



Patent Litigation

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Fractured Federal Circuit Reallocates a Burden of Proof in AIA Trials

An eleven-judge *en banc* panel of the Court of Appeals for the Federal Circuit recently issued its long-awaited decision in *Aqua Products, Inc. v. Matal* [No. 2015-1777, 2017 WL 4399000 (Fed. Cir. Oct. 4, 2017) (*en banc*)], concerning which of two parties in an *inter partes* review proceeding—patent owner or petitioner—must bear the burden of proving the patentability of amended claims. Seven judges of the fractured court decided that the Patent Trial and Appeal Board (PTAB) may not—as it has long been doing—place on a patent owner the burden of proving patentability of a claim it moves to amend during an AIA trial. The court’s conclusion is welcome news to patent owners involved in AIA trials, and overrules numerous prior court decisions to the extent inconsistent with this conclusion. The court’s decision includes five separate opinions, though no majority opinion. The salient take-away, as Judge O’Malley’s opinion for a five-judge plurality states, is that “very little said over the course of the many pages that form the five opinions in this case has precedential weight.”

Last year, the Federal Circuit issued an order vacating its earlier three-judge panel decision in *In re Aqua Products, Inc.* [823 F.3d 1369 (Fed. Cir. 2016)], and reinstating the appeal after granting the patent owner’s petition for rehearing *en banc*. In its earlier panel decision, the court held that the patent owner must bear the burden of proving patentability

of an amended claim in an IPR proceeding, and in deciding a motion to amend claims, the PTAB need only consider the arguments presented by the patent owner, not perform a full reexamination of the proposed claims. Having failed to carry that burden, according to the PTAB and confirmed by the three-judge panel of the court, the patent owner was unable to obtain amended claims during this IPR proceeding despite otherwise satisfying the requirements of 35 U.S.C. § 316(d) and 37 C.F.R. § 42.121(a)(2).

Following rehearing, however, the *en banc* court has now vacated the PTAB’s decision and remanded the proceeding so that the PTAB may determine—without placing the burden of *persuasion* on the patent owner—whether the claims the patent owner sought to amend/substitute are patentable over the prior art. Specifically, in making that determination, the PTAB may not, according to the court, impose on the patent owner the burden of *proving* the claims are patentable. The court appears to disagree on what burdens the PTAB must apply on remand. In Part III of his concurring opinion, Judge Reyna argues that the burden of *production* remains with the patent owner, and that this represents the judgment of the court on that particular issue, because Judges Dyk, Prost, Taranto, Chen, and Hughes join that part of his opinion.

Writing for the plurality, Judge O’Malley disagrees. She states that Part III of Judge Reyna’s concurrence is “odd on a number of levels,” that its “entire discussion is dictum,” and that it is not the judgment of the court. Accordingly, although a majority of the court agrees that the

PTAB erred in placing the burden of proof on the patent owner, none of the court’s five opinions appears to include an agreed statement of the majority on what specific burden the PTAB should apply on remand and in pending and future IPR proceedings. Whatever burden it applies, “the Board must consider the entirety of the record before it when assessing the patentability of amended claims under [35 U.S.C.] § 318(a) and must justify any conclusions of unpatentability with respect to amended claims based on that record.”

As stated in Judge O’Malley’s opinion, five judges “believe that [35 U.S.C.] § 316(e) unambiguously requires the petitioner to prove all propositions of unpatentability, including for amended claims.” Because a majority of six judges on the *en banc* panel instead determined that the statute was ambiguous, according to Judge Moore, the court was forced to assess a “much harder question: Whether the agency ought to be afforded deference for its decision to place the burden of persuasion on the patentee.” The Patent Office argued that under *Chevron, U.S.A. Inc. v. Natural Resources Defense Council, Inc.* [467 U.S. 837 (1984)] and *Auer v. Robbins* [519 U.S. 452 (1997)], the court must defer to the agency’s adoption of legal standards governing its disposition of motions to amend in view of the authority Congress delegated to the agency (in 35 U.S.C. § 316(a)(9)) to “set[] forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims.”

Much of the court’s 140+ pages of opinions cogitate on this question. Judge O’Malley and judges joining her opinion note that the Patent Office never presented through a notice-and-comment rulemaking process a rule specifying who must

bear the burden of proof for motions to amend; rather, in two IPRs, the Office interpreted its rules to assign that burden to the patent owner. [*MasterImage 3D, Inc. v. RealD Inc.*, No. IPR2015–00040, 2015 WL 10709290 (P.T.A.B. July 15, 2015), and *Idle Free Sys., Inc. v. Bergstrom, Inc.*, No. IPR2012–00027, 2013 WL 5947697 (P.T.A.B. June 11, 2013).] To these five judges, neither decision supports the Patent Office’s argument and neither decision is an adequate substitute for the agency’s obligation to comply with the rule-making procedures specified by the Administrative Procedures Act.

Four judges dissented in two separate opinions, and would have affirmed the PTAB’s decision. In particular, Judge Taranto, writing in dissent and joined by Chief Judge Prost and Judges Chen and Hughes, concluded that 35 U.S.C. § 316(a) authorizes the Patent Office to issue rules concerning which party has the burden of proving the patentability of proposed substitute claims, and that 35 U.S.C. § 316(e) does not unambiguously bar assigning that burden to the patent owner. In evaluating the Patent Office’s rule, Judge Taranto applied the two-step framework under *Chevron*. *Chevron*’s Step One requires the court to determine “whether Congress has directly spoken to the precise question at issue,” that is, whether a statute “unambiguously” answers the question. If “the statute is silent or ambiguous with respect to the specific issue,” then under *Chevron*’s Step Two, “the question for the court is whether the agency’s answer is based on a permissible construction of the statute.” [*Chevron*, 467 U.S. at 842–43.]

Applying *Chevron*’s Step One, Judge Taranto’s dissent determined that Section 316(e)’s statement that “the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence” does not *unambiguously* assign to the petitioner the burden

of persuasion on the unpatentability of proposed amended claims. Instead, Section 316(e) “may properly be understood to reach only issued claims.” For *Chevron*’s Step Two, Judge Taranto’s dissent determined that Rule 42.42(c)’s statement that the “moving party has the burden of proof” applies to a motion to amend a patent claim, and thus the patent owner bears the burden of persuading the PTAB that the substitute claims are patentable. According to Judge Taranto’s dissent, this conclusion is based on its “independent judicial interpretation,” and does not rely on deference to agency regulatory interpretations. Accordingly, these four dissenting judges agree with (but do not defer to) the PTAB’s interpretation of Rule 42.42(c) as stated in the PTAB’s *Idle Free Systems* decision. The patent owner (Aqua Products) did not, according to these four judges, argue that there was any procedural impropriety or any other defect in the (notice-and-comment) rulemaking process resulting in Rule 42.42(c), and therefore the dissent does not address “potential objections that Aqua Products has not made and the parties have not briefed.”

The court’s judgment, opinions, and “cogitations” may be the subject of Supreme Court review or, more likely, new rulemaking or legislative activities. Judge O’Malley’s opinion for the plurality concludes by acknowledging the frustrations the court endured in the uneasy process of reaching its judgment. The judgment foists the court’s frustrations on the Patent Office, parties to pending AIA trials, and their counsel. The Patent Office now bears the tall task of timely administering AIA trials in the wake of the decision, including issuing new rules and procedures for deciding motions to amend—including those that are pending—and assigning burdens of production and persuasion, while the parties and their

counsel scramble to reconsider strategies and options.

In view of the court’s decision, on November 21, 2017, the PTAB’s Chief Administrative Patent Judge issued a memo to the PTAB stating that “if a patent owner files a motion to amend (or has one pending) and that motion meets the requirements of 35 U.S.C. § 316(d)..., the Board will proceed to determine whether the substitute claims are unpatentable by a preponderance of the evidence based on the entirety of the record, including any opposition made by the petitioner.... Beyond that change, generally speaking, practice and procedure before the Board will not change.” In pending proceedings, the memo states that the “Board generally will permit supplemental briefing regarding the patentability of substitute claims proposed in a [pending] motion to amend, if requested,” and may permit belated presentation of a motion to amend in pending proceedings.

The court’s decision means more motions to amend likely will be presented—although, how many more remains uncertain—and their likelihood of success can only improve. Currently, the patent owner moves to amend/substitute claims with a motion that the petitioner may oppose. A grantable motion must present claims that are narrower than those challenged and find descriptive support in the patent’s specification. Logically, the narrower the claimed subject matter, the more difficult it should be to establish the same is unpatentable. The petitioner will be burdened with proving unpatentability, and may need to quickly find and present evidence (and expert testimony) to satisfy its burden. Under the current procedure, the patent owner has the last word on the patentability issue, in the form of a reply to the petitioner’s opposition. But with the burden of proof now reallocated, typical trial procedures would

require that the petitioner have the last word on this issue. Mix into all of this the cross-examination of witnesses and presentation/briefing of objections to evidence, and it's not hard to imagine the challenges the Federal Circuit's fractured decision presents everyone involved in AIA trials.

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Internet Litigation

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Ninth Circuit Upholds Enforceability of Arbitration Agreements in Click-Through Agreements

In a decision with significant implications for online retailers, on September 19, 2017, the Ninth Circuit Court of Appeals found that a consumer who purchased a product from Amazon was bound by hyperlinked terms of service containing an arbitration provision. In *Wiseley v. Amazon.com Inc.*, the three judge panel affirmed a district court's order dismissing an Amazon user's putative class action alleging violations of California consumer protection laws, and granting Amazon's motion to compel arbitration. [*Wiseley v. Amazon.com Inc.*, No. 15-56799, 2017 WL 4150341 (9th Cir. Sept. 19, 2017).] The Ninth Circuit's decision provides justification for the enforceability of arbitration provisions contained in adhesive contracts, which are "standardized contracts which, imposed and drafted by the party of superior

bargaining strength, relegates to the subscribing party only the opportunity to adhere to the contract or reject it." [*Poublon v. C.H. Robinson Co.*, 846 F.3d 1251, 1260–1261 (9th Cir. 2017) (citing *Armendariz v. Found. Health Psychcare Servs., Inc.*, 24 Cal. 4th 83, 113 (2000) (quoting *Neal v. State Farm Ins. Cos.*, 188 Cal. App.2d 690, 694 (1961))].]

Case Background

Plaintiffs Andrea Fagerstrom and Allen Wiseley brought a putative class action in California state court against Amazon asserting claims under California's Unfair Competition Law (UCL) and False Advertising Law (FAL). [*Andrea Fagerstrom and Allen Wiseley, et al. v. Amazon.com, Inc.*, Notice of Removal, No. 15-cv-0096-BAS-DHB, (S.D. Cal. Jan. 1, 2015) (ECF 1, Attachment 3).] After removing the case to the US District Court for the Southern District of California, Amazon moved to dismiss the action and compel arbitration. [*Fagerstrom and Wiseley v. Amazon.com*, Order granting Motion to Compel Arbitration and Dismiss Plaintiff's Claims, at 1 (S.D. Cal. Oct. 20, 2015) (ECF 25).]

The motion was based on the terms and conditions to which

consumers agree when they make purchases through Amazon's website. Customers must go through a check-out page, which contains a "notice to customers stating that 'By placing your order, you agree to Amazon.com's privacy notice and conditions of use.'" [*See id.* at 3.] The conditions of use (COU) include an arbitration provision that states:

Any dispute or claim relating in any way to your use of any Amazon Service, or to any products or services sold or distributed by Amazon or through Amazon.com will be resolved by binding arbitration, rather than in court, except that you may assert claims in small claims court if your claims qualify... The arbitration will be conducted by the American Arbitration Association (AAA) under its rules, including the AAA's Supplementary Procedures for Consumer-Related Disputes. [*See id.* at 4 (emphasis in original).]

On October 20, 2015, the district court granted Amazon's motion to compel arbitration and dismissed the action without prejudice. [*See id.*] In doing so, the district court determined that the COU created a valid contract between Amazon and its customers, including Wiseley. [*Wiseley*, 2017 WL 4150341 at *2.]

Wiseley appealed the district court's ruling, arguing that the district court erred in compelling arbitration