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## The Federal Circuit Shifts Burden Onto Petitioners To Establish Unpatentability Of Amended Claims In IPRs

In *Aqua Products, Inc. v. Matal*, the Court of Appeals for the Federal Circuit ("CAFC") upended the current motion-to-amend practice before the Patent Trial and Appeal Board ("the PTAB"), which may reduce the difficulties encountered by patent owners seeking to amend claims 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, but that may change in light of the Aqua Products ruling, wherein a fractured CAFC sitting *en banc* shifted the burden of persuasion to establish the unpatentability of amended claims proffered by patent owners during IPRs onto petitioners.

The CAFC's opinions leave open the possibility that the Patent and Trademark Office ("PTO") may attempt to promulgate regulations re-imposing the burden of persuasion on patent owners. Five of the CAFC panelists, however, indicated that any such regulation would be foreclosed by the America Invents Act ("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.

This dispute arose in 2003 when Zodiac Pool Systems, Inc. ("Zodiac") filed an IPR petition challenging certain claims of Aqua Products' U.S. Patent No. 8,273,183, and after institution, Aqua Products proposed amended 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 concluding 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.

The CAFC, on appeal, affirmed the PTAB's ruling that the patent owner had not established that the proposed substitute claims were patentable. Aqua Products subsequently sought rehearing *en banc* to challenge the burden of persuasion to show proposed substitute claims patentable as impermissible under 35 U.S.C. § 316(e), which reads "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." The *en banc* CAFC vacated the initial decision and granted rehearing *en banc* on August 12, 2016.

After the rehearing, the *en banc* CAFC voted 6-5 to vacate the PTAB's final written decision denying Aqua Products' motion-to-amend, and remanded the matter to 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." 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 CAFC was not required to defer to any interpretation of the statute by the PTO. In the absence of any required deference, the majority then 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, however, deeply divided the *en banc* panel, which disagreed whether the applicable statute-the AIA-clearly addressed the issue, and whether the PTO's interpretation of the AIA was entitled to deference. This disagreement resulted in five separate opinions, none of which garnered enough votes to serve as the opinion of the Court.

The lead opinion, authored by Judge O'Malley, commanded five votes falling one vote short of the majority. The lead opinion is based on the plain language of the statute and the relevant legislative history, and concludes that "§ 316(e) unambiguously requires the petitioner to prove all propositions of unpatentability, including for amended claims;" and that 35 U.S.C. §§ 316(a)(9) and 316(d) do not shift the burden of persuasion regarding the patentability of amended claims to the patent owner. The opinion continued that these provisions merely set forth that the patent owner must satisfy the "statutory criteria" and any "procedural obligations" "before the amendment is entered into the IPR." Holding the relevant statutory provision to be § 316(e), the opinion reasoned that the provision applies equally to both issued and proposed substitute claims, and 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." 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."

The lead opinion acknowledged that the remaining six members of the *en banc* panel-hence, the majority-believed the statute to be ambiguous on this point, and accordingly, analyzed whether the PTO had validly interpreted the AIA's statutory scheme with respect to the burden of persuasion of amended claims to warrant judicial deference. The five-judge plurality concluded that the PTO did not promulgate any rulemaking governing the burden of persuasion, so no judicial deference was appropriate. Therefore, even assuming statutory ambiguity, the lead opinion would have held that the burden of persuasion for the amended claims rests with the petitioner.

The two additional votes to reverse the PTAB ruling were supplied by Judges Reyna and Dyk in a separate opinion that 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. The Judges would accordingly 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."

The remaining four judges dissented. In the principal dissent, Judge Taranto stated that he 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." 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).

Because the participating *en banc* judges had different views, both as to the judgment and the underlying rationale, the *Aqua Products* holding appears fairly narrow. The CAFC 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* panel 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 CAFC's opinions here leave open the possibility that the PTO may attempt to promulgate regulations re-imposing the burden of persuasion on the patent

owner. The PTO, however, may be reluctant to embark upon that process, given five members of the CAFC 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 CAFC are more willing to defer to the PTO's interpretation, whereas other members are more inclined to construe the governing statute themselves. CAFC judges also have divergent views on the degree of formality required of the PTO's rulemaking before the agency receives judicial deference.

## The Federal Circuit Clarifies The Doctrine Of Inherency In Obviousness Findings

In the appeal from the PTAB finding of unpatentability of claims 1-42 under 35 U.S.C. § 103 in an *inter partes* reexamination under inherency in *Southwire Co. v. Cerro Wire LLC*, the CAFC affirmed the PTAB's ruling holding that substantial evidence supported the PTAB's determinations regarding (1) obviousness, and (2) lack of factual support and nexus for the objective evidence of long-felt need, even though the PTAB got the inherency analysis wrong.

The claim language at-issue related to providing a lubricant on an electrical cable during manufacture such that the force required to pull the cable through drilled wooden blocks in which it would be installed was reduced "about . . . 30%." The original patented claims had survived two previous *ex parte* reexams (during which amendments were made and claims were added). In the end, all 42 claims were held unpatentable based on a two-reference combination with one reference teaching the use of a friction reducing additive that would migrate to the surface of the cable jacket of a fiber optic cable. While the prior art didn't refer to the 30% reduction in force recited by the claims, the examiner adopted the third-party requestor's view that such a reduction would be "an inherent result of the cable being made in accordance with the method steps" disclosed by the reference. The CAFC held that although this inherency determination by the PTAB was wrong under existing law, the error was harmless because the PTAB had otherwise made all the findings required to support its determination of unpatentability.

The CAFC first quoted its law regarding "inherency" as follows:

- The use of inherency in the context of obviousness must be carefully circumscribed because '[t]hat which may be inherent is not necessarily known' and that which is unknown cannot be obvious.
- While "[w]e have recognized that inherency may supply a missing claim limitation in an obviousness analysis," we have emphasized that "the limitation at issue necessarily must be present" in order to be inherently disclosed by the reference.

The CAFC then held that the PTAB erred in the inherency analysis by concluding that because the reference teaches reducing the coefficient of friction using a lubricant, it would have been "obvious to have selected

[lubricant] amounts" that achieve that result. The CAFC, however, held that the PTAB's rejection was sustainable because the PTAB correctly found that the claimed method simply applies the same process for the same purpose as disclosed in the reference-i.e., to reduce the pulling force on a cable for ease of installation. In doing so, the CAFC finessed the "about 30%" reduction of force limitation in the following manner:

**First**, there was "no evidence that the claimed 30% reduction in pulling force would have been unexpected or unattainable from the process disclosed" in the reference.

**Second**, there was no evidence that the process disclosed in the reference did not produce an "at least . . . 30% reduction" in pulling force. The CAFC observed that where "all process limitations . . . are expressly disclosed by [the prior art reference], except for the functionally expressed [limitation at issue]," the PTO can require an applicant "to prove that the subject matter shown to be in the prior art does not possess the characteristic relied on." Per the CAFC, "In the absence of any evidence that the claimed 30% reduction would have been unexpected in light of the [the reference] disclosure, there is no indication that the limitation is anything other than mere quantification of the results of a known process."

**Third**, the CAFC pointed out that the 30% reduction limitation was added to the claim by amendment in a previous reexamination to overcome the prior art. Other than a single mention that, under a certain test, "lubricated specimens" (the details of which are undisclosed) yielded a 50% reduction in pulling force compared to non-lubricated standards, the written description provides no discussion regarding the amount of reduction in pulling force; it merely teaches that one can reduce the pulling force by incorporating certain lubricants into the cable sheath. "Neither the patent itself nor any evidence proffered by Southwire during the reexamination provides any indication that the 'at least about a 30% reduction' limitation was something other than an observed result of an old process, written into the claim in an attempt to avoid the prior art process."

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