



October 2017

Follow @Paul_Hastings



Aqua Products, Inc. v. Matal: Petitioners Bear the Burden of Establishing the Unpatentability of Amended Claims in IPR Proceedings

By [Igor V. Timofeyev](#), [Howard Herr](#), [Phillip W. Citroën](#), [Naveen Modi](#) & [Joseph Palys](#)

Upending the current motion-to-amend practice before the Patent Trial and Appeal Board (“the PTAB”), a deeply fractured en banc Federal Circuit in *Aqua Products, Inc. v. Matal*, No. 2015-1177 (Fed. Cir. Oct. 4, 2017), has shifted the burden of persuasion onto petitioners to establish the unpatentability of amended claims proffered by patent owners during *inter partes* review (“IPR”) proceedings. Under the PTAB’s current practice, patent owners have faced great difficulty in successfully amending claims in IPR proceedings. That may change in light of the Federal Circuit’s ruling in *Aqua Products*.

The Federal Circuit’s opinions leave open the possibility that the Patent and Trademark Office (“the PTO”) may attempt to promulgate regulations re-imposing the burden of persuasion on patent owners. Five of the court’s members, however, indicated that any such regulation would be foreclosed by the America Invents Act (“the AIA”). Whether patent owners would now seek to take greater advantage of the opportunity to amend may also depend on other factors, such as the PTAB’s overall receptivity to motions to amend and the amendment’s implications for the recovery of damages in any parallel litigation.

Background

In 2003, Zodiac Pool Systems, Inc. (“Zodiac”) filed an IPR petition challenging certain claims of U.S. Patent No. 8,273,183, assigned to Aqua Products, Inc. (“Aqua Products”). Following institution, Aqua Products proposed substitute claims. In its final written decision, the PTAB held both the challenged and proposed substitute claims unpatentable and denied Aqua Products’ motion to amend. The Board concluded that Aqua Products had not carried the ultimate burden of persuasion of showing patentability with respect to the proposed substitute claims. Aqua Products appealed the PTAB’s denial of the motion to amend.

On appeal, a Federal Circuit panel upheld the PTAB’s assignment to the patent owner of the burden of persuasion on the patentability of proposed substitute claims, and concluded that the PTAB did not err in holding the proposed substitute claims unpatentable. Aqua Products sought an en banc rehearing to challenge the burden-of-persuasion assignment regarding proposed substitute claims as impermissible under 35 U.S.C. § 316(e). On August 12, 2016, the Federal Circuit vacated the panel’s decision and granted en banc review.



The En Banc Court's Opinions

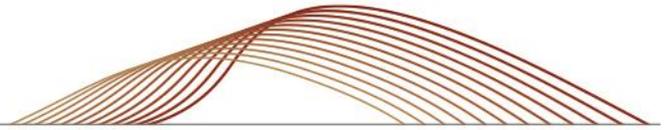
In a 6-5 vote, the en banc Federal Circuit vacated the PTAB's final written decision denying Aqua Products' motion to amend, and remanded the case for the PTAB to issue a final decision assessing the patentability of the proposed substitute claims "without placing the burden of persuasion on the patent owner."¹ A majority of the participating judges concluded that 35 U.S.C. § 316(e) is ambiguous as to the allocation of the burden of persuasion, and a differently constituted majority then held that the court was not required to defer to any interpretation of the statute by the PTO. In the absence of any required deference, the majority found the most reasonable reading of the AIA is one that places the burden of persuasion with respect to the patentability of amended claims on the petitioner.

The question of the appropriate burden of proof deeply divided the Federal Circuit, resulting in five different opinions, none of which garnered enough votes to serve as the opinion of the court. The members of the en banc court disagreed whether the applicable statute—the AIA—clearly addressed the issue, and whether the PTO's interpretation of the statute was entitled to deference.

The lead opinion, authored by Judge O'Malley, commanded five votes of the en banc court, but fell one vote short of the majority.² Based on the plain language of the statute, the statutory scheme of which it is a part, and the relevant legislative history, the opinion concluded that "§ 316(e) unambiguously requires the petitioner to prove all propositions of unpatentability, including for amended claims."³ The court disagreed that 35 U.S.C. §§ 316(a)(9) and 316(d) place the burden of persuasion regarding the patentability of amended claims on the patent owner. Instead, these sections merely set forth that the patent owner must satisfy the "statutory criteria" and any "procedural obligations" "before the amendment is entered into the IPR."⁴ The relevant section, according to the lead opinion, was § 316(e), which (the opinion reasoned) applies equally to both issued and proposed substitute claims. The opinion explained that § 316(e) is unlike other sections of the AIA, in that it "applies to *all* claims in an IPR—whether existing or proposed to be amended."⁵ Indeed, it "uses the term 'unpatentability,' which may refer to either pending or issued claims, rather than the term 'invalidity,' which both courts and the PTO apply only to issued claims."^{6 7}

The lead opinion acknowledged, however, that the remaining six members of the en banc Federal Circuit—hence, the majority of the court—believed the statute to be ambiguous on this point.⁸ Judge O'Malley's opinion, therefore, proceeded to examine whether the PTO has validly interpreted the AIA's statutory scheme with respect to the placement of the burden of persuasion as to the amended claims to warrant judicial deference.⁹ The five-judge plurality opinion concluded that the PTO did not promulgate any rulemaking governing the burden of persuasion, so no judicial deference was required.¹⁰ Therefore, even assuming statutory ambiguity, the lead opinion would have held that the burden of persuasion for the amended claims rests with the petitioner.¹¹

The two additional votes to reverse the PTAB, and to hold that the burden of persuasion with respect to the patentability of amended claims lies with the petitioner, were supplied by Judges Reyna and Dyk. In a separate opinion, authored by Judge Reyna, they concluded that the PTO "does not possess the statutory authority to issue through adjudication a substantive rule that creates and allocates a burden of persuasion," as opposed to through formal notice-and-comment rulemaking.¹² For that reason, they would have applied the "ordinary default rules of evidence" on the allocation of the burden of persuasion (which forms the background to the AIA), and held that "the default rule is that the patent owner does not bear the burden of persuasion on the patentability of its proposed amended claims."¹³



The remaining four judges of the en banc court dissented. In the principal dissent, Judge Taranto would have held that the AIA is ambiguous with respect to who bears the burden of persuasion on the amended claims, and that “a PTO regulation assigns the burden of persuasion to the patent owner.”¹⁴ Judges Hughes and Chen joined Judge Taranto’s opinion but also wrote separately to note that, even if the PTO’s regulations regarding the burden of persuasion were ambiguous, they would have deferred to the PTO’s interpretation of these regulations under the principle of *Auer v. Robbins*, 519 U.S. 452 (1997).¹⁵

Conclusion

Because the participating en banc judges had different views, both as to the judgment and the underlying rationale, the *Aqua Products* court’s holding was fairly narrow. The Federal Circuit held that, at least in the absence of any future rulemaking by the PTO, the burden of persuasion with respect to the patentability of amended claims in IPR proceedings resides with the petitioner. The members of the en banc court disagreed, however, whether that outcome was mandated by statute (as five judges would have held) or was the result of the PTO not having gone through a proper notice-and-comment process (as two other judges concluded). As a result, the Federal Circuit’s opinions leave open the possibility that the PTO may attempt to promulgate regulations re-imposing the burden of persuasion on the patent owner.¹⁶ The PTO, however, may be reluctant to embark upon that process, given five members of the Federal Circuit are now on the record that any such regulation would be foreclosed by the AIA. For the foreseeable time being, therefore, the burden of persuasion in IPR proceedings will be governed by *Aqua Products* and reside with the petitioner.

It remains to be seen, however, whether patent owners will seek to take greater advantage of the opportunity to amend, and how *Aqua Products* will affect pending AIA trials involving motions to amend. While the shift in the burden may make it easier for patent owners to move to amend claims, the PTAB may still reject the amended claims if it concludes that they are not distinguished from the prior art. In addition, patent owners seeking to amend their claims should be mindful of the implications of such amendments for any parallel infringement litigation. The doctrine of intervening rights may potentially prevent patent owners from recovering past damages in litigation if the claims of the patent-in-suit are amended.

Finally, the different *Aqua Products* opinions illuminate the different approaches that members of the Federal Circuit apply to questions of statutory interpretation and administrative deference. As the opinions illustrate, some members of the court are more willing to defer to the PTO’s interpretation, whereas other members are more inclined to construe the governing statute themselves. Federal Circuit judges also have divergent views on the degree of formality required of the PTO’s rulemaking before the agency receives judicial deference.





If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings Washington, D.C. lawyers:

Naveen Modi
1.202.551.1990
naveenmodi@paulhastings.com

Joseph E. Palys
1.202.551.1996
josephpalys@paulhastings.com

Igor V. Timofeyev
1.202.551.1792
igortimofeyev@paulhastings.com

¹ *Aqua Products, Inc. v. Matal*, No. 2015-1177 (Fed. Cir. Oct. 4, 2017), slip op. at 6 (opinion of O'Malley, J.).

² Judge O'Malley's opinion was joined by Judges Newman, Lourie, Moore, and Wallach. The en banc court consisted of 11 judges, with Judge Stoll not participating.

³ *Id.* at 5, 17-42.

⁴ *Id.* at 19-24.

⁵ *Id.* at 24-29.

⁶ *Id.* at 26.

⁷ Judge O'Malley's opinion also addressed the question of whether the PTAB in IPR proceedings must consider the entirety of the record before it when assessing the patentability of amended claims and must justify any conclusions of unpatentability with respect to amended claims based on that record. Disagreeing with the panel decision, the lead opinion would have held that basic principles of administrative law require the PTAB to base its patentability decisions on the entirety of the record, and that refusing to consider all of the evidence of record would be arbitrary and capricious. *Id.* at 60-62. Judge O'Malley acknowledged that the other members of the en banc court did not address this question, but viewed it to be "fairly uncontroversial" under the Administrative Procedure Act. *Id.* at 62.

⁸ *Id.* at 5, 42.

⁹ *Id.* at 42-43.

¹⁰ *Id.* at 55-56. In a separate concurrence, Judge Moore (joined by Judges Newman and O'Malley) expressed a view that, under the AIA, the PTO would not receive *Chevron* deference unless it interpreted the burden-of-proof provisions in formal regulations, promulgated through the notice-and-comment process—which the PTO has not done. See slip op. at 4-12 (opinion of Moore, J.).

¹¹ Slip op. at 59-60 (opinion of O'Malley, J.).

¹² Slip op. at 9 (opinion of Reyna, J.).

¹³ *Id.* at 12. Judges Reyna and Dyk would have separately held—in a portion of their opinion joined by four other judges—that, under the PTO's regulations interpreting the AIA, the patent owner bears the burden of *production* with respect to the amended claims. See *id.* at 13-14. Chief Judge Prost and Judges Taranto, Chen, and Hughes joined that part of the opinion. See *id.* at 1; see also slip op. at 2 (opinion of Reyna, J.). Although the majority of the en banc court joined that portion of Judge Reyna's opinion, Judge O'Malley's opinion disputed that it represented an opinion of the en banc Federal Circuit, on the basis that the holding was not in support of the court's judgment and was also dictum. See slip op. at 63-65 (opinion of O'Malley, J.).

¹⁴ Slip op. at 2, 7-32 (opinion of Taranto, J.). Chief Judge Prost and Judges Chen and Hughes joined that opinion in full. Judges Reyna and Dyk joined Judge Taranto's opinion only insofar as it held that the AIA was ambiguous on the burden-of-persuasion issue and that the PTO had authority to promulgate regulations regarding it. See slip op. at 3 (opinion of Reyna, J.); slip op. at 1 (opinion of Taranto, J.).

¹⁵ Slip op. at 3, 9-13 (opinion of Hughes, J.). Judges Hughes and Chen also disagreed with Judge Moore's view that only the PTO's formal regulations (as opposed to other types of interpretation) with respect to the burden of persuasion issue would be entitled to *Chevron* deference. *Id.* at 13-19.

¹⁶ Judges Reyna and Dyk expressly noted that option in their opinion. See slip op. at 2 (opinion of Reyna, J.).

Paul Hastings LLP

Stay Current is published solely for the interests of friends and clients of Paul Hastings LLP and should in no way be relied upon or construed as legal advice. The views expressed in this publication reflect those of the authors and not necessarily the views of Paul Hastings. For specific information on recent developments or particular factual situations, the opinion of legal counsel should be sought. These materials may be considered ATTORNEY ADVERTISING in some jurisdictions. Paul Hastings is a limited liability partnership. Copyright © 2017 Paul Hastings LLP.