

2015-1177

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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**IN RE AQUA PRODUCTS, INC.**

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Appeal from the United States Patent and Trademark Office,  
Patent Trial and Appeal Board in No. IPR2013-00159.

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Response to the Petition for Rehearing *En Banc* for Intervenor – Director of the  
United States Patent and Trademark Office

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## INTRODUCTION

In *Microsoft Corp. v. Proxyconn, Inc.*, this Court held that the USPTO, consistent with the delegated statutory authority from Congress to promulgate regulations “setting forth standards and procedures” governing amendment motion practice under §§ 316(a)(9) and 316(d), properly interpreted its regulation 37 C.F.R. § 42.20(c) as requiring that the patent owner, as movant, has the burden of proving patentability of a proposed substitute claim over the prior art of record in its motion to amend. 789 F.3d 1292, 1303-08 (Fed. Cir. 2015) (citing with approval the PTAB’s decision in *Idle Free Sys., Inc. v. Bergstrom, Inc.*, IPR 2012-00027, 2013 WL 5947697, \*4 (PTAB June 11, 2013)). In turn, every panel of this Court that has addressed this issue has reaffirmed that the patent owner bears the burden to show patentability of proposed substitute claims. *Prolitec, Inc. v. ScentAir Techs., Inc.*, 807 F.3d 1353, 1363-65 (Fed. Cir. 2015); *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309, 1323 (Fed. Cir. 2016); *Nike, Inc. v. Adidas AG*, 812 F.3d 1326, 1333-34 (Fed. Cir. 2016); *In re: Aqua Prods., Inc.*, --F.3d--, 2016 WL 3007656, at \*3 (Fed. Cir. May 25, 2016). Aqua Products’ attempt to undo those decisions is not persuasive.

Because the panel’s holding follows this Court’s decision in *Proxyconn*, and is consistent with all relevant subsequent decisions of this Court, *en banc* review is plainly not “necessary to secure or maintain uniformity of the court’s decisions”

under Fed. R. App. P. 35(a)(1). Furthermore, this decision does not present a question of “exceptional importance” within the meaning of that rule.

Accordingly, *en banc* rehearing should be denied.

### **SUMMARY OF THE PANEL DECISION**

The panel affirmed the PTAB’s denial of Aqua Products’ motion to amend, holding that Aqua Products had failed to carry its burden to show that its proposed substitute claims were patentable over the art of record. *Aqua Products*, 2016 WL 3007656, at \*3. In its motion to amend, Aqua Products relied on a sole newly-added limitation to overcome the prior art of record. *Id.* The panel determined that the PTAB properly rejected this argument. *Id.* Because Aqua Products had the burden to show patentability, the PTAB was not required to fully examine the proposed claim, and therefore did not abuse its discretion in denying the motion to amend. *Id.*

In rejecting Aqua Products’ argument that placing the burden on it to establish patentability of the proposed substitute claims over the prior art of record is unsupported by statute, the panel noted that this Court’s precedent has upheld the PTAB’s interpretation in *Idle Free* that the burden is on the patent owner to show patentable distinction over the prior art of record. *Id.* at \*2-3. In light of this precedent, this Court found the question of whether the Board may require the

patent owner to demonstrate the patentability of substitute claims over the art of record to be resolved. *Id.* at \*3.

### **REHEARING EN BANC IS NOT WARRANTED**

#### **A. This Case Does Not Meet This Court’s Standard For *En Banc* Review**

Under the Federal Rules of Appellate Procedure and this Court’s Rules, *en banc* review is appropriate only if “necessary to secure or maintain uniformity of the court’s decisions” or “the proceeding involves a question of exceptional importance.” Fed. R. App. P. 35(a). Because the panel decision adheres to precedent and does not involve a question of exceptional importance, this case meets neither criterion for *en banc* review.

#### **1. The Panel Decision Is Consistent With This Court’s Prior Decisions**

As the panel decision demonstrated, the issue of whether the USPTO permissibly placed the burden on Aqua Products to establish patentability over the prior art of record of its proposed substitute claims was resolved in *Proxycorr*. *Aqua Products*, 2016 WL 3007656, at \*3.

The AIA provides that a patent owner has the statutory right to file one motion to amend its claims. 35 U.S.C. § 316(d). Congress delegated to the Director of the USPTO the specific authority to establish “standards and procedures for allowing the patent owner to move to amend the patent under

subsection (d).” 35 U.S.C. § 316(a)(9). The Director did just that by promulgating rule 42.20(c), among other rules, placing the burden of proof for all motions on the movant. 37 C.F.R. § 42.20(c). The PTAB has interpreted this regulation as placing the burden on the patent owner to demonstrate patentability of a proposed substitute claim over the prior art of record. *Masterimage 3D, Inc. v. Reald Inc.*, IPR2015-00040 (PTAB July 15, 2015), paper 42, slip op. at 2-4 (precedential) (confirming the relevant standards set forth in *Idle Free*, 2013 WL 5947697, \*4-5).

This Court, in *Proxyconn*, upheld the PTAB’s interpretation as reasonable. *Proxyconn*, 789 F.3d at 1306-08. Here, the panel simply applied *Proxyconn* (a unanimous panel decision), and the subsequent decisions confirming *Proxyconn*, to the facts of this case, and found no reversible error in the PTAB’s denial of Aqua Products’ motion to amend. *Aqua Products*, 2016 WL 3007656, at \*3.

Accordingly, this appeal involves the application of settled rules to an almost identical fact pattern and presents no conflict with precedent that would require *en banc* review. *See id.*; *see also Illumina Cambridge Ltd. v. Intelligent Bio-Systems, Inc.*, --Fed. Appx.--, 2016 WL 363498, \*3-6 (Fed. Cir. Jan. 29, 2016) (non-precedential) (applying *Proxyconn* and *Prolitec*).

Aqua Products states that this case is ripe for *en banc* review because the PTAB application of the burden of proof for motions to amend is contrary to



§ 316(e). Pet. 2<sup>1</sup>. However, two separate panels of this Court addressed this precise issue and held that § 316(e) does not alter the analysis in *Proxycorn* because it speaks to a different context, *i.e.*, placing the burden on the petitioner to prove unpatentability of an issued claim for which the PTAB has instituted review. *See Nike*, 812 F.3d at 1333; *Synopsys*, 814 F.3d at 1323.

That § 316(e) should not be read as Aqua Products urges can further be seen from considering the language used in the delegation of authority to the Director. 35 U.S.C. § 316(a)(9). That section expressly gives the Director the authority to “set[] forth the standards and procedures for allowing the patent owner to move to amend the patent under subsection (d).” (emphasis added). There would have been no need to delegate authority to address the “standards” for amendments if the “standards” set forth in § 316(e) were already meant to apply. *See Nike*, 812 F.3d at 1333-34; *see also* 35 U.S.C. § 316(e) (titled “Evidentiary Standards”) (emphasis added).

In addition, the statutory provisions governing IPRs make a consistent distinction between claims “challenged by petitioners” and those added by amendment<sup>2</sup>. For example, pursuant to § 318(a), the PTAB is required to address

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<sup>1</sup> Citations to “Pet. \_\_\_” refers to Aqua Products’ petition.

<sup>2</sup> Contrary to Aqua Products’ argument, “invalidity” is not a narrower term than “unpatentability.” Pet. 7. A patent may be invalid based on not meeting the conditions of patentability, but also for not meeting formal conditions such as

claims “challenged by the petitioner” and “any new claim added under section 316(d)” in the final written decision. 35 U.S.C. § 318(a); *see Nike*, 812 F.3d at 1333. The wording of this section suggests that the petitioner is not considered to be challenging claims newly added by amendment. This distinction is reinforced by the estoppel provisions of § 315(e), which by their terms only estop petitioners from future attacks on already-patented claims they have challenged during the trial, but not claims that may have been newly added by amendment. This is because section 315(e) bases estoppel on “a claim in a patent . . . that results in a final written decision.” 35 U.S.C. §§ 315(e)(1) (emphasis added), 315(e)(2) (same wording in relevant part). A proposed amendment is not a claim “in a patent” until the PTAB has issued its final written decision that makes the proposed amendment a claim and an official part of the patent. *See* 35 U.S.C. § 318(b) (the Director will publish a certificate “incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable”).

The import of these statutory provisions is that petitioners are responsible for mounting their best challenge against already-existing claims of a patent—and indeed, they will be estopped from future challenges on any grounds they could

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failure to comply with 35 U.S.C. § 112 (sufficiency of disclosure) or 35 U.S.C. § 251 (reissue). *See* 35 U.S.C. § 282. Thus, the decision of Congress to use “unpatentability” does not infer that Congress intended to encompass both challenged and proposed claims in § 316(e).

have raised—but that amendments are for the benefit of the patent owner, and are not necessarily automatically swept up into the adjudicatory contest between patent owner and petitioner.

Aqua Products’ argument to the contrary that the claim amendments only need to “respond” to a ground of unpatentability rather than “prevail” over it, fails for essentially the same reasons<sup>3</sup>. Pet. 9-10. Aqua Products’ scheme does not take into account situations where the petitioner has dropped out of the proceedings or where a petitioner may only be motivated to disprove patentability of claims that are broad enough to cover the infringement for which the petitioner is accused. The PTAB’s approach rests on the correct conclusion that the presence of a petitioner is not a substitute for the lack of an examiner. *See Nike*, 812 F.3d at 1333 (explaining this Court’s rationale in *Proxycorr* that “placing the burden on the patent owner for its newly formulated claims is appropriate given ‘the very nature of IPRs,’ which are distinctly different from a typical PTO examination or reexamination where a patent examiner performs a prior art search and independently conducts a patentability analysis of all claims, whether newly proposed or previously existing”) (citation omitted). The patent owner’s motion to amend its patent includes proposed claims that are not part of its patent nor part of

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<sup>3</sup> It is unclear why the patent owner would opt to merely “respond” to a ground of unpatentability rather than attempt to “prevail” over that ground.

the petitioner's unpatentability challenge submitted in its petition. On the other hand, the patent owner is in the best position to understand the prior art and how it relates to the proposed substitute claims. Also, in certain cases, the patent owner's proposed amendment might provide a clear non-infringement position for the petitioner. There, the petitioner would not necessarily be motivated to oppose the amendment vigorously. *See Proxyconn*, 789 F.3d at 1307-08. Thus, placing the burden on the petitioner would not necessarily prevent the issuance of claims that should not issue. *Id.*; *see also* 35 U.S.C. § 316(b) (listing "the integrity of the patent system" as another consideration for the Director in promulgating these regulations).

There are sound policy reasons underlying the PTAB's approach to its rules. Foremost is that amended claims become part of an issued patent without having gone through an examination procedure that includes an examiner's search of prior art<sup>4</sup>. *See Proxyconn*, 789 F.3d at 1307-08. The USPTO has a responsibility to ensure that issued claims comply with all of the statutory provisions that would normally be considered during an examination. Allowing a substitute claim to

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<sup>4</sup> An amended claim is typically considered only after the corresponding patent claim is determined unpatentable. 35 U.S.C. § 316(d). Therefore, it is insufficient to rely on the earlier examination to allow amended claims, as suggested by Aqua Products. Pet. 13. Following such a practice would defeat Congress's purpose behind creating IPRs, which was to help eliminate claims that should never have issued. *See Cuozzo Speed Techs. LLC v. Lee*, 2016 WL 3369425, at \*11 (U.S. June 20, 2106).

issue without consideration of newly asserted prior art cannot be dismissed as merely a “byproduct of [IPRs].” Pet. 13. The purpose of IPRs is “not quite the same as the purpose district court litigation.” *Cuozzo*, 2016 WL 3369425, at \*11. IPRs reexamine earlier agency decisions in order to help protect the public’s “paramount interest in seeing that patent monopolies...are kept within their legitimate scope.” *Id.* (citations omitted). Allowing untested claims to slip through the cracks is contrary to that purpose.

Contrary to Aqua Products’ letter to this Court, the Supreme Court’s *Cuozzo* decision reinforces the USPTO’s expansive rulemaking authority with respect to IPRs. *Id.* at \*10. Aqua Products’ attempt to analogize § 314(d)<sup>5</sup> with § 316(e) must fail. In *Cuozzo*, the Supreme Court emphasized that the determination by the USPTO whether to institute an IPR is final and nonappealable because that is exactly what § 314(d) says. *Id.* at \*7. Section 316(e) on the other hand, 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.” 35 U.S.C. § 316(e). The introductory phrase referring to an “inter partes review instituted under this chapter” makes clear that this provision specifically relates to claims for which inter partes review was initiated, *i.e.*, the

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<sup>5</sup> Aqua Products referred to “§ 314(e)” in its letter to this Court, but Aqua Products presumably meant to refer to § 314(d).

original claims of the patent that a party has challenged in a petition for review and not the proposed claims. *Synopsys*, 814 F.3d at 1323-24. Moreover, a motion to amend a patent does not involve a “proposition of unpatentability”; instead, it involves the patent owner’s proposition of patentability of the proffered claims. *Nike*, 812 F.3d at 1334. Because § 316(e) does not address the burden for a motion to amend, the USPTO is granted leeway to enact rules governing the standard for motions to amend. *Cuozzo*, 2016 WL 3369425, at \*10. As this Court recognized, § 316(a)(9) instructed the USPTO to promulgate a regulation setting forth the standard for motions to amend a patent that might be filed as part of an IPR proceeding, and the PTAB has permissibly interpreted that regulation as imposing the burden of proving patentability of a proposed substitute claim on the movant: the patent owner. *Nike*, 812 F.3d at 1334.

The panel decision in this case maintains the status quo. As this Court has repeatedly and consistently held, the PTAB’s interpretation and application of its own rule placing the burden on the patent owner to show patentability over the prior art of record of its proposed substitute claims is reasonable and entitled to substantial deference. Further review is unwarranted.

**2. This Case Does Not Present An Exceptionally Important Question That Would Warrant *En Banc* Review**

Nor does Aqua Products raise any pressing policy reasons for this Court to take this appeal *en banc*.

Aqua Product argues that the usefulness of § 316(d) has been significantly undermined. Pet. 14-15. But as the Supreme Court found, the fact that only six motions to amend have been granted (Pet. 15) “may reflect the fact that no amendment could save the inventions at issue, *i.e.*, that the patent should have never issued at all.” *Cuozzo*, 2016 WL 3369425, at \*13. This comports with the USPTO’s findings that in 81% of the motion to amend decisions, at least one statutory reason for denying the motion was set forth.<sup>6</sup> The USPTO was granted the authority to set the “standards and procedures for allowing the patent owner to move to amend the patent.” 35 U.S.C. § 316(d), 316(a)(9). The fact that these rules may limit the ability of a patent owner to amend its claims makes sense considering that in a motion to amend, the patent owner is seeking entitlement to add the proposed substitute claim to its patent without examination.

### **CONCLUSION**

Aqua Products’ petition fails to establish that rehearing *en banc* is warranted in this case. Nor are there any policy reasons that indicate that the USPTO’s procedures have undermined Congress’s intent, as Aqua Products suggests, to raise a question of exceptional importance. Even if such policy reasons exist, those

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<sup>6</sup> PTO, Patent Trial and Appeal Board Motion to Amend Study, 4 (Apr. 30, 2016), <http://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf>.

reasons should be addressed to Congress, not this Court. The petition therefore should be denied.

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

I hereby certify that on this 6th day of July, 2016, I electronically filed the foregoing RESPONSE OF INTERVENOR – DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE OPPOSING REHEARING EN BANC using the Court’s CM/ECF filing system. Counsel for the Appellant was electronically served via e-mail per Fed. Cir. R. 25(e).

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