CHANGING TIDES: THE FEDERAL CIRCUIT REVERSES THE AQUA PRODUCTS DECISION AND SHIFTS THE BURDEN TO THE PETITIONER FOR PROVING UNPATENTABILITY OF AMENDMENTS

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INTRODUCTION

In August of 2016, the Federal Circuit granted Aqua Products, Inc.'s ("Aqua Products") petition for rehearing en banc on the issue of whether the patent owner bears the burden of persuasion of patentability when amending claims during *inter partes* review ("IPR"). The en banc opinion issued October 4, 2017, and includes five opinions totaling 148 pages. The differing views of the judges led to a narrowly tailored ruling. [1] The en banc panel reversed the prior decision, making clear that the burden of persuasion of patentability of proposed amended claims in IPR **does not** rest with the patent owner. Rather, the petitioner must establish that any proposed amended claims are not patentable. [2] Now, the pertinent question has shifted from who bears the burden to whether the Federal Circuit's decision will result in an increased entrance of these proposed claim amendments.

THE PTAB DECISION

Zodiac Pool Systems, Inc. filed a petition to institute IPR of Aqua Product's U.S. Patent No. 8,273,183 after a dispute arose among the parties in district court. [3] After concluding that the claims were unpatentable, the Patent Trial and Appeal Board ("PTAB") considered Aqua Product's motion to amend the claims under 37 C.F.R. § 42.121. [4] According to § 42.121(a)(2), the PTAB may deny the motion if the amendments: (1) seek to enlarge the scope of the claims; (2) introduce new subject matter; or (3) do not respond to a ground of unpatentability, upon which the trial was instituted. [5] Ultimately, the PTAB held that *the patent owner carries the burden of establishing patentability of the amended claims over the prior art of record and of other prior art known to the patent owner.* [6]

According to the PTAB, the requirement of any movant was two-fold: first, the patent owner must have demonstrated that the amendments narrow the scope of the original claims in a manner supported by the specification; and second, the patent owner must have actively demonstrated patentability over the "prior art of record and also other prior art known to the [p]atent [o]wner." [7]

Aqua Products accomplished the first requirement by adding limitations that, *inter alia*, "control" the movement of the device rather than "enable" it and narrow the array of acute angles in which the controlling force is directed. [8] In addition to proposing these narrower amendments, [9] the PTAB suggested that Aqua Products was

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required to undergo a patentability analysis against the asserted prior art or any prior art known by the patent owner. [10] Aqua Products provided amended claims with multiple new limitations, yet when arguing for the patentability of the new claims, Aqua Products only provided arguments for one limitation — the "vector limitation." According to the PTAB, Aqua Products failed to prove patentability when it merely asserted that the prior art does not "suggest or otherwise provide a person with ordinary skill in the art with any reason" to direct the vector forces in such in a way as claimed by the proposed amendments — namely "to direct the resultant force vector proximate to and rearwardly displaced from a line passing through the transverse axial mountings of the front rotationally-mounted supports." [11] Aqua Products did not make any other arguments regarding any of the other limitations. The PTAB repeatedly chastised Aqua Products for failing to provide a claim construction for the amended claims. [12] In the final written decision, the PTAB found that the combination of prior art rendered the new "vector limitation" obvious. [13] The PTAB dismissed the other new limitations, without analysis or evidence, as being within the ordinary skill in the art. Aqua Products sought an appeal of the decision to the Federal Circuit.

The Federal Circuit Panel Decision

On appeal, Aqua Products argued that the PTAB standard requiring the patentee to demonstrate that an amended claim is patentable over the art of record is unsupported by statute. Further, Aqua Products argued that the PTAB abused its discretion by denying the motion to amend without considering all of the new limitations and the objective indicia of non-obviousness. [14] The Federal Circuit observed that according to the America Invents Act, a patent holder may file a motion to amend during IPR under 35 U.S.C. § 316 provided the amendments do not enlarge the scope of the claims or introduce new subject matter. However, § 318 states that a final written decision must address any new claim "determined to be patentable." [15] This gave rise to the framework of 37 C.F.R. § 42.121, stating that a motion to amend may be denied if it does not "respond to a ground of patentability involved in the trial." [16]

According to the Federal Circuit, the PTAB requires the movant to carry the burden of any motion. [17] Thus, because of the posture of a motion to amend the claims during IPR, the patent owner will inherently carry this burden. The Federal Circuit cited previous Federal Circuit cases on this same issue to uphold this requirement, while also noting that it is generally the petitioner's burden to prove unpatentability during IPR. [18] Next, the Federal Circuit considered whether the PTAB abused its discretion by failing to take into account indicia of non-obviousness and various new limitations in the proposed claims, even though Aqua Products only presented arguments concerning the vector limitation. [19] Aqua Products argued that the PTAB was "on notice" of its arguments with respect to all the limitations added to the amended claims. [20] Aqua Products also pointed to the arguments made during the main proceedings, contending that these arguments should also be considered in the context of the amended claims. However, because Aqua Products failed to raise these arguments in the four corners of the motion to amend, the Federal Circuit agreed that the PTAB was under no obligation to consider them. On these bases, the Federal circuit found no abuse of discretion.

The Federal Circuit En Banc Reversal

The Federal Circuit decided in an en banc rehearing of the anticipated *Aqua Products* case that the proper interpretation of 35 U.S.C. § 316(d) and (e) requires the petitioner to prove all propositions of unpatentability, including for amended claims. [21] Further, the en banc panel determined that the PTAB must consider the entirety of the record when assessing the patentability of amended claims under 318(a), not merely the face of a motion to amend. [22]

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In a 6–5 vote, the en banc panel decided that § 316(e) is ambiguous and undertook an analysis of what deference, if any, should be afforded to any proposed PTAB rules regarding the standard to amend. The Federal Circuit determined that no proposed rule had been adopted by the PTAB regarding the burden of persuasion of proposed amended claims; accordingly, there was no deference to be given. [23]

During the Federal Circuit appeal, Aqua Products argued that the patent owner did not bear the burden of proving patentability of the proposed amended claims based on a plain language interpretation of 35 U.S.C. § 316(e). The initial Federal Circuit decision held that, based on prior decisions, [24] the burden of persuasion lay with the patent owner to demonstrate patentability of substitute claims. [25] Aqua Products then petitioned for rehearing en banc, which was granted on two questions:

(a) When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)?

(b) When the petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board sua sponte raise patentability challenges to such a claim? If so, where would the burden of persuasion, or a burden of production, lie [26]

The en banc panel, relying on statutory language and congressional intent, noted that patent owners have a right to propose amended claims and, further, that this right is an important tool that may be used during IPR. [27]

Section 316(d) does not itself impose a burden of proof on the patent owner. In fact, § 316(d) merely sets out the procedural and statutory criteria that must be satisfied to enter proposed amendments in IPR. Upon entry, the court reasoned, the proposed amendments are then governed by § 316(e). [28] Section 316(e) uses the term "unpatentability," which refers to both pending and issued claims, as opposed to the term "invalidity" used elsewhere in Title 35, which both the Patent and Trademark Office ("PTO") and the courts use in relation to issued claims. [29] However, granting of the motion to amend does not deem the proposed amendments to be valid and enforceable before a written decision is issued. Instead, the proposed amendments and the other challenged claims are treated together in the final written decision. Accordingly, the burden for proving unpatentability of all claims, not just those originally challenged, lies with the petitioner. [30]

In reasoning its conclusion, the court noted that the patent owner is precluded from adding new subject matter in proposed amendments, such that any proposed claims must be narrower than the granted claims and still fully supported in the specification. [31] Furthermore, any proposed amendments must respond to a petitioned ground of unpatentability. [32] In this regard, a patent owner may not shift the scope of its claims away from the cited art; instead, to the extent support exists, the amendments must be in the same vein but with greater specificity.

Moreover, the petitioner shall have the opportunity to contest any newly proposed claims, allowing the petitioner to search for and submit additional art in support of its petition. [33] The newly proposed claims will also be susceptible to arguments of unpatentability not based solely on patents or printed publications, including under the requirements of 35 U.S.C. § 101 for subject matter eligibility and 35 U.S.C. § 112 for written description and enablement. While the patent owner has to demonstrate under 47 C.F.R. § 42.121 that the proposed amended claims do not add new matter, the petitioner should expect to point out any deficiencies in the patent owners motion to amend effectively raising § 112 arguments with respect to new claims. In *Valeo North America, Inc. v. Schaeffler Technologies AG & Co. KG*, [34] the PTAB considered petitioner's arguments under §§ 101 and 112 after granting the patent owner's motion to amend. Ultimately, the PTAB was unpersuaded by petitioner's

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arguments under §§ 101 and 112, but it should be noted that the petitioner was not limited to arguments under §§ 102 and 103 based solely on patents or printed publications. [35] While the language regarding patentability with respect to patents or printed publications specifically addresses the cancellation of patents, it is likely that the PTAB will consider all grounds of unpatenability with respect to proposed amendments.

Addressing the second question presented, the en banc panel held that the PTAB must base a patentability determination on the record before it instead of merely on the face of the motion to amend claims. [36] The court declined, however, to address the lingering question of whether or not the PTAB can, sua sponte, raise a challenge to patentability, leaving the question for another day. [37]

The plurality opinion tellingly concluded by saying "very little said of the course of the [148] pages that form the five opinions in this case has precedential weight. The only legal conclusions that support and define the judgement 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 deference; and (2) in the absence of anything that might be entitled to deference, the PTO may not place that burden on the patentee. All the rest of our cognitions, whatever label we have placed on them, are just that—cognitions." [38]

Practical Implications

Going forward, it is important to ensure that the prior art relied upon in a post-grant petition, including both cited art and art known by the petitioner, accurately covers not only the scope of the claims but also either the disclosed embodiments in the challenged patent or, as a defensive strategy, any accused product. Furthermore, the Federal Circuit's en banc decision reinforces the importance of communication between the district court litigation team and the post-grant team to ensure that the arguments made before the PTAB can be accounted for in the district court and noting that any amendments made to avoid prior art in a post-grant proceeding become part of the intrinsic record and will be relied upon for subsequent claim construction determinations.

Notes:

[1] Aqua Products Inc. v. Matal, No. 2015-1177 at 6 (Fed. Cir. Oct. 4, 2017).

[2] *Id.*

[3] *See* Aqua Products, Inc. v. Zodiac Pool Systems, Inc., 1:12-cv-09342-TPG (S.D.N.Y.).

[4] *See* Zodiac Pool Systems, Inc., v. Aqua Products Inc., No. IPR2013-00159 (P.T.A.B. Aug. 22, 2014).

[5] *Id.* at 40.

[6] *Id.* at 46–47.

[7] *Id.* at 46–47 *citing Idle Free Systems, Inc. Bergstrom, Inc.*, IPR2012-00027.

[8] *Id.* at 40–42.

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[9] *Id.* at 39–46.

[10] *Id.* at 46–52.

[11] *Id.* at 51.

[12] *Id.* at 47, 48.

[13] *Id.* at 52.

[14] *See* In Re Aqua Products, Inc., 823 F.3d 1369 (Fed. Cir. 2016).

[15] *Id.* at 1373.

[16] *See* 37 C.F.R. § 42.121(a)(2)(i).

[17] *See* 37 C.F.R. § 42.20(c).

[18] *Id.* at 1374.

[19] *Id.*

[20] *Id.*

[21] *Aqua Products*, No. 2015-1177 at 5.

[22] *Id.*

[23] *Id.* at 45–56.

[24] 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).

[25] *Aqua Products*, No. 2015-1177 at 7.

[26] *Id.* at 8.

[27] *Id.* at 12–13.

[28] *Id.* at 24.

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[29] *Id.* at 26.

[30] *Id.*

[31] *Id.* at 31.

[32] *Id.* at 32.

[33] *Id.* at 40.

[34] Valeo North America, Inc. v. Schaeffler Techs. AG & Co. KG, No. IPR2016-00502 (P.T.A.B. June 20, 2017).

[35] *Cf.* 35 U.S.C. § 311(b) (When a petitioner requests to cancel patent claims during an IPR, the scope of available arguments is limited to "ground[s] that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.").

[36] *Aqua Products*, No. 2015-1177 at 60.

[37] *Id.*

[38] *Id.* at 66.

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