



**Patent Law Alert:
En Banc Federal Circuit Clarifies Burden to
Challenge Amended Claims in PTAB Proceedings in *Aqua
Products v. Matal***

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On October 4, 2017, the United States Court of Appeals for the Federal Circuit issued a divided en banc decision in Aqua Products, Inc. v. Matal, No. 15-1177 (Fed. Cir. Oct. 4, 2017). The Court vacated the Patent Trial and Appeal Board’s (“PTAB”) final written decision “insofar as it denied the patent owner’s motion to amend,” and remanded to the PTAB “to issue a final decision under [the statute] assessing the patentability of the proposed substitute claims without placing the burden of persuasion on the patent owner.” O’Malley slip op. at 66. The majority did not come to any agreement as to whether the burden of persuasion should lie with the petitioner or the PTO.

The conduct of inter partes review statute, 35 U.S.C. § 316, provides in part:

(a) The Director shall prescribe regulations . . . (9) setting



forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent; . . .

(d)(1) During an inter partes review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways: (A) Cancel any challenged patent claim. (B) For each challenged claim, propose a reasonable number of substitute claims.

(d)(2) Additional motions to amend may be permitted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under section 317, or as permitted by regulations prescribed by the Director.

(d)(3) An amendment under this subsection may not enlarge the scope of the claims of the patent or introduce new matter.

(e) In an inter partes review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.



Aqua Products addressed two important questions regarding amended claims in PTAB proceedings under 35 U.S.C. § 316:

- 1. Whether the Patent and Trademark Office (“PTO”) could require the patent owner to bear the burden of persuasion or production under 35 U.S.C. § 316; and***
- 2. Whether the PTAB could raise a patentability challenge to proposed amended claims sua sponte, and where the burden of persuasion or production would lie in such a situation.***

The fractured Court issued five separate opinions.

The leading opinion was issued by Judge O’Malley and supported by a seven-member panel. The majority held that, at least under the current PTO regulations, “[t]he only legal conclusions that support and define the judgment of the court are: (1) the PTO has not adopted a rule placing the burden of persuasion with respect to the patentability of amended claims on the patent owner that is entitled to [Chevron] deference; and (2) in the absence of anything that might be entitled



deference, the PTO may not place that burden on the patentee.” O’Malley Slip op. at 66. Judge O’Malley described the opinion as “narrow” asserting that “[b]ecause the participating judges have different views—both as to the judgment we should reach and as to the rationale we should employ in support of that judgment, as explained below, today’s judgment is narrow.” O’Malley slip op. at 6.

The Court’s analysis clearly identified several judges, including Judge O’Malley, who would have held that 35 U.S.C. § 316(e) unambiguously requires the petitioner to carry the burden of persuasion on all propositions of unpatentability, and would have concluded that the PTAB’s decision to reject Aqua Products’ amended claims without considering the entirety of the IPR record was an abuse of discretion. O’Malley slip op. at 62. “Congress made clear that patent owners may propose amendments to their patents as of right at least once in an IPR.” O’Malley slip op. at 37. Judge O’Malley further explained: “By reading too much into § 316(d) and too little into § 316(e), the PTO effectively injects illogic into that framework and undermines its function and purpose.” O’Malley slip op. at 40. Judge O’Malley’s opinion repeatedly emphasized the importance of patentees’ ability to amend their claims in the legislative history and in justifying the PTAB’s use of the broadest reasonable construction in IPRs, and concludes that the PTAB’s *Idle Free Systems, Inc. v Bergstrom, Inc.*



, IPR2012-00027, Paper 26 (PTAB June 11, 2013) and MasterImage 3D, Inc. v. RealD Inc., IPR2015-00040, Paper 42 (PTAB July 15, 2015) decisions “do not reflect a reasonable accommodation of manifestly competing interests where the agency considered the matter in a detailed and reasoned fashion, and the decision involves reconciling conflicting policies,” under Chevron step two. O’Malley slip op. at 55 (citing Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837 (1984)).

However, the Court ultimately held that 35 U.S.C. § 316(e) is ambiguous as to who bears the burden of persuasion for proposed substitute claims. Since the majority held that the statute is ambiguous, each of the five opinions addressed the Administrative Procedure Act (“APA”) and deference under Chevron at length. Consequently, the majority found that there was no interpretation of either 35 U.S.C. § 316(d) or § 316(e) to which courts must defer. O’Malley slip op. at 56.

The Court’s inquiry into whether the PTAB may sua sponte raise patentability challenges to the amended claims was “reserved for another day,” but the court did reiterate the panel decision that the PTAB may base its patentability determinations of amended claims on the entire record before it, and not limit itself solely on the face of the motion to amend. O’Malley slip op. at 60-62. The Court



noted that the PTAB’s decision to reject Aqua Products’ proposed amended claims without consideration of the entirety of the IPR record as an independent basis for vacating and remanding the matter to the PTAB.

The precedent of Aqua Products is extremely narrow, as Judge O’Malley explicitly described. The main takeaway is that the PTAB must assess proposed substitute claims without placing the burden of persuasion on the patent owner. Judge O’Malley further wrote that “[t]he [PTAB] must follow this same practice in all pending IPRs unless and until the Director engages in notice and comment rulemaking. At that point, the court will be tasked with determining whether any practice so adopted is valid.” O’Malley slip op. at 66.

In a footnote, the Court also addressed prior conflicting decisions: “To the extent our prior decisions in Microsoft Corp. v. Proxyconn, Inc., 789 F.3d 1292 (Fed. Cir. 2015); Prolitec, Inc. v. ScentAir Techs., Inc., 807 F.3d 1353 (Fed. Cir. 2015), petition for reh’g pending; Synopsys, Inc. v. Mentor Graphics Corp., 814 F.3d 1309 (Fed. Cir. 2016); and Nike, Inc. v. Adidas AG, 812 F.3d 1326 (Fed. Cir. 2016), are inconsistent with this conclusion, we overrule those decisions.” O’Malley slip op. at 5 n.1.

The voluminous commentary also included two concurring decisions and two dissenting opinions. The first concurrence was authored by



Judge Moore who joined Judge O'Malley's opinion in its entirety and agreed with Judge Reyna's conclusion that the agency actions at issue are not entitled to Chevron deference. Judge Moore wrote separately to address the problems with the Director's attempt to extend Chevron deference beyond any prior applications of the doctrine and to explain why the PTAB's opinions are not entitled to Chevron deference.

Judge Reyna's concurrence argued that the majority and Judge Taranto's dissent incorrectly "operate under the premise that whether Chevron deference is warranted is a yes-or-no question." Reyna slip op. at 1-2. Judge Reyna agreed with Judge Taranto's reading of § 316(e) as ambiguous and of § 316(a)(9) as authorizing the PTO to promulgate a regulation on the burden of persuasion. The concurrence argued that the PTO's general discussion finding that the burden of persuasion is "borne by the patentee" is not an interpretation of the statute that carries the full force of law. Reyna slip op. at 2. Judge Reyna also concluded that § 316(d) and 37 C.F.R. § 42.121 place a default burden of production on the patentee.

Judge Taranto's dissent argued that § 316(a), which authorizes the PTO Director to prescribe regulations governing IPRs, also authorizes the Director to address who has the burden of persuasion for amended claims. Judge Taranto claimed that "§ 316(e) does not unambiguously bar assigning that burden to the



patent owner.” Taranto slip op. at 1-2. Contrary to the majority opinion, Judge Taranto argued that the PTO prescribed 37 C.F.R. § 42.20(c), a regulation assigning the burden to the patent owner, which states that any movant bears the burden of proof to establish that it is entitled to its requested relief.

Judge Hughes’s dissent highlighted the fact that the majority agreed that the statute is ambiguous, which mandates deference to the Director’s interpretation of the statute. The dissent further argued that the Aqua Products decision contravenes traditional rules of administrative law when faced with an ambiguous statute, which is to determine whether the PTO’s interpretation was reasonable. Judge Hughes proposed that even if the PTO’s regulation offered by Judge Taranto, 37 C.F.R. § 42.20(c), is ambiguous, the PTO is also entitled to deference for its interpretation of its own regulation under Auer v. Robbins, 519 U.S. 452 (1997).

While Judge O’Malley admitted that “very little said over the course of the many pages that

form the five opinions in [Aqua Products] has precedential weight,” we can expect some far-reaching effects of this decision. O’Malley slip op. at 65-66. The Court’s decision effectively invites the PTO to clarify the burden of proof for motions to amend, through notice and comment rulemaking. Judge O’Malley



observed that the PTAB's existing regulations on the burden of production may create a hole by which the PTAB could reach the same conclusion on the patentability of proposed amended claims as existed under Idle Free and MasterImage.

We will continue to monitor developments in the law on amended claims in PTAB proceedings. In the meantime, please feel free to contact one of our attorneys regarding the issues raised by this case.

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