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PATENTS

WilmerHale attorneys do not see a sea change for parties seeking to amend patent claims at the PTAB after the Federal Circuit's *Aqua Products* decision.

Jumping into the Deep End: Amendment Practice Post-*Aqua Products*



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In the U.S. Court of Appeals for the Federal Circuit's recent en banc decision in *Aqua Products*, a deeply fractured court provides a glimpse into the perspectives that some of the judges have on post-grant practice at the U.S. Patent and Trademark Office (PTO). The decision addresses who should bear the burden of persuasion when a motion to amend is filed in an inter partes review.

At 148 pages, the slip opinion is lengthy by any measure, and certainly the longest opinion considering is-

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sues related to post-grant proceedings. The decision contains multiple opinions, and as such, merits careful study to determine its impact on amendment practice at the Patent Trial and Appeal Board (PTAB).

The purpose of this article is three-fold: first, to provide context for issues discussed in the *Aqua Products* decision; second, to identify potential implications for practitioners; and, lastly, to provide perspectives on next steps for the PTO on motion to amend practice.

Background

Aqua Prods., Inc. v. Matal, No. 2015-1177, 872 F.3d 1290, 124 U.S.P.Q.2d 1257 (Fed. Cir. Oct. 4, 2017), addresses the allocation of the burden of persuasion for amendments in an AIA proceeding. A patent holder, once an inter partes review is instituted, may file a motion to amend the patent which may, "[f]or each challenged claim, propose a reasonable number of substitute claims." 35 U.S.C. § 316(d). Additionally, the AIA provides that the "petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence." 35 U.S.C. § 316(e). Importantly, the statute does not explicitly mention which party has the burden of proof on a motion to amend.

After the enactment of the AIA, the PTO promulgated rules to implement the AIA, including rules governing motion practice. The rules state that relief must be requested in the form of a motion (37 C.F.R. § 42.20(a)) and that the "moving party has the burden of proof to establish that it is entitled to the requested relief" (37 C.F.R. § 42.20(c)). Early in the adoption of the IPR process, a PTAB panel held that the patentee had the burden to demonstrate that the amended claims met the patentability requirement. *Idle Free Sys., Inc. v. Bergstrom, Inc.*, No. IPR2012-00027, Paper 26 (P.T.A.B. June 11, 2013).

Early Federal Circuit decisions upheld the PTAB's practice of requiring the patent owner to demonstrate that an amendment created a "patentable distinction

[of the substitute claims] over the prior art of record.” *E.g., Microsoft Corp. v. Proxycorr, Inc.*, 789 F.3d 1292, 1307 (Fed. Cir. 2015) (quoting *Idle Free* at *7). However, in a later case, *Prolitec, Inc. v. ScentAir Techs., Inc.*, 807 F.3d 1353 (Fed. Cir. 2015), Judge Newman in a spirited dissent expressed discomfort with the allocation of the burden to the patent owner for a motion to amend. She argued that the application of the burden of proof in motions to amend was contrary to the statute. While the PTAB made a rule on the burden of proof on motions generally, the rule did not specifically address the issue of which party had the burden of proof on a motion to amend.

Given this background, the spectrum of opinions expressed in *Aqua Products* is hardly surprising.

The *Aqua Products* Decision

The *Aqua Products* decision includes five opinions and multiple dissents, but there was no single opinion expressing a majority of the 11 participating judges (Judge Stoll did not participate). The lead opinion for five judges—authored by Judge O’Malley and joined by Judges Newman, Lourie, Moore, and Wallach, and in which Judges Dyk and Reyna concur in the result—stated that the court had reached only two legal holdings supported by a majority. The first was that “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 deference.” *Aqua Products*, slip. op. at 66 (O’Malley, J.). Following closely was the second legal conclusion, specifically, “in the absence of anything that might be entitled to deference, the PTO may not place that burden on the patentee.” *Id.*

As a result, the appeals court vacated the original PTAB final written decision “insofar as it denied the patent owner’s motion to amend.” *Id.* The case was “re-manded for the Board to issue a final decision under § 318(a) assessing the patentability of the proposed substitute claims without placing the burden of persuasion on the patent owner.” *Id.* Moreover, the board was instructed to follow the same practice “in all pending IPRs unless and until the Director engages in notice and comment rule-making.” *Id.* Judge Moore authored a short separate opinion that was joined by Judges O’Malley and Newman, which agreed with the lead opinion that the burden of persuasion should be on the patent owner under 35 U.S.C. § 316(e) and that the agency actions are not entitled to *Chevron* deference. Slip op. at 1-2 (Moore, J.). Judge Moore’s opinion also addresses issues with the PTO’s attempt to extend *Chevron* beyond any prior application of the doctrine. *Id.*

Judge Reyna authored an opinion that was joined in whole by Judge Dyk, and which supported Judge O’Malley’s opinion as to its two principal holdings, thus creating a seven-judge majority on those points. However, Judge Reyna’s opinion included a section (“Part III”) regarding the burden of production, which was joined by a different set of judges (Chief Judge Prost and Judges Taranto, Chen, and Hughes, as well as Judge Dyk). Part III of Judge Reyna’s opinion stated that *Aqua* did not challenge the burden of production, such that there was no disagreement that the patent owner bears the burden of production on a motion to amend. Slip op. at 14 (Reyna, J.). While there appears

to be no disagreement on the burden of production, Judge O’Malley questioned whether Part III of Judge Reyna’s opinion could be properly called a “judgment” of the court. Slip op. at 63-64 (O’Malley, J.).

Judge Taranto wrote a substantial dissent joined by Chief Judge Prost and Judges Chen and Hughes. Judge Taranto believed that the statute allowed the PTO to allocate the burden of persuasion to the patent owner—a proposition that was also joined by Judges Reyna and Dyk, thus making it the view of the court’s majority. Judge Taranto also agreed that the PTO properly imposed a burden of production on the patent owner, as Judge Reyna stated. However, Judge Taranto dissented from Judge O’Malley’s holding (for seven judges) that the PTO had not in fact placed the burden of persuasion on the patentee, and would have given *Chevron* deference to such an allocation of the burden and would have affirmed the PTAB’s decision. Slip op. at 2 (Taranto, J., dissenting). Finally, Judge Hughes filed a second dissent, joined by Judge Chen, that chastised the multiplicity of opinions as deviating from the role as an appellate court to “provide clear rules.” Slip op. at 2 (Hughes, J., dissenting). Judge Hughes considered the agency’s interpretation “controlling unless plainly erroneous.” *Id.* at 3.

The opinions and dissents raise three issues.

First, and importantly, what is the holding and what is dicta?

Second, how does the application of *Chevron* deference inform the positions represented in the various opinions and the motion to amend practice itself? (See *Chevron, U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984). *Chevron* requires a court reviewing an agency’s construction of a statute it administers to apply a two-step analysis. First, the reviewing court determines “whether Congress has directly spoken to the precise question at issue.” 467 U.S. at 842. If the answer is yes, the court must give effect to Congress’s unambiguous intent. *Id.* at 842–43. If the answer is no, the court must consider “whether the agency’s answer [to the precise question at issue] is based on a permissible construction of the statute.” *Id.* at 843.)

Lastly, what insights does *Aqua Products* provide with respect to how particular judges of the Federal Circuit view post-grant practice?

Cogitations?

Beyond the two holdings stated on page 66 of the opinion, Judge O’Malley discounted everything else in the 148-page decision as mere “cogitations”—and, with apologies to academics, she notes “even our discussions on whether the statute is ambiguous are mere academic exercises.” Slip op. at 66 (O’Malley, J.).

Judge Reyna and the five judges joining Part III of his opinion disagreed. Indeed, Judge Reyna expressed the view that Part III of his opinion set forth “the judgment of this court on what the Board may and may not do with respect [to] the burden of production on remand in this case.” Slip. op. at 14 (Reyna, J.). As a result, Judge Reyna’s opinion concluded by stating that “the Patent Office must by default abide by the existing language of *inter partes* review statute and regulations, 35 U.S.C. § 316(d) and 37 C.F.R. § 42.121, which only allocate a burden of production to the patent owner.” *Id.* at 15.

The AIA and Chevron “Step Two”

When answering the question whether the burden of persuasion should be allocated to the patent owner or petitioner, the court considered the statutory language to determine if it unambiguously addressed which party should bear the burden on a motion to amend. As expressed in Judge O’Malley’s decision, the majority of the participating judges determined that 35 U.S.C. §§ 316(d) and 316(e) were ambiguous as applied to the particular question allocating burden of proof in a motion to amend. Slip op. at 42 (O’Malley, J.); *see also*, slip op. at 1 (Moore, J.).

Because the court determined that the statute was ambiguous, the court determined that it “must” look at Chevron “Step Two” to determine whether the PTO should be afforded deference in its interpretation of the burden. Slip op. at 42 (O’Malley, J.) (Applied to the present case, the second step of Chevron provides (1) whether the PTO has adopted an APA compliant rule, (2) if so, whether the rule is within the PTO’s rule making authority, (3) and if so, whether the rule is based on a permissible construction of the statute.)

The majority determined that the PTO did not have an Administrative Procedures Act (APA)-compliant rule on the burden of proof on the motion to amend and thus there was no Chevron deference due to the PTO’s position on the burden for motions to amend.

Implications for Parties in AIA Proceedings

Whether precisely a holding of *Aqua Products* or dicta, the majority of the judges agreed with Part III of Judge Reyna’s opinion, that the burden of production remains on the patent owner under 35 U.S.C. § 316(d). Slip op. at 14 (Reyna, J.). Thus, the statutory requirements for the motion to amend and the PTO’s adopted regulations, 37 C.F.R. §§ 42.20(a), 42.22(a) and 42.121(a)(2)(i), apply to the party proposing the motion to amend, which is the patent owner. *Id.* The burden of production is not trivial. In addition to the statutory requirements that motions to amend not enlarge the scope of the claims or introduce new matter (35 U.S.C. § 316(d)), the rules, at 37 C.F.R. § 42.22, require that the patent owner include:

1. A statement of the precise relief requested; and
2. A full statement of the reasons for the relief requested, including a detailed explanation of the significance of the evidence including material facts, and the governing law, rules, and precedent.

Judge Reyna also noted that the PTO explained during the rulemaking process that “the patent owner must include a statement of the precise relief requested and a full statement of the reasons for the relief requested, including a detailed explanation of the significance of the amended claims (e.g., a statement that clearly points out the patentably distinct features for the proposed new or amended claims).” 77 Fed. Reg. at 48,626 (emphasis added). Judge Reyna confirmed: “These regulations are not called into question by today’s decision.” Slip op. at 14 (Reyna, J.).

The burden of production, once satisfied, then shifts the burden of persuasion to the petitioner. The decision does not specify how the shifted burden would be applied to the petitioner. Clearly the petitioner, where appropriate, will continue to challenge the elements of the

motion to amend, e.g., that the new or amended claims are broader than the issued claims (35 U.S.C. § 316(d)(3)), the new or amended claims do not present patentably distinct features (35 U.S.C. §§ 102, 103; 37 C.F.R. § 42.22, 77 Fed. Reg. at 48,626), or that the claims are not supported by the specification (35 U.S.C. § 316(d)(3); 112).

Implementation

The PTAB could implement the burden change required by *Aqua Products* by first determining whether the patent owner has satisfied the burden of production, and then shifting the burden of proving the amendment invalid to the petitioner. In that regard, the PTAB would be considering whether the petitioner has successfully challenged one or more aspects of the motion to amend in its papers in opposition to the motion.

The PTAB appears to be implementing an immediate change that, upon request, will permit the party with the burden of persuasion the last brief on the motion, i.e., a sur-reply. In *Celanese International v. Daicel*, the panel granted petitioner a sur-reply of 12 pages but did not authorize an expanded page count (60 pages) for the opposition. *See* IPR2017-00166, Paper 25, page 2 (P.T.A.B. Oct. 17, 2017). In *Samsung Electronics v. Pro-MOS Technologies*, the panel also granted a sur-reply of eight pages and denied additional pages for the opposition. *See* IPR2017-00037, Paper 21, page 5 (P.T.A.B. Oct. 18, 2017). The board also denied the patent owner’s request that the petitioner be prohibited from filing evidence or expert declaration with the sur-reply. *Id.*

Another question regarding implementation is whether the shifted burden will result in more motions to amend being granted. The PTAB’s decisions denying motions to amend suggest that the most frequent basis for the denial is the patent owner’s failure to meet its burden of production. The current statistics of the PTAB on motions to amend suggest that the decision is not likely to shift dramatically the practice of the PTAB. In PTAB data published in 2017, 86 percent of the motions to amend were denied entry based on statutory reasons, i.e., 35 U.S.C. § 101 [non-statutory subject matter] (6 percent), § 112(a) [written description] (6 percent), § 112(b) [indefiniteness] (1 percent), §§ 102/103 [anticipated/obvious over art of record] (40 percent), § 316(d)(3) [enlarged scope] (6 percent) and § 316(d)(1)(B) [unreasonable number of substitute claims] (1 percent). Nearly a quarter of the cases cited multiple statutory grounds. PTAB Judicial Conference June 29, 2017, slide 20, <https://www.uspto.gov/sites/default/files/documents/PTAB%20Judicial%20Conference%20June%2029%202017.pdf> (accessed Oct. 19, 2017).

While such a study does not (and cannot) address the sufficiency of the prior art in particular cases and whether the petitioner benefited by the application of the patent owner’s burden, all of this suggests that it is unlikely that there will be a sea change on motions to amend under the burden shifting in the *Aqua Products* decision.

Possible Rule Change at the PTO

Aqua Products makes it clear that the current rules, which address the burden of production on any motion, are insufficiently directed to the application of the bur-

dens of proof on a motion to amend. Slip Op. at 45 (O'Malley, J.). Additionally, the Federal Circuit was not satisfied with the PTO's reliance on what amounted to a de facto rulemaking in cases like *Idle Free* because it did not conform to agency rule making processes under the APA. Slip op. at 47 (O'Malley, J.).

The decision recognizes that the PTO has not made rules allocating the burden of persuasion. *Id.* at 56. It is possible that the PTO could attempt to propose a rule regarding burdens, relying on Judge O'Malley's articulation that there is ambiguity in the statute with respect to motions to amend and propose to address the ambiguity through rulemaking. The PTO's rulemaking for its 2016 revised rules lasted nearly two years, from the June 27, 2014, request for comment (79 Fed. Reg. 36,474), through the issuance of the proposed rules on Aug. 20, 2015 (80 Fed. Reg. 50,719), and the issuance of the final rules on April 1, 2016 (81 Fed. Reg. 18,750).

Assuming a similar timeline for promulgating rules for motions to amend, the rules for motions to amend would not be finalized until as late as 2019. The PTO may decide to issue rules more quickly, while complying with the statutory and regulatory requirements for notice-and-comment rulemaking. These requirements specify the public should be afforded "a meaningful opportunity to comment on any proposed regulation, which in most cases should include a comment period

of not less than 60 days" and generally require publication of substantive rules not less than 30 days before their effective date. Executive Order 12866, Regulatory Planning and Review, § 6(a)(1), 58 Fed. Reg. 51,735 (Oct. 4, 1993); 5 U.S.C. § 553(d).

Conclusion

The *Aqua Products* decision provides several notable take-aways. First, a majority of judges agreed that the patent owner as the moving party bears the burden of production in a motion to amend. Second, a different majority of judges agreed that the PTO has not adopted a rule placing the burden of persuasion on the patent owner for proving the patentability of amended claims.

It is not clear whether the PTO would engage in APA rulemaking, and if so, whether it would pass a skeptical Federal Circuit. Even with the shifted burden of persuasion, we do not expect a sea change in motions to amend practice either in overall numbers or success. In the short term, motions to amend may arrive at the same result based on a failure of the patent owner to meet its burden of production. Longer term, the PTO may attempt to adopt a rule placing the burden of persuasion on the patent owner in accordance with the PT-AB's pre-*Aqua Products* opinions.