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PATENTS

Whirlpool Effect: What if Petitioners Must Prove Proposed Amended Claims Are Unpatentable in IPRs?



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Soon, the Federal Circuit will decide whether the patent owner or the petitioner bears the burden to prove whether proposed substitute claims in an inter partes review (IPR) are patentable or unpatentable.

Currently, the patent owner bears the burden to prove patentability. However, if the Federal Circuit were to change who bears the burden, there could be significant unintended consequences. This article considers some potential issues that could arise if the burden is shifted to the petitioner.

Background of *In re Aqua Products Inc.*

The petitioner, Zodiac Pool Systems Inc., challenged several claims of U.S. Patent No. 8,273,183 in an IPR (IPR2013-00159). The Patent Trial and Appeal Board (PTAB) instituted the IPR and ultimately canceled all challenged claims. The patent owner, Aqua Products Inc., moved to amend three substitute claims.

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The PTAB found that the proposed substitute claims were definite, that they narrowed the scope of the original claims, and that they did not introduce new subject matter. However, the PTAB held that the proposed claims were unpatentable because they were obvious in view of the same art that rendered the original claims unpatentable.

The patent owner appealed the PTAB decisions on various grounds. However, the issue relevant to this article was whether the PTAB improperly placed the burden of persuasion on the patent owner to prove that the proposed claims were patentable.

In particular, the patent owner argued to the Federal Circuit that 35 U.S.C. § 315(e) unambiguously places the burden of persuasion for unpatentability of any claim, proposed substitute claims or original claims, on the petitioner. The patent owner argued that the PTAB's regulations placing the burden on the patent owner are in direct conflict with the statute, and thus, are invalid.

The Federal Circuit panel held that the PTAB's regulations were consistent with prior Federal Circuit precedent on this issue and that the regulations are consistent with Congress's intentions related to IPR.

The full Federal Circuit recently granted en banc review to answer two questions: first, whether the patent owner should bear the burden of persuasion, or burden of production, related to proposed substitute claims and whether bearing either burden is consistent with Section 315(e), and second, whether the PTAB may sua sponte raise issues of unpatentability when the peti-

tioner does not challenge the proposed substitute claims. Oral argument is set for Dec. 9, 2016.

What Happens if the Burden Is Placed on the Petitioner?

This case presents some interesting questions related to statutory interpretation and scope of regulations that may be enacted to affect Congress's intent. However, these questions are beyond the scope of this article. Instead, this article will focus on the potential ramifications if the patent owner prevails in *In re Aqua Products, Inc.* and the burden of persuasion to prove unpatentability of proposed substitute claims is placed on the petitioner.

The authors would note that predicting the full scope of the ramifications is limited until the Federal Circuit issues its opinion in this case. Nevertheless, discussed below are some potential ramifications that could occur if the burden is shifted to the petitioner.

Challenges of Unpatentability Based on Grounds Outside Those Permitted in IPR

A petitioner in an IPR is only permitted to challenge the patentability of the original claims based on printed publications under 35 U.S.C. § § 102 and 103. However, one potential issue of placing the burden of persuasion on the petitioner is whether the petitioner should be able to raise other bases of unpatentability.

These challenges could include patent eligibility, lack of enablement under 35 U.S.C. § 112, or prior use or offer for sale. As the PTAB and the Federal Circuit have repeatedly stated, IPR is not examination. Yet, if the only thing preventing a proposed substitute claim from issuing would be arguments raised by the petitioner (i.e., there is no independent examination by the PTAB or an examiner), why should the petitioner be hamstrung to unpatentability arguments relying solely on Sections 102 and 103 based on printed publications.

Indeed, it would seem in the public's interest to allow the party bearing the burden of persuasion to have all of the tools and arguments available to it to prove the proposed substitute claims are unpatentable, just like would be available in examination.

On the other hand, if a petitioner is permitted to raise arguments against proposed substitute claims that are not permitted to be raised against the original claims, there is a potential for inconsistent findings to be made. For example, a possible scenario could arise where the original claims are found patentable over the prior art relied upon by the petitioner, however, the substitute claims are found unpatentable for lack of enablement.

In that case, a situation would exist where the narrower-in-scope substitute claim was found to lack enablement while the broader original claim was found patentable. It seems unlikely that the broader original claim could be found to be enabled in the specification when the narrower claim was not. The only way for the petitioner to invalidate claims for lack of enablement is to seek an order from a district court. But that would be inconsistent with Congress's intent to offer a cost-effective way to challenge the validity of patents.

The Difference in the Standard of Proof in the Different Forums

Another issue to consider is the standard of proof at issue in an IPR as compared to district court. In an IPR, the standard of proof is preponderance of the evidence while it is clear and convincing evidence in district court. If petitioners bear the burden of persuasion and are able to raise arguments not permitted in an IPR as to the original claim, the PTAB will be able to review additional grounds of unpatentability under a lower threshold than permitted in district court, using a standard that Congress did not specifically state should be used.

Taking the hypothetical discussed above regarding the finding of lack of enablement for the narrower substitute claim, one possible ramification is that a district court may find that the accused infringer (the petitioner in the IPR) did not prove by clear and convincing evidence that the original claim is unpatentable for lack of enablement while the PTAB found that a narrower substitute claim was unpatentable under the lower standard of proof. While this scenario may not occur frequently, the potential consequences to the patent owner and accused infringer in those infrequent occurrences would likely be significant.

What if the Petitioner Has No Incentive for Challenging the Proposed Substitute Claim? Case or Controversy?

The underlying principle behind IPR is that it is *inter partes*—there is a case or controversy. But what happens if an amendment removes the controversy? The Federal Circuit recognized that there may be scenarios where the petitioner lacks incentive to challenge the proposed substitute claim, such as a strong non-infringement position based on the proposed change in the claim.

Should a party who has no motivation to challenge the proposed substitute claim be the one to bear the burden of persuasion? A petitioner might conclude that it does not infringe the proposed substitute claims, and so not care if they issue.

A fortunate petitioner might conclude that it does not infringe the new claims, but that a competitor does. Further, a patent owner may be motivated to offer a license or covenant not to sue the petitioner on the proposed substitute claim in order to get the proposed substitute claim to issue in the IPR proceeding, because there would be no challenge from the petitioner from which the PTAB could decide the claim was unpatentable.

The patent owner is the only party in these proceedings that maintains a motivation to see the process until the end as the patent owner has the only asset at issue. Given the Federal Circuit's recent holding in *In re Magnum Oil Tools Int'l, Ltd.* that it was a reversible error for the PTAB to raise arguments not presented by either party (No. 2015-1300, 119 U.S.P.Q.2d 15412016 BL 237346 (Fed. Cir. July 25, 2016)), there exists significant potential that proposed substitute claims could go unchallenged in a PTAB proceeding when the petitioner does not challenge them.

By shifting the burden onto a party who may not always have a motivation to see the process until the end

and appearing to have foreclosed the PTAB's ability to sua sponte make arguments of unpatentability on its own, the Federal Circuit may have created some unintended scenarios for claims to issue that have not been subject to rigorous unpatentability analysis.

A Potential Proposal

The PTAB's repeated statements that an IPR is not examination merely reiterates the rules it promulgated. The PTAB could consider changing its rules to permit examination of proposed claims.

For example, the PTAB could set a fee, payable by the patent owner, for the examination to be conducted by an examiner. If the patent owner or the petitioner wishes to respond to the examiner's office action, the PTAB could extend the time for the trial by six months pursuant to 35 U.S.C. § 116(a)(11).

By adding examination to the IPR process, the PTAB would eliminate the problem of the unmotivated petitioner, permit all of a patent's claims to be examined us-

ing the same process and standard, and give, finally, a patent owner a fair shot at amending.

Conclusion

These potential issues or ramifications may only be the tip of the iceberg, depending on the rationale employed by the Federal Circuit if it holds that the petitioner bears the burden of persuasion to prove that the proposed substitute claims are unpatentable.

Additional issues will likely arise related to the process and procedure implemented by the PTAB to handle this change in the burden holding. Typically, the PTAB allows the party with the burden to have the last word.

The current procedures allow for the patent owner to have the last word related to proposed substitute claims. This procedure would likely have to be modified if the Federal Circuit changes the burden-bearing party.

Nevertheless, time will tell as to the extent and scope of potential issues that may arise if the Federal Circuit places the burden on the petitioner to prove that proposed substitute claims are unpatentable.