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Federal Circuit Report

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Federal Circuit Warns Against Patent Owner Sandbagging in IPR Claim Construction

On August 7, in *Axonics, Inc. v. Medtronic, Inc.*, Case No. 22-1532, August 7, 2023, the Federal Circuit held that the Patent Trial and Appeal Board (PTAB) was required to consider an inter partes review (IPR) petitioner's arguments that were raised for the first time in its reply brief addressing a claim construction first proposed in the patent owner's response brief. USPTO guidance generally precludes petitioners from submitting new arguments in a reply brief. However, the Federal Circuit concluded that, where a patent owner advances a new claim construction after institution, the PTAB must consider the petitioner's new arguments and evidence replying to the newly proposed construction.

IPR Claims at Issue

At issue in the IPR was whether two different limitations in the claims-at-issue could be met by the same parameter in an accused

device. In particular, whether the requirements that the system—(i) automatically vary power based on a value associated with current passing through the power source *and* (ii) automatically vary power based on a measured current associated with the current passing through the power source—could be satisfied by automatically varying power based on a charging current, or whether the limitations required automatically varying the power based on two separate parameters.

In its petition, Axonics adopted the first construction (*i.e.*, the one-parameter construction). In its preliminary response, patent owner Medtronic did not dispute the construction. Neither party expressly proposed a construction of the term. In its response brief following the PTAB's institution of the IPR, however, Medtronic advanced the two-parameter construction. Under this interpretation, a system automatically varying power based on a charging current alone no longer satisfied the claim. In its final written decision, the PTAB adopted the two-parameter construction. The PTAB also refused to consider Axonics's arguments and evidence on reply regarding the two-parameter construction, explaining that these arguments amounted to a "new ground not set forth in the Petition." Axonics appealed.

Federal Circuit's Ruling

On appeal, the Federal Circuit vacated the PTAB's decision and remanded the case for the PTAB to consider Axonics's arguments and supplemental expert declaration replying to Medtronic's new claim construction. The Federal Circuit determined that while PTAB rules did not specifically address instances where patent owners proposed a new claim construction after an institution decision, petitioners were generally entitled to respond to new arguments in a patent owner's response. In support, the court cited to 37 C.F.R. § 42.23(b), the Administrative Procedure Act, the Supreme Court's *SAS v. Iancu* decision, and a string of precedential Federal Circuit decisions, including *Ericsson v. Intellectual Ventures I*, *Hamilton Beach Brands v. f'real Foods*, *Qualcomm v. Intel*, *Fanduel v. Interactive Games*, and *Royalma v. Bohler-Edelstahl*. The Federal Circuit noted how holding to the contrary would create opportunities for patent owners to sit on their strongest claim construction arguments before institution, and then raise those arguments after institution in response to obtain a favorable final IPR decision and an estoppel without the Board reaching the merits of any invalidity arguments under the newly adopted claim construction, thus "sandbagging" petitioners.

In reaching its conclusion, the Federal Circuit rejected Medtronic's argument that it would be unfair to permit petitioners to submit new expert declarations with their reply because regulations did not permit patent owners to submit supplemental declarations in their sur-reply. The court explained that the PTAB had authority to waive or suspend such restrictions "in circumstances such

as these,” suggesting that the PTAB could allow patent owners to submit evidence with their sur-reply. The Federal Circuit has since doubled down on this position in its August 11, 2023, decision, *Rembrandt Diagnostics v. Alere*. In *Rembrandt*, the court stated that “[s]ince the need to rely on new evidence in response may not arise until a particular point has been raised . . . , [this court has] held that there is no blanket prohibition against the introduction of new evidence during an IPR.”

Takeaway

The Axonics decision further clarifies IPR procedural and evidentiary

matters. In particular, the decision highlights how petitioners and patent owners should be strategic with regards to evidentiary regulations and how these regulations differently affect the parties. For example, from the perspective of patent owners, the parties should be mindful that if they present claim construction arguments for the first time in their response, petitioners will have an opportunity to answer in reply.

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