

Aqua Products Levels the Playing Field at the PTAB

By giving patent owners a more effective tool for amending claims during an IPR proceeding, the Federal Circuit's latest en banc decision changes the way stakeholders approach these proceedings.

Key Points:

- The burden of persuasion regarding the patentability of claim amendments falls on the petitioner, not the patent owner.
- This ruling makes it easier for patent owners to amend their patents during an IPR.
- There are significant consequences to consider for both patent owners and accused infringers, and for the PTAB itself.

The Federal Circuit's long-awaited *en banc* opinion in *Aqua Products, Inc. v. Matal*¹ marks a significant change in the treatment of motions to amend patents before the Patent Trial and Appeal Board (PTAB). The America Invents Act (AIA) affords patent owners the opportunity to file at least one motion to amend a patent during an *inter partes* review (IPR) by cancelling claims or proposing a reasonable number of substitute claims.² While this opportunity to amend justifies the use of the broadest reasonable claim construction standard and is critical to the IPR scheme envisioned by Congress,³ it has proven illusory for patent owners. In 2016, the United States Patent and Trademark Office (PTO) reported that the PTAB granted just 2% of such motions.⁴ This dismal success rate was likely due to the PTAB's "requirement that the patent owner prove patentability [of amended claims], not just in response to the grounds of unpatentability asserted by the petitioner, but on all possible grounds and in light of all prior art known to the patent owner."⁵

After more than a year of deliberation, a majority of the Federal Circuit agreed in *Aqua* that "the PTO has not adopted a rule placing the burden of persuasion ... on the patent owner," and in the absence of such a rule, "the most reasonable reading [of the AIA] places the burden of persuasion with respect to the patentability of amended claims on the petitioner," not the patent owner.⁶ The Federal Circuit vacated the PTAB's judgment and ordered the PTAB to consider future motions to amend without placing the burden of persuasion on the patent owner.⁷ Once the patent owner meets its burden of showing they are responding to the petitioners' arguments and not broadening their claims, the burden will shift to the petitioner to introduce prior art (including new prior art) and to make arguments concerning the patentability of the amended claims. *Aqua's* holding should enable patent owners to more easily amend claims during an IPR. The impact of this change on all stakeholders in the patent system will be significant.⁸

***Aqua* Turns IPRs Into Fast-Track “Narrowing Reissue” Proceedings**

In summarizing the intended role of claim amendments in IPR proceedings, the lead opinion in *Aqua* explains that “Congress saw the amendment process in IPRs as analogous to narrowing reissues, albeit prompted by a third-party challenger.”⁹ Shifting the burden of persuasion on patentability to the petitioner offers patent owners a meaningful chance to amend their claims, even under the current regulations. Although the patent owner cannot broaden its claims, it may go beyond simply addressing the asserted grounds for unpatentability pursuant 37 C.F.R. § 42.121(a)(2). For example, the amended claims may provide patent owners with an opportunity to both overcome the grounds of unpatentability raised in the IPR petition and address other potential arguments raised in district court litigation, such as written description under § 112, subject-matter eligibility under § 101, or noninfringement. *Aqua* marks the beginning of IPR’s evolution into a scheme for enabling patent owners to obtain narrowing amendments while potentially addressing issues raised in district court.

Unlike a reissue application, which does not have a set timeframe for completion, an IPR must, as a matter of congressional mandate, finish within one year of institution.¹⁰ This schedule may put petitioners at a disadvantage, as it might force them to marshal evidence of unpatentability within only a couple months of receiving the patent owner’s motion to amend.¹¹ Moreover, once the IPR concludes, the petitioner cannot raise grounds of unpatentability that the petitioner has already raised or could have raised in district court.¹² Thus, in the post-*Aqua* world, an IPR proceeding could be part of a patent owner’s proactive strategy for strengthening its patent portfolio.

For the PTAB, a New Focus on Managing “Mini IPRs” Within IPR Proceedings

Aqua also moves the PTAB into unfamiliar terrain. No prior PTAB panel has addressed the burden of production for a motion to amend. In addition, no panel has addressed whether the petitioner, which now bears the burden of persuasion, will receive the last word. Typical scheduling orders forbid a sur-reply and also allow the patent owner to delay motions to amend until the patent owner files its response on the merits. As a result, any sur-reply collides with the motions to exclude and for observations — both of which should only be due after all declarants have been cross-examined and any evidentiary objections raised and cured, if possible. Consequently, the director might consider moving up the standard due date for a motion to amend, shortening the time between oral argument and the final written decision, or extending the timeline for completing the IPR proceeding up to six months.¹³ While the PTAB has never extended the timeline,¹⁴ the director will need to compress the existing schedule or else be prepared to grant these extensions more frequently with the emergence of a robust amended claims practice during IPR proceedings.

For Patent Owners, a New Focus on Amended Claims

This ability to use IPR as a fast-tracked, “second round” of patent prosecution has broad potential implications for patent owners. More than ever, the quality of a patent specification substantially increases a patent’s value in light of *Aqua*. The specification supports the initial set of claims while also serving as a potential safety valve for subsequent amendments. A patent’s true value may be set forth in a richly written description that provides examples to support later-drafted claims, rather than in the initial set of claims approved by the PTO. An accused infringer might choose to forgo an IPR if the specification is strong enough to support amended claims narrowly targeting the infringer’s products, while avoiding the prior art. Patents with strong specifications may therefore act as deterrents to IPRs, giving patent owners more leverage, due to the amendment opportunities that *Aqua* created.

Aqua will likely change how patent owners approach their district court litigation strategy. A patent owner's pre-suit analysis should go beyond a patent's current claims, and examine which narrowing amendments the specification can support.¹⁵ Patent owners should work out the question of who will draft these claim amendments, and what information the drafters may access when preparing the amendments, before litigation commences.

Pursuing a claim amendment also has potential downside. Because district courts will be much more likely to grant a stay if there is a substantial risk that the asserted claims will change during the IPR, patent owners must consider whether a delay in district court is worth the possibility of claim amendment. In addition, intervening rights may likely wipe out damages for both past and future infringement.¹⁶ As a result, filing suit early in a patent's term and considering the possibility of obtaining injunctive relief is more critical. Finally, as in all PTO proceedings, representations made to the PTAB in pursuit of amended claims may result in prosecution disclaimer; consequently, patent owners must proceed with caution in both written and oral submissions before the Board regarding their claim amendments.¹⁷ Patent owners must address these factors before deciding whether to assert a patent in litigation with the goal of amending claims in a potential IPR, or to pursue a more traditional strategy for amending claims prior to assertion, such as in a filing a continuation, reissue, or ex parte reexamination. In a post-*Aqua* environment, since claim amendments are now more likely, patent owners must have a comprehensive strategic view of the district court litigation, as well as the opportunities presented at the PTAB.

For Defendants, Concerns About the “Boomerang” Effect

Aqua renders the decision of whether to file an IPR far more complex. Even before claim amendments were a serious possibility, patent owners had to consider whether they could raise certain prior art and arguments again in district court after the IPR, as well as the ramifications of the PTAB's claim construction for infringement and validity in the district court. Post-*Aqua*, an accused infringer can face new claims that: a) the petitioner has specifically tailored to the allegedly infringing products, b) the PTAB has approved, and c) have the protection of IPR estoppel. Without a well-considered strategy, an IPR may create a “boomerang” effect: by using the IPR to correct a patent's claims, a patent owner's district court case may become stronger, not weaker, after leaving the PTAB. These concerns mean that having a comprehensive strategic view of both PTAB and district court proceedings is more important than ever for defendants.

To adequately counter amended claims within the PTAB-imposed time constraints, petitioners may want to proactively consider conducting prior art searches on potential narrowing claims before filing their IPR petitions. This step may improve petitioners' chances of possessing necessary prior art while also enabling them to assess their likelihood of being able to invalidate the amended claims. For example, if the petitioner's best arguments are using §102 anticipation references, and the patent owner might easily amend the claims forcing the petitioner to make §103 obviousness arguments, does the petitioner have necessary prior art? Moreover, if a patent owner has a reasonable likelihood of pushing through amended claims that address a defendant's district court arguments, a defendant may prefer to remain in district court, despite the increased expense and risk associated with doing so. Should a defendant choose to file an IPR, the defendant must consider the timing of disclosures in the district court along with the PTAB's scheduling rules to minimize the possibility that the patent owner will use its information to draft amendments that narrowly target accused products, avoid prior art, and cure any potential §§ 101 and 112 issues.

For all of these reasons, in a post-*Aqua* environment, parties should closely integrate IPR proceedings into their overall litigation plan rather than view such proceedings in isolation.

Conclusion

Although *Aqua*'s full significance remains to be seen, the decision may significantly level the playing field for patent owners at the PTAB. In addition, *Aqua* may push IPR proceedings toward the vision that Congress originally intended: a procedure combining the efficiencies of litigation with the potential claim-strengthening opportunities of reexamination and reissue.

However, filing and defending IPRs has become more complex than in the past. Patent owners may be able to adopt IPR as part of a patent assertion strategy combining the virtues of litigation and prosecution. Defendants, on the other hand, should carefully weigh the potential risks of filing an IPR petition against the potential benefits. And for all parties, a well-conceived strategy that recognizes how IPR proceedings will potentially impact litigation is essential to helping ensure the most favorable outcome.

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Endnotes

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- ¹ No. 2015-1177, --- F.3d ----, 2017 WL 4399000 (Fed. Cir. Oct. 4, 2017).
- ² 35 U.S.C. § 316(d); 37 C.F.R. 42.121(a) (3). 37 C.F.R. 42.121(a) (2) further limits such motions: “A motion to amend may be denied where: i) The amendment does not respond to a ground of unpatentability involved in the trial; or ii) The amendment seeks to enlarge the scope of the claims of the patent or introduce new subject matter.”
- ³ *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 1245-46 (2016) (discussing importance of opportunity to amend claims to application of the “broadest reasonable interpretation” standard in IPR proceedings); *Aqua Prods.*, 2017 WL 4399000, at *3-4 (surveying legislative history surrounding claim amendments in PTAB proceedings).
- ⁴ United States Patent & Trademark Off., “Patent Trial and Appeal Board Motion to Amend Study,” April 30, 2016, available at <https://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf>; see also *Aqua*, 2017 WL 4399000, at *4.
- ⁵ *Aqua*, 2017 WL 4399000, at *4; see also Bob Steinberg, Jonathan Strang, and Chi Cheung, *Motions To Amend: Are They Worth Reconsidering During PTAB Proceedings?*, BNA Patent, Trademark, & Copyright J. Daily Ed., June 29, 2017.
- ⁶ *Id.* at *1, *29.
- ⁷ *Id.*
- ⁸ Barring a successful motion to stay issuance of the mandate, *Aqua* should take effect after the Federal Circuit issues its mandate on November 27, 2017. See Fed. R. App. P. 41(a).
- ⁹ *Id.* at *4.
- ¹⁰ 35 U.S.C. § 316(a)(11) (“except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months”).
- ¹¹ See also Bob Steinberg, Jonathan Link, & Jonathan Strang, *Burden of Proof at the PTAB: Will Magnum Oil and Aqua Mix?*, Law360, Sept. 30, 2016.
- ¹² See 35 U.S.C. § 315. The breadth of this estoppel could change in the future. See *Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*, 817 F.3d 1293 (Fed. Cir. 2016) (estoppel limited to grounds on which review is instituted); *Intellectual Ventures I LLC v. Toshiba Corp.*, 2016 WL 7341713, at *12-13 (D. Del. Dec. 19, 2016), *reconsideration denied*, 2017 WL 107980 (D. Del. Jan. 11, 2017) (following *Shaw* but discussing concerns with its holding).
- ¹³ 35 U.S.C. 316(a)(11).
- ¹⁴ Daniel Parrish, *PTAB Adjusts Deadline for Final Decisions in Rare Cases*, Law360, June 17, 2017.
- ¹⁵ 37 C.F.R. 42.121.
- ¹⁶ See 35 U.S.C. §§ 252, 318(c).
- ¹⁷ *Aylus Networks, Inc. v. Apple Inc.*, 856 F.3d 1353 (Fed. Cir. 2017).