially members with a background in examination, *ex parte* appeals, or *inter partes* reexamination (IPRex) – been effectively shifting the burden to patent owners following institution?

Will the PTAB behave any differently given the clear and binding holding that petitioners bear the burden from start to finish?

This article explores this topic.

Overview of *In re Magnum Oil Tools*

The CAFC used *Magnum* as a vehicle to clarify the proper burden during an IPR trial proceeding. First, *Magnum* explains that the ultimate burden of persuasion is always on the petitioner to show unpatentability, which is consistent with statutory language and Federal Circuit precedent. Secondly, as to the burden of production, if the patent owner (as in *Magnum*) challenges the petitioner's grounds based on obviousness, the burden of production does not shift to the patent owner as a result of the institution decision.

In its intervening brief, the USPTO proposed to shift the burden to the patent owner in proving non-obviousness once the petition was instituted in a post-grant review, arguing that during the patent prosecution process, the patent owner had the burden of production to show non-obviousness once the examiner had established a *prima facie* case of obviousness. The CAFC disagreed with the USPTO's position that the burden of production shifts to the patent owner upon the board's conclusion in an institution decision that "there is a reasonable likelihood that the petitioner would prevail".

The Federal Circuit reversed the PTAB's decision of obviousness, finding that the PTAB had improperly shifted the burden of production in several instances. After identifying one such example, the court concluded that "the [PTAB] expected *Magnum* (patent owner) to

explain, and faulted *Magnum* for allegedly failing to explain, why an obviousness argument based on a first set of prior art references that the [PTAB] did not adopt would not be applicable to a second set of prior art references." The court further noted that conclusory statements cannot satisfy the petitioner's burden of demonstrating obviousness, and the PTAB did not have sufficient evidence on which to base its legal conclusion of obviousness.¹

Magnum demonstrates the reality that even though the USPTO is clearly aware of the difference between patent prosecution and IPR, the transition from conducting patent examination-like proceedings (such as IPRex) to trial-like IPR proceedings presents some challenges. These challenges include eliminating any inherent biases against a patent owner resulting from the similarities between *inter partes* reexamination proceedings (which operated in a burden-shifting framework) and IPR (*Magnum* standard).

A comparison of IPRex and IPR

On 16 September 2012, IPR replaced IPRex as an avenue for third party patentability challenges.² Arising from the 2011 Leahy-Smith America Invents Act (AIA), this change has transformed *inter partes* challenges "from an examinational to an adjudicative proceeding".³ In other words, the old "prosecution-like" IPRex practice has given way to a streamlined "mini-trial" IPR process that could provide cost and time benefits with respect to district court litigation for both challengers and patentees.

Both the old IPRex and the new IPR proceeding serve the same primary function – providing a mechanism for a third party to petition the USPTO to institute a review proceeding of an issued patent in an effort to establish invalidity based on anticipation and/or obviousness.⁴ Like the old IPRex system, the IPR system does not allow the petitioner to challenge the patent on the basis of 35 USC §§101 or 112.

The most important difference between the old IPRex and the new IPR is how the USPTO performs its patent validity review function. Both the old IPRex and the new IPR proceedings use a "reasonable likelihood the petitioner/requester would prevail" standard when determining whether a petition/requester should be granted.⁵ Once the request is granted, the IPRex granting examiner assigned to the proceeding usually conducted the formal reexamination.⁶ In contrast, IPR petitions and patentability questions are weighed by a panel that includes three

technically-trained Administrative Patent Judges (APJs) from the newly-formed PTAB.⁷

Another key difference between the prior IPR proceeding and the current IPR process is that the IPR proceeding is designed to be truly adversarial. While the old IPR process allowed for the parties to submit declarations in support of their positions, the opposing party could not directly test the veracity of an opponent's declaration. In contrast, once instituted, the formal IPR proceeding includes an important new provision for discovery, which includes mandatory initial disclosures, document production, and deposition testimony.⁸ IPR proceedings may also include an oral argument.⁹ In contrast, oral argument was previously available to parties in an IPR proceeding only on appeal to the Board of Patent Appeals and Interferences (BPAI) after a final determination by the examiner in the reexamination.

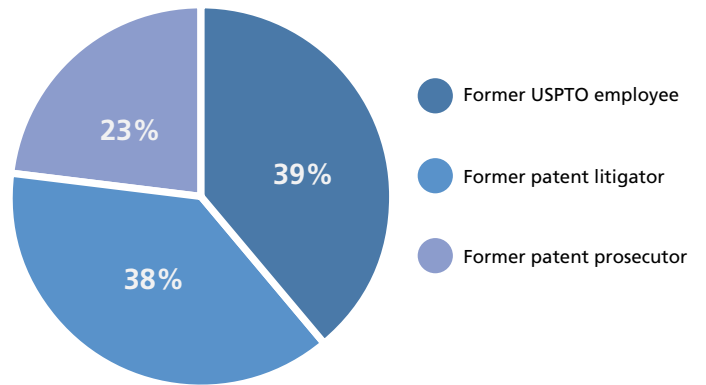
The key similarities and differences are summarised below in Table 1.

Old habits may work against patent owners, but outright bias is unlikely

Had the USPTO succeeded in its argument in *Magnum*, it would have made it extremely difficult for a patent owner to win on obviousness once a petition was instituted. And because the PTAB is known to institute a large percentage of petitions, the proposed burden shifting would make the poor prospects for a patent owner significantly worse. This raises an interesting question: while the USPTO was unsuccessful in this case, given the long history of examination and IPR in the USPTO, has there been and will there be an inherent bias among the APJs – under the USPTO's leadership – to apply the *Magnum* standard?

The authors believe that PTAB panels are not likely to be biased when enforcing the clarified burden standard during an IPR proceeding. While the authors do not wish to get too personal in this article regarding active judges, we did investigate the most active of the 80+ APJs who handle IPRs. Collectively, the PTAB's most active judges have had experience in patent examination, patent prosecution, and patent litigation – all of which are critical aspects in an IPR proceeding. Because of their diverse backgrounds, PTAB judges have represented the USPTO, patent owners, and defendants in patent infringement suits, and practitioners can expect the PTAB panel to have a broad perspective of the procedural framework of an IPR proceeding, see figure 1.

Figure 1: Former positions for PTAB's most active judges



Summary

The position the USPTO advocated and lost in *Magnum* might be an indication of the office's struggle to adapt to the adjudicative IPR proceedings, especially in the first few years since the AIA. Experience with IPRs, diversity of backgrounds, and the three-judge panels, however, will likely establish the correct application of the burden in IPRs. And now, with *Magnum* in place, there can no longer be any question as patent owners are surely going to remind the PTAB of *Magnum's* holding. Thus, while *Magnum* is unlikely to move the needle much, patent owners can take heart that the legal question of who bears the burden of proof is fully laid to rest.

Footnotes

1. *In re Magnum Oil Tools Intl*, case no 2015-1300, slip op at 14-16, 20, 25 (Fed Cir 25 July 2016).
2. 37 CFR § 42 et seq.
3. HR Rep No 112-98, 46 (2011).
4. 35 USC §§ 102, 103, 311(a); see also 37 CFR § 42.101.
5. AIA, Pub L No 112-29, 125 Stat 300 (2011), Section 6 (35 USC § 314(a)).
6. MPEP § 2656. See also MPEP § 2609 ("The inter partes reexamination proceedings are 'somewhat similar to regular examination procedures in patent applications.'").
7. 37 CFR § 42.108.
8. 37 CFR § 42.50 et seq.
9. 37 CFR § 42.70.

Table 1: Differences between *inter partes* reexamination and *inter partes* review

| | <i>Inter partes</i> reexamination (IPRex) | <i>Inter partes</i> review |
|--------------------------------|---|---|
| Standard for granting petition | Reasonable likelihood of prevailing in showing unpatentability based on patents or printed publications with respect to at least one claim. | Reasonable likelihood of prevailing in showing anticipation or obviousness based on patents or printed publications with respect to at least one claim. |
| Tribunal | Patent examiner from the Central Reexamination Unit | PTAB Panel of three Administrative Patent Judges |
| Discovery | None | Requests for admissions, interrogatories, and depositions |
| Oral hearing | None | Yes |
| Motion practice | None | Yes |
| Appeals | First to BPAI (now PTAB), then to the Federal Circuit | Appeal to the Federal Circuit |

Authors

Cy Morton (top left) is chair of the patent office trials group at Robins Kaplan and is based in the firm's Minneapolis office. Ryan Schultz (top right) is a principal in the firm's Minneapolis office. Shui Li (bottom left) and Miles Finn (bottom right) are associates in the firm's Minneapolis and New York offices, respectively. All four attorneys practise in the firm's IP and technology litigation group.