

[Aqua Products, Inc. v. Matal, 2015-1177 \(Fed. Cir. 10/4/2017\) \(en banc\)](#)

**I. Introduction**

[Aqua Products, Inc. v. Matal, 2015-1177 \(Fed. Cir. 10/4/2017\) \(en banc\)](#) is a decision rehearing, en banc, an appeal from IPR2013-00159. The Federal Circuit ordered rehearing on two questions. The first question was:

(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)?

The second question was:

(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?

On rehearing, the en banc court, represented by eleven participating judges, fractured, providing five opinions. A majority of the court vacated and remanded the case to the PTAB, but for different reasons.

**II. First Question "(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)?"**

**Legal issue, 35 USC 316(d), burdens of production and persuasion on patentability of substitute claims, in an IPR proceeding.**

For now, the burden of persuasion has shifted away from the patent owner. However, whether the PTO could shift that burden to the patent owner by promulgating a rule, is likely, but remains an open legal question, as explained below.

Judge O'Malley wrote a minority opinion joined by a total of five judges (including O'Malley; Newman; Lourie; Moore; and Wallach). The O'Malley minority concluded "that § 316(e) unambiguously requires the petitioner to prove all propositions of unpatentability, including for amended claims." The O'Malley minority concluded "that the Board must consider the entirety of the record before it when assessing the patentability of amended claims under § 318(a) and must justify any conclusions of unpatentability with respect to amended claims based on that record." These are minority conclusions.

However, the O'Malley minority, joined by Judges Reyna and Dyk, and therefore constituting a majority, concluded "in the alternative that there is no interpretation of the statute by the Director of the Patent and Trademark Office ("PTO") to which this court must defer under

*Chevron, U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984)."

Judge Reyna wrote a minority opinion having parts I, II, and III. Parts I and II of Judge Reyna's opinion were joined only by Judge Dyk.

Judge Reyna concluded in part I of his opinion that:

Accordingly, I concur with Part III of Judge Taranto's Opinion only with respect to his conclusion that § 316(e) is ambiguous and that the Patent Office has the authority within § 316(a)(9) to promulgate regulations on the burden of persuasion, and I join that limited portion of his opinion. Taranto Op. 8, 25.

Judge Reyna concluded in part II of his opinion that:

...The Patent Office has yet to proffer a fully considered interpretation of the inter partes review statute directed to the evidentiary burdens for motions to amend necessary for *Chevron* deference, and its attempt to promulgate a rule through ad hoc adjudication is too procedurally defective to receive *Chevron* deference. *Negusie*, 555 U.S. at 521; *Encino*, 136 S. Ct. at 2125; *Mead*, 533 U.S. at 227. \*\*\* I also conclude that the Patent Office does not possess the statutory authority to issue through adjudication a substantive rule that creates and allocates a burden of persuasion. If at all, it can only do so through the promulgation of a regulation consistent with the APA, 5 U.S.C. § 553. Where an agency exceeds its delegated authority by improperly issuing a substantive rule, it acts ultra vires and the resulting rule is a nullity. *City of Arlington v. FCC*, 133 S. Ct. 1863, 1869 (2013); *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979); see also *Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 583 (1999); *Steel Co. v. Citizens for a Better Env't.*, 523 U.S. 83, 94 (1998).

Judge Reyna also concluded in part II of his opinion that:

Where a statute is silent on the allocation of an evidentiary burden and there is no agency action that earns *Chevron* deference such as a wholesome interpretation of the question at hand, the court's review of the agency's choices typically begins with the ordinary default rules of evidence. \*\*\* Here, as discussed further below, § 316(d) and the Patent Office's regulations governing motions to amend claims override any default evidentiary rules by placing only a burden of production on a patent owner to satisfy the requirements of § 316(d) and 37 C.F.R. § 42.121. [Footnote 7 omitted.] Under the statute, therefore, the default rule is that the patent owner does not bear the burden of persuasion on the patentability of its proposed amended claims.

Part III of Judge Reyna was joined by a total six judges (including Reyna; Dyk; Prost; Taranto; Chen; and Hughes). Part III was therefore joined by a majority of the eleven participating judges. In part III, Judge Reyna, first, forcefully asserted that this part of his opinion represented the judgment of the Court:

Contrary to Judge O'Malley's suggestion, Part III of my opinion, joined by a majority of this court, is not "dictum." See O'Malley Op. 63–64. Instead, Part III of this opinion sets forth the judgment of this court on what the Board may and may not do with respect the burden of production on remand in this case.

However, in her opinion, Judge O'Malley disagreed, stating in her opinion that:

While Judge Reyna calls this section [sic; part III of Judge Reyna's opinion] a "judgment" of the court describing what the Board may do "regarding the burden of production on remand in this case," that, respectfully, cannot be true. Only two of the six judges who join in that conclusion have concurred in the judgment vacating the Board's decision denying Aqua's motion to amend and ordering a remand; that is the only judgment this court enters today.

Judges O'Malley and Reyna therefore disagree on whose opinion represents the judgment of the Federal Circuit.

In Part III of Judge Reyna's opinion, the six member majority held that (*italics added for emphasis*):

There is no disagreement that the patent owner bears a burden of production in accordance 35 U.S.C. § 316(d). Indeed, the Patent Office has adopted regulations that address what a patent owner must submit in moving to amend the patent. 37 C.F.R. §§ 42.20(a), 42.22(a), 42.121(a)(2)(I). For instance, § 42.22(a) requires a movant to provide in a motion "[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." \*\*\* These regulations are not called into question by today's decision. Contrary to Judge O'Malley's suggestion, Part III of my opinion, joined by a majority of this court, is not "dictum." See O'Malley Op. 63–64. Instead, Part III of this opinion sets forth the judgment of this court on what the Board may and may not do with respect the burden of production on remand in this case. To that extent, *a patent owner is not excused from assisting the Board* to perform its statutory obligation to "issue a final written decision with respect to the patentability of . . . any new claim added under section 316(d)." 35 U.S.C. § 318(a).

Judge Taranto wrote a partially dissenting opinion joined in the dissent by a total of four judges (Judges Taranto; Prost; Chen; and Hughes). Judge Taranto concluded in dissent that:

...First, in an inter partes review (IPR), 35 U.S.C. § 316(a) authorizes the Director of the Patent and Trademark Office (PTO) to address who has the burden of persuasion on the patentability of substitute claims that the patent owner proposes to add to the patent in a motion to amend the patent. Second, 35 U.S.C. § 316(e) does not unambiguously bar assigning that burden to the patent owner.

\*\*\* In my view, a PTO regulation assigns the burden of persuasion to the patent owner, 37 C.F.R. § 42.20(c), and Aqua Products has presented no sound argument against giving *Chevron* deference to that regulation.

The following summarizes the positions of the participating judges:

Five judges (O'Malley; Newman; Lourie; Moore; and Wallach) concluded that 316(e) specified that the petitioner had the burden to prove by a preponderance of the evidence that substitute claims are not patentable.

Six judges (Taranto; Prost; Chen; Hughes; Reyna; and Dyk) concluded that the statute did not specify who had the burden of proof on patentability of substitute claims.

Four of these six judges (Taranto; Prost; Chen; and Hughes) concluded that rule 42.20(c) was entitled to *Chevron* deference and specified that patent owner had the burden of persuasion to show patentability of substitute claims in an IPR proceeding and that rule 42.20(c) was entitled to *Chevron* deference.

Two of these six judges (Reyna and Dyk) concluded that the PTO had not complied with the APA because the PTO had not promulgating a rule specifying that the patent owner had the burden of persuasion by a preponderance of the evidence to show substitute claims patentable in an IPR proceeding. These two judges noted that the default rule of law did not place that burden on the patent owner. These judges found the PTAB decision a nullity because it relied upon a rule contrary to the default rule of law. These two judges would have vacated and remanded. On remand, these two judges would have required the PTAB to assign only the burden of production, and not assign the burden of persuasion, on the patentee, on the issue of patentability of substitute claims.

This leaves open the likelihood that these two judges would accord *Chevron* deference to an agency rulemaking that allocates the burden of persuasion of patentability of substitute claims in an IPR proceeding on the patentee. Therefore, the likelihood that these two judges would affirm such a regulation as valid, is relatively high.

The judgment in this case is confused. Judges O'Malley and Reyna disagree on whose opinion represents the judgment of the court. The portions of their opinions representing majority views that have common points appear below.

Judge O'Malley, writing for seven judges, stated:

...The final written decision of the Board in this case is vacated insofar as it denied the patent owner's motion to amend. The matter is remanded 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. The Board 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. [Aqua Products, Inc. v. Matal, 2015-1177 (Fed. Cir. 10/4/2017) (Judge O'Malley's en banc plurality opinion).]

Judge Reyna writing for six judges, stated (italics added for emphasis):

Third, I conclude that § 316(d) and 37 C.F.R. § 42.121 *place a default burden of production on the patentee*. This last part of the opinion is joined by Chief Judge Prost and Circuit Judges Dyk, Taranto, Chen, and Hughes, collectively representing a majority view of the court. \*\*\*

It is important to note that Aqua has not challenged two important aspects of the Board's practice pertaining to the burden of production. First, the *obligations the Patent Office may impose on the patent owner to produce evidence pertinent to the required assessment of patentability*. See *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 100 n.4 (2011) (distinguishing burdens of persuasion from burdens of production); *Dynamic Drinkware, LLC v. Nat'l Graphics, Inc.*, 800 F.3d 1375, 1378–79 (Fed. Cir. 2015). The other is the *assignment of various pleadings or argument duties, i.e., the scope of obligations the Patent Office may impose on the patent owner to address particular patentability issues in its motion to amend*. See *Veritas Techs., LLC v. Veeam Software Corp.*, 835 F.3d 1406, 1414–15 (Fed. Cir. 2016) (noting that issue of what patent owner must address in its motion to amend is distinct from the issue of the ultimate burden of persuasion on the evidence). Section 316(e) does not address either aspect. \*\*\*

There is no disagreement that the patent owner bears a burden of production in accordance 35 U.S.C. § 316(d). Indeed, the Patent Office has adopted regulations that address what a patent owner must submit in moving to amend the patent. 37 C.F.R. §§ 42.20(a), 42.22(a), 42.121(a)(2)(I). \*\*\* These regulations are not called into question by today's decision. \*\*\* Part III of this opinion sets forth the judgment of this court on what the Board may and may not do with respect the burden of production on remand in this case. To that extent, a patent owner is not excused from assisting the Board to perform its statutory obligation to “issue a final written decision with respect to the patentability of . . . any new claim added under section 316(d).” 35 U.S.C. § 318(a).

A rule of law apparent from the O'Malley majority is that, at least until the PTO promulgates a rule stating otherwise, the PTAB cannot place the burden of persuasion on patentability of amended claims on the patentee.

A rule of law apparent from the Reyna majority is that, the patent owner bears the burden of production. The Reyna majority appears to construe this production burden to have two components. First, "*obligations the Patent Office may impose on the patent owner to produce evidence pertinent to the required assessment of patentability*." Second, "*pleadings or argument duties, i.e., the scope of obligations the Patent Office may impose on the patent owner to address particular patentability issues in its motion to amend*." This second component appears to correspond to the rule requirements, such as 42.121. However, the first requirement corresponds with the PTO case law requirement that a motion to amend the patent disclose all "prior art known to the patent owner" that is material to the motion to amend. (*See Masterimage 3d, Inc. v. Reald Inc.*, IPR2015-00040, paper 42 (PTAB 7/15/2015) (Precedential): "The reference to 'prior art known to the patent owner' in the above quoted text, as well as everywhere else in *Idle Free*, should be understood as no more than the material prior art that Patent Owner makes of

record in the current proceeding pursuant to its duty of candor and good faith to the Office under 37 C.F.R. § 42.11, in light of a Motion to Amend.") Under the Reyna majority view, the PTO case law requirement that the patent owner must come forward with this class of prior art in a motion to amend would remain valid law.

**III. Second Question: "(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?"**

The Court generally passed on this second question. This is not surprising given its inability to decide the first question. On this second question, Judge O'Malley's opinion states:

Our en banc order also asks whether the Board may *sua sponte* raise patentability challenges to a proposed amended claim. Having fully considered the record, however, we conclude that the record does not present this precise question. We believe it should be reserved for another day, as, apparently, do the other members of the court.

Judge Reyna minority opinion addresses this question in footnote 8, which reads:

This same reasoning [sic; why "the default rule is that the patent owner does not bear the burden of persuasion"] applies to the second question presented: whether the Board can *sua sponte* raise patentability issues if the petitioner does not raise a patentability [sic; unpatentability] argument. The Patent Office has not fully considered whether the *inter partes* review statute can be reasonably interpreted to give the Board this kind of broad discretion, in particular where, as here, the petitioner remains in the *inter partes* review proceeding.

**IV. Conclusion**

*Aqua Products* holds that the PTAB cannot "place burden of persuasion with respect to the patentability of amended claims [sic; substitute claims in an IPR proceeding] on the patent owner."

*Aqua Products* may hold that the PTAB is authorized to impose "obligations ... on the patent owner to produce evidence pertinent to the required assessment of patentability" including obligations for the patent to come forward with material prior art.

If the PTO promulgates a rule that places the burden of persuasion on the patent owner and that rule complies with the requirements of the APA, then it is very likely that the Federal Circuit would affirm the validity of that rule.