

No. 22-927

In the Supreme Court of the United States

NIKE, INC., PETITIONER,

v.

ADIDAS AG, ET AL.

*ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT*

REPLY BRIEF FOR THE PETITIONER

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Pointing to revelations that high-level officials in the Patent Office manipulated the composition of the inter partes review panel in this case, see *Fitzpatrick v. Dep't of Com.*, No. DC-1221-21-0423-W-2, 2023 WL 3301069 (May 5, 2023), the Government states (at 13) that “it would be appropriate for this Court to grant, vacate, and remand” to the Federal Circuit. Nike agrees that vacatur and remand is an appropriate remedy in light of the recent revelations. Indeed, it is the *minimum* remedy that would be consistent with basic due process principles.

If the Court does not vacate and remand, however, it should grant plenary review to consider the Question Presented. The Government does not dispute that this case raises a recurring, important, and outcome-determinative question of the Board’s authority to raise *sua sponte* a new ground of unpatentability, and to rely on that new ground in rejecting a patent-holder’s substitute claims. The Government instead defends the decision below on the merits. Yet the Government fails to identify a statutory source for the Board’s supposed authority, and it offers no plausible account of Section 316(e)’s text.

The Government’s response rests primarily on a policy argument that the Board *should* be empowered to serve the public interest by rejecting invalid substitute claims *sua sponte*. But it is Congress’s policy choices that govern the scope of the agency’s authority. And where Congress wants to give the Board inquisitorial power—as it has for *ex parte* reexamination proceedings—it says so expressly.

The Government also argues that review is unwarranted in light of the newly promulgated regulation codifying the Board’s *sua sponte* authority. But the regulation only makes this petition a more suitable vehicle. The Court should not allow the Board to shield its authority on a pure question of statutory interpretation by adding an overlay of administrative deference.

I. THE COURT SHOULD VACATE THE DECISION BELOW AND REMAND

The Government states (at 23) that “the Court may wish to grant, vacate, and remand the case to the Federal Circuit in light of the new information that a pre-decisional panel expansion and unexpansion took place while the case was pending at the Board.” This “new information” comes from an initial decision of the Merit Systems Protection Board, which concluded that the Patent Office retaliated against Administrative Law Judge Michael Fitzpatrick after he engaged in whistleblowing activity:

(1) he disclosed that agency management officials secretly and illegally interfered with the inter partes review (inter partes review or IPR) process in *Adidas AG v. Nike, Inc.*, No IPR2013-00067 . . . when they expanded the PTAB review panel from three to five judges after the original three-judge panel had fully decided the case and improperly delayed the issuance of the final decision without notifying the parties that the panel had been expanded; and (2) he disclosed that

the United States Deputy Solicitor General had provided “erroneous” information to the United States Supreme Court on behalf of the agency during oral arguments in *Oil States*.

Fitzpatrick, slip op. at 2-3. According to the Government (at 23), Nike should be permitted “to raise any challenges based on such information” in front of the Federal Circuit in the first instance.

Nike agrees with the Government that the decision below should be vacated in light of the *Fitzpatrick* revelations. On remand, as the Government notes (at 13), Nike will be able to “present any arguments it wishes to make based on [the new] information to the Federal Circuit.” Cf. *Kisor v. Wilkie*, 139 S. Ct. 2400, 2438 (2019) (Gorsuch, J., concurring in the judgment) (emphasizing the importance of “a fair hearing before a neutral judge”).

If Nike does not prevail after those further proceedings, it can again seek review in this Court, including based on its challenge to the Board’s *sua sponte* authority. But if the Court decides not to vacate and remand for further consideration of the case in light of the *Fitzpatrick* decision, it should grant plenary review to consider the challenge now.

II. THE DECISION BELOW WAS WRONG

The Government, like the Federal Circuit in *Nike II*, fails to identify statutory text that even arguably grants the Board authority to raise and decide questions of patentability *sua sponte* during inter partes review. That failure is dispositive here: Unlike a court, the Board has no inherent constitutional authority, and it may invalidate a patent based “only [on] the authority that Congress has provided.” *Nat’l Fed’n of Indep. Bus. v. Dep’t of Labor*, 142 S. Ct. 661, 665 (2022) (per curiam). The Government’s various policy-based arguments (at 13-16) thus cannot

overcome the plain meaning of Section 316(e), and they are unpersuasive in any event.

A. When the Government eventually gets around to addressing Section 316(e), its arguments (at 17-18) are remarkably atextual. The Government offers no plausible interpretation of Congress’s instruction that “*the petitioner shall have the burden of proving a proposition of unpatentability.*” 35 U.S.C. § 316(e) (emphasis added). That instruction, which also reflects the presumptive validity of an issued patent, see *id.* § 282(a), means that a petitioner who “fails to raise a valid ground of unpatentability—including by failing to identify relevant prior art—simply has not satisfied its ‘burden of proof.’” Pet. 17 (brackets omitted).¹

In response, the Government asserts (at 18) that “questions regarding the allocation of the burden of proof for Board-identified grounds of unpatentability are distinct from the question whether the Board may identify such grounds at all.” Yet the Government cites no authority for that assertion, and this Court has explained that the opposite is generally true:

Historically, the term [“burden of proof”] has encompassed two separate burdens: the “burden of persuasion” (specifying which party loses if the evidence is balanced), *as well as the “burden of production”*

¹ The Government notes that several Federal Circuit judges have expressed the view “that Section 316(e) does not unambiguously apply to proposed substitute claims.” Gov’t Br. 18 n.3 (citing concurring and dissenting opinions in *Aqua Products Inc. v. Matal*, 872 F.3d 1290 (2017) (en banc)). The Government does not endorse that view, however, and there is no textual basis for thinking that Section 316(e) applies to a patent’s original claims but not to substitute claims. Without qualification or limitation, the provision puts the burden on the petitioner to prove *any* “proposition of unpatentability.” 35 U.S.C. § 316(e).

(specifying which party must come forward with evidence at various stages in the litigation).

Microsoft Corp. v. i4i Ltd. P'ship, 564 U.S. 91, 100 n.4 (2011) (emphasis added) (quoting *Schaffer v. Weast*, 546 U.S. 49, 56 (2005)). The petitioner's ultimate "burden of proving a proposition of unpatentability" under Section 316(e) thus means that the petitioner "also starts out with the burden of producing," in the first instance, arguments to support the unpatentability of substitute claims. *Id.* at 107 (quoting 21B Charles Alan Wright & Kenneth W. Graham, Jr., *Federal Practice & Procedure* § 5122, at 401 (2d ed. 2005)).

The Patent Act offers no reason to believe that Congress departed here from what "burden of proof" has "[h]istorically" meant. To the contrary, the statutory context powerfully reinforces history: "When Congress intends for the Patent Office to play an active role in identifying potential deficiencies with a patent, it says so expressly." Pet. 17; see 35 U.S.C. §§ 102(a), 103, 132(a), 303(a). In the face of these many indications that Congress "knew exactly how to" give the Patent Office *sua sponte* authority when it wanted to do so, *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1355 (2018), the Government—like Section 316(e) itself—is simply silent.

B. As for statutory structure, the Government misconstrues (at 15) Nike's argument as resting on the proposition that inter partes review is "effectively identical to private litigation." Nike of course recognizes that an inter partes adjudication is not *identical* to civil litigation. See Pet. 20-21. The point is that—in contrast with the Board's "inquisitorial" authority under other statutory provisions, *SAS Inst.*, 138 S. Ct. at 1355—the inter partes review process is adversarial in nature: The Board's role is to resolve disputes between the parties, not to create them. In *this*

important respect, inter partes review “mimics civil litigation.” Pet. 6 (quoting *SAS Inst.*, 138 S. Ct. at 1352).

The Government nevertheless disputes the analogy. Even when a petitioner settles or otherwise withdraws its petition, the Government notes, the Board may “‘proceed to a final written decision’ determining the patentability of the challenged claims.” Gov’t Br. 4 (quoting 35 U.S.C. § 317(a)); see Gov’t Br. 15-16. According to the Government (at 16), the Board’s power to issue a decision even after the petitioner has dropped out “cannot be squared” with a world in which the Board serves only as an impartial adjudicator.

There is no contradiction. Section 317(a) permits the Board to issue a final written decision only *after* the Board has already granted inter partes review based on a determination—in an adversarial posture—that the petition demonstrates “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). In those circumstances, the Board’s ultimate decision is properly limited to the bases presented by the petition, see *Cuozzo Speed Techs., Inc. v. Lee*, 579 U.S. 261, 275-76 (2016), and that limitation remains even if the petitioner settles or drops out of the proceedings. The import of Section 317(a) is simply to prevent parties from strategically mooting an ongoing inter partes review; it does not grant the Board authority to deviate from its adjudicative role.

The Government next contends (at 17) that the Board should have broader authority to cancel the patent owner’s *substitute* claims—as distinct from its authority to cancel *original* claims—because “patent owners do not abandon existing claims . . . without good reason.” The Government’s point seems to be that a motion to amend a claim amounts to a concession that the existing claim is likely unpatentable. This argument fails on multiple levels.

As an initial matter, Congress granted patent-holders the absolute right to file “1 motion to amend” during inter partes review, 35 U.S.C. § 316(d)(1), and the Government identifies no valid basis to presume the exercise of that statutory right reflects the merits of the underlying patent claim. Nor is it significant that, as the Government notes (at 17), “motions to amend are frequently styled as *contingent* motions to amend, asking the Board to determine the patentability of a substitute claim only if the original claim is found to be unpatentable.” The contingent nature of motions to amend merely reflects that a patent owner may not need to cancel an original claim unless it has been found deficient. Such conditional requests for relief are common. For instance, a party that files a conditional cross-petition in this Court, see Sup. Ct. R. 12.5, is not admitting a lack of merit in its response to the underlying certiorari petition.

The Government also overlooks the many reasons besides patentability that might motivate a patent-holder to “abandon” an existing claim. Among other things, amending the claim may facilitate settlement; or it may fix a prior adverse claim construction from another proceeding. See, e.g., Monique Winters Macek & Michael C. Newman, *Patent Owner Tip #13 for Surviving and Instituted IPR: When to Amend Claims in an IPR*, 11 Nat’l L. Rev. 218 (2021). In any event, the Government never acknowledges that substitute claims are necessarily *narrower* than the presumptively valid claims they amend. See 35 U.S.C. § 282(a). Such claims accordingly pose no danger of expanding the patent beyond its legitimate scope. Pet. 22.

C. The Government’s primary response to the Question Presented is grounded in policy rather than text. Noting that patents are “public franchises,” the Government maintains that the “‘overarching goals’ of inter partes review ‘extend beyond the particular parties in a given patent dispute.’” Gov’t Br. 14-15 (quoting *Arista Networks*,

Inc. v. Cisco Sys., Inc., 908 F.3d 792, 804 (Fed. Cir. 2018)). From this, the Government concludes (at 15) that “[t]he public interest would be disserved if the Board were required to accept substitute patent claims even when readily identifiable record evidence revealed that those claims were unpatentable.”

As Nike has explained (Pet. 22-23), the Government’s argument proves too much: If Congress were concerned *only* about rooting out unpatentable claims, then it would have given the Board authority to institute inter partes review proceedings on its own initiative, as it did in the inquisitorial reexamination context. See *Cuozzo*, 579 U.S. at 267. But Congress declined to grant the Board that power for inter partes review, instead “opt[ing] for a party-directed, adversarial process.” *SAS Inst.*, 138 S. Ct. at 1355. Clearly Congress does not share the Government’s conception of “the public interest.”

The Government’s argument proves too much in another respect as well. The Government argues (at 16) that the Board may reject a substitute claim where “the challenger has introduced into the record, but has not expressly relied on, prior art that reveals the claim’s obviousness.” But the Government offers no limiting principle that would restrict the Board to prior art that “the challenger has introduced into the record.” If the Government were correct that invalidating unpatentable claims is Congress’s overriding goal, then why should the Board not *also* have authority to reject substitute claims based on prior art that is *not* in the record, so long as it is known to the Board? The obvious answer is that “no legislation pursues its purposes at all costs,” *Rodriguez v. United States*, 480 U.S. 522, 525-26 (1987) (per curiam), and the statutory text itself provides the best evidence of how Congress wanted to balance the Patent Act’s various objectives.

D. Finally, relying on policy concerns and statutory silence would be particularly inappropriate here given the significant property interests implicated by the Board's decisions. The Government argues (at 18-19) that Nike's constitutional-avoidance argument "collapses" into its statutory argument. But constitutional avoidance is a doctrine of statutory construction that properly demands a clearer statutory command where significant rights are at stake. See *Solid Waste Agency of N. Cook Cnty. v. U.S. Army Corps of Eng'rs*, 531 U.S. 159, 172 (2001) ("Where an administrative interpretation of a statute invokes the outer limits of Congress' power, we expect a clear indication that Congress intended that result."). Given the separation-of-powers and due process concerns implicated by the Board's authority to revoke billion-dollar property rights, see Pet. 20-21, this Court should not read the statute as *implicitly* giving the agency a power that Congress did not grant it *expressly*, see *SAS Inst.*, 138 S. Ct. at 1353.

III. THE QUESTION PRESENTED IS IMPORTANT AND WARRANTS REVIEW

The Government does not dispute that the question presented is recurring and important.² Nor does the Government dispute that it was outcome-determinative in this case. In fact, this case presents a particularly egregious exercise of *sua sponte* authority because no one raised the Spencer Textbook as prior art until *after* the Board had issued its initial opinion, the Federal Circuit had decided

² The Government says (at 21 n.4) that motions to amend are filed in only a "small percentage of reviews." But Patent Office statistics show 1,316 trials over a ten-year period that involved at least one motion to amend. U.S. Patent & Trademark Off., *Patent Trial and Appeal Board Motion to Amend (MTA) Study: Installment 7*, at 4 (2022), <https://bit.ly/3y1B81c>. As Nike noted (Pet. 28), that "translates to a lot of opportunities for the Board to exercise its newfound (but illegitimate) authority."

Nike I, and the case had been remanded to the Board. See Pet. 25-26.

The Government nevertheless describes this case (at 19-20) as an “unsuitable vehicle” in light of a recent regulation codifying the Board’s newfound *sua sponte* authority. By “unsuitable vehicle,” the Government apparently means that it would prefer to defend its interpretation from behind a screen of administrative deference. But the Government should not be permitted to evade review by waiting to play on a friendlier field. Deciding the issue in a pure statutory-interpretation posture will provide needed clarity while avoiding any complications raised by *Chevron* and related deference issues. See, e.g., Order Granting Cert., *Loper Bright Enters. v. Raimondo*, No. 22-451 (U.S. May 1, 2023).

The Government is also incorrect to assert (at 22) that the question of the regulation’s validity “is not properly presented here.” If the Board has no statutory authority to invalidate substitute claims *sua sponte*, then there was no lawful basis for the agency to codify such authority by regulation. This Court need not await a case that separately addresses the regulation’s “propriety and effect.” Gov’t Br. 22.

The Government misunderstands (at 21) the significance of judicial complaints in *Hunting Titan, Inc. v. DynaEnergetics Europe GmbH*, 28 F.4th 1371, 1381 (Fed. Cir. 2022), regarding “problematic” uses of the Board’s *sua sponte* authority. While the judges in that case criticized the Board for being “too reluctant” to identify grounds of unpatentability *sua sponte*, Gov’t Br. 21 (emphasis omitted), other judges may wish that the Board had wielded its authority more conservatively. The fundamental problem is that the statute provides no such authority in the first place—and hence no statutory standard

against which to judge the Board's exercise of that authority.

Finally, the Government is wrong to insist (at 12 n.2) that the *Fitzpatrick* revelations are "not directly relevant here." They illustrate the danger that arises when an agency that is supposed to be refereeing a dispute between two adversarial parties instead inserts itself as an advocate. The *Fitzpatrick* revelations show that Patent Office officials put a thumb on the scale in *this case*; but the Board has claimed authority to intervene on a party's behalf in *every case* involving substitute claims.

CONCLUSION

The Court should grant the petition for a writ of certiorari, vacate the decision below, and remand to the Federal Circuit for further consideration in light of the *Fitzpatrick* decision. In the alternative, the petition should be granted.

Respectfully submitted.

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