

## What You Missed At PTAB: Contours Of IPR Institution Denial

By **Andrew Holtman and Melissa Gibson** (August 6, 2020)

The Patent Trial and Appeal Board recently elaborated contours of its discretion to deny institution under Title 35 of the U.S. Code, Section 314(a), based on a parallel district court proceeding.

Through a series of precedential decisions over a year's time, the board announced its discretionary authority to deny institution of a petition when related to a copending district court proceeding and further fleshed out factors to be weighed when exercising that discretion.[1]

The sheer number of decisions that the board designated as precedential or informative on this topic — i.e., five out of approximately 65 designated decisions — illustrates the importance of understanding the board's analysis in these decisions for practitioners involved in parallel district court and inter partes review proceedings. In this article, we will analyze factors the board deemed persuasive and provide corresponding practice tips for both petitioners and patent owners.

### Precedential Pre-Apple v. Fintiv Decisions

On May 7, 2019, the board designated as precedential the NHK Spring Co. Ltd. v. Intri-Plex Technologies Inc. decision. In NHK, the board agreed with the patent owner that "instituting an inter partes review 'ultimately would be inefficient,'" given the advanced status of the related district court proceeding.[2]

In particular, the board considered that (1) the district court trial would conclude several months before the deadline for the board to issue its final written decision and (2) the same prior art and argument was asserted and argued by the petitioner in each proceeding.[3]

Although the board had already exercised its discretion to deny institution pursuant to Title 35 of the U.S. Code, Section 325(d), because the petitioner advanced the same prior art considered by the examiner during prosecution, the board also found that the parallel district court proceeding provided a separate and independent reason for denial.[4]

Significantly, to institute under these circumstances would be inconsistent with "an objective of the AIA [America Invents Act] ... to provide an effective and efficient alternative to district court litigation." [5]

While NHK demonstrates circumstances under which the board will exercise its discretionary denial powers, Oticon Oticon Medical AB v. Cochlear Ltd. illustrates limits to that power. On March 24, the board designated as precedential the Oticon decision, in which the board declined to exercise its discretion pursuant to Section 314(a) to deny institution based on a parallel district court proceeding.[6]

Relying on NHK, the patent owner contended that notions of fairness, efficiency and judicial economy dictated that the board exercise its discretionary power to deny institution. The petitioner waited nearly a year to file its petition, which, according to the patent owner, afforded it tactical advantages.[7]



Andrew Holtman



Melissa Gibson

Specifically, by waiting to file a petition until after the patent owner filed its response to the petitioner's invalidity contentions in the district court proceeding, the petitioner could use those responses to bolster its petition by addressing the weaknesses identified in the district court proceeding.[8]

Although such an advantage may weigh in favor of exercising its discretion, the board declined to do so for two reasons. First, the patent owner conceded that the invalidity arguments differed between the two proceedings.[9] Second, the district court trial would not conclude before a final written decision would issue from the board.[10] Notably, the board was particularly mindful that the IPR proceeding and district court trial were not "directly duplicative."[11]

These opposing decisions issued before *Apple Inc. v. Fintiv Inc.* demonstrate that litigating overlapping issues clearly can impact the board's decision to exercise discretion, but so too can the relationship of timing between the district court trial itself and the statutory deadline on the board to issue its final written decision. These considerations illustrate that the board is unlikely to utilize judicial resources to institute a trial that can be duplicative of a proceeding that likely will be resolved in a different forum.

### **The Fintiv Factors**

On May 5, six weeks after designating *Oticon* as precedential, the board designated as precedential *Apple v. Fintiv*, which set forth factors to be considered when deciding whether to exercise discretion under Section 314(a) to deny institution based on a parallel district court litigation, i.e., the Fintiv factors.[12]

The parties received authorization to submit additional briefing on whether the board should deny institution under Section 314(a) due to the scheduling of an imminent trial date after the petition was filed.[13] Specifically, the parties were instructed to address six factors, which "sought to balance considerations such as system efficiency, fairness, and patent quality" when "the patent owner raises an argument for discretionary denial under *NHK* due to an earlier trial date."[14]

Given the importance of those factors to any analysis a future board may undertake, they are worth restating here, and they include:

1. Whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted;[15]
2. Proximity of the court's trial date to the board's projected statutory deadline for a final written decision;[16]
3. Investment in the parallel proceeding by the court and the parties;[17]
4. Overlap between issues raised in the petition and in the parallel proceeding;[18]
5. Whether the petitioner and the defendant in the parallel proceeding are the same party;[19] and
6. Other circumstances that impact the board's exercise of discretion, including the merits.[20]

The board's approach to addressing the above Fintiv factors shows that certain facts

influence the weight afforded to an individual factor. For example, the issuance of stay in district court "strongly weighed against exercising the authority to deny institution [in the PTAB] under NHK."<sup>[21]</sup>

But when denial of a district court stay in which the district court indicated a willingness to reconsider a stay if the IPR is instituted, the board notes that "proximity of the court's trial date and investment of time are relevant to how much weight to give to the court's willingness to reconsider a stay."<sup>[22]</sup> In this sense, the board "takes a holistic view of whether efficiency and integrity of the system are best served by denying or instituting review."<sup>[23]</sup>

### **Informative Post-Fintiv Decisions**

Although the board provided significant guidance on how parties should address each of the six Fintiv factors, the Fintiv decision did not decide whether discretionary denial was appropriate.

On May 13, in a second *Apple v. Fintiv* proceeding, or *Fintiv II*, however, the board provided additional guidance by designating as informative two countervailing decisions that demonstrate under what circumstances the board will elect or decline to exercise its discretionary authority to deny institution based on a parallel proceeding.<sup>[24]</sup>

In *Fintiv II*, the board exercised its discretion to deny institution based on a parallel district court decision after the parties submitted supplemental briefing on the Fintiv factors. As demonstrated in Table 1, although the proximity of the final written decision deadline to the trial date and the investment in the decision somewhat weighed in favor of institution, ultimately factors four-six led the board to conclude "that instituting a trial would be an inefficient use of Board resources."<sup>[25]</sup>

In *Sand Revolution II LLC v. Continental Intermodal Group-Trucking LLC*, by contrast, the board, who granted the petitioner's request for rehearing based on new record evidence, declined to exercise its discretion to deny institution after the parties submitted supplemental briefing addressing each of the six Fintiv factors.<sup>[26]</sup>

Specifically, the board noted a change in circumstance due to postponement of the district court trial, which rendered the case distinguishable from *NHK*.<sup>[27]</sup> Following the board's request for supplemental briefing on the Fintiv factors, it was "not persuaded that the interests of the efficiency and integrity of the system would be best served by invoking our authority under 35 U.S.C. § 314(a) to deny institution of a potentially meritorious Petition."<sup>[28]</sup>

And while the proceedings involved the same parties<sup>[29]</sup> with some investment made in the district court up to early fact discovery,<sup>[30]</sup> those considerations were ultimately outweighed by the uncertain trial date,<sup>[31]</sup> the avoidance of duplicative trials,<sup>[32]</sup> and the strength of the petition,<sup>[33]</sup> as shown in Table 1.

**Table 1. Board’s Recent Decisions on Exercising Discretion to Deny Institution Based on Parallel District Court Proceeding<sup>1</sup>**

<b>“Fintiv” Factors</b>	<b>NHK (pre-Fintiv)</b>	<b>Oticon (pre-Fintiv)</b>	<b>Fintiv II (post-Fintiv)</b>	<b>Sand (post-Fintiv)</b>
1. Granted of a stay or evidence exists that one may be granted if a proceeding is instituted	<i>Neutral</i> (Not considered)	<i>Neutral</i> (PO claims, without evidence, Pet stalling)	<i>Neutral</i> (neither party requested stay)	<i>Neutral</i> (neither party requested stay)
2. Proximity of the court’s trial date to the Board’s projected statutory deadline for a final written decision	<i>In favor</i> (Trial 6 months before FWD deadline)	<i>Against</i> (Board PO claims, without evidence, trial will conclude before FWD)	<i>“Somewhat” in favor</i> (Trial 2 months before FWD deadline)	<i>“Marginally against”</i> (Trial date is uncertain, but currently close to FWD deadline)
3. Investment in the parallel proceeding by the court and the parties	<i>In favor</i> (Final stages; in expert discovery; completed claim construction and exchanged contentions)	<i>In favor</i> (Exchanged contentions; gave Pet. “tactical advantage” to use PO contentions to add new art to petition)	<i>“Somewhat” in favor</i> (Early fact discovery, but completed claim construction and exchanged contentions)	<i>“Marginally in favor”</i> (Early fact discovery, but completed claim construction and exchanged contentions)
4. Overlap between issues raised in the petition and in the parallel proceeding	<i>In favor</i> (Same prior art and arguments as invalidity contentions)	<i>Against</i> (“Mindful” not “directly duplicative”; Pet. added new art to petition)	<i>In favor</i> (Same grounds; Pet. undecided on whether will continue to pursue same grounds)	<i>“Marginally against”</i> (Petitioner stipulated not to pursue same grounds)
5. Whether the petitioner and the defendant in the parallel proceeding are the same party	<i>Neutral</i> (Same parties, but not considered)	<i>Neutral</i> (Same parties, but not considered)	<i>In favor</i> (Same parties)	<i>In favor</i> (Same parties)
6. Other circumstances that impact the Board’s exercise of discretion, including the merits	<i>Neutral</i> (Not considered)	<i>Neutral</i> (Not considered)	<i>In favor</i> (PO identified holes in petition for 2 independent claims)	<i>Against</i> (Pet. case stalling on most challenged claims)

<sup>1</sup> Factors weighed in favor of exercising the Board’s discretion to deny institution are highlighted in green, whereas factors weighed against exercising the Board’s discretion to deny institution are highlighted in red.

## **Practical Implications**

These decisions illustrate the factual circumstances that the board finds compelling when considering whether to exercise its discretion under Section 314(a) based on a parallel proceeding. Interestingly, the district court proceedings in *Fintiv II* and *Sand* were in similar stages of litigation, i.e., the beginning of fact discovery, but opposite results were achieved.

When comparing the application of the *Fintiv* factors, two major differences may inform these disparate results:

1. Overlapping issues. Whereas the petitioner in *Sand* filed a stipulation that it would not assert the same prior art in the district court proceeding if trial is instituted,[34] the petitioner in *Fintiv II* had not decided whether it will pursue the same prior art in the district court proceeding.[35]
2. Merits of the case. In *Sand*, the board noted that the "[p]etitioner has set forth a reasonably strong case for the obviousness of most challenged claims." [36] In contrast, the patent owner in *Fintiv II* had pointed out weaknesses in the petitioner's case on the merits.[37]

Based on these informative decisions, we provide some practice tips for petitioners and patent owners.

### ***Petitioners***

Although the simplest advice to the petitioner would be to file its petition significantly before the one-year deadline, practically, this is not always possible. Consider:

1. Filing a motion to stay the district court proceeding shortly after filing a petition. Request in the motion if the district court would consider, in the alternative, a renewed motion for a stay if the IPR is granted.
2. Raising different patentability grounds in the petition from those raised in district court. This can be accomplished by raising invalidity grounds other than anticipation and obviousness based on patents and publications in district court, e.g., prior sale defenses, Section 112 issues. The petitioner should also consider filing a stipulation that it would not assert in the district court the same prior art, if the petition is granted.

### ***Patent Owners***

1. Although a patent owner cannot control when the petitioner will file a petition, it can advocate for a speedy resolution of issues, particularly claim construction and exchange of contentions, during the district court's scheduling conference.
2. Identify clear weaknesses or holes in the petition that do not require the board to conduct a full merits review of the petition.
3. Consider the impact of consenting to stay the district court proceeding.

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*Andrew Holtman is a partner and Melissa Gibson is senior counsel at Akin Gump Strauss Hauer & Feld LLP.*

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[1] NHK Spring Co., Ltd. v. Intri-Plex Technologies, Inc., IPR2018-00752, Paper 8 (PTAB Sep. 12, 2018) ("NHK"); Oticon Med. AB v. Cochlear Ltd., IPR2019-00975, Paper 15 (PTAB Oct. 16, 2019) ("Oticion"); Apple Inc. v. Fintiv, Inc., IPR2020-00019, Paper 11 at 2 (PTAB Mar. 20, 2020) ("Fintiv"); Apple Inc. v. Fintiv, Inc., IPR2020-00019, Paper 15 (PTAB May 13, 2020) ("Fintiv II"); Sand Rev. II, LLC v. Cont'l Intermodal Group – Trucking LLC, IPR2019-01393, Paper 24 (June 16, 2020) ("Sand").

[2] NHK, Paper 8 at 19.

[3] *Id.* at 19-20.

[4] *Id.* at 20.

[5] *Id.* (quoting Gen. Plastic Indus. Co., Ltd. v. Canon Kabushiki Kaisha, IPR2016-01357, (PTAB Sept. 6, 2017)).

[6] Oticon, Paper 15 at 24.

[7] *Id.* at 22-23.

[8] *Id.* at 22-23.

[9] *Id.* at 23.

[10] *Id.* at 23-24.

[11] *Id.* at 24.

[12] Fintiv, Paper 11 at 5-6.

[13] *Id.* at 2.

[14] *Id.* at 5.

[15] *Id.* at 6-9.

[16] *Id.* at 9.

[17] *Id.* at 9-12.

[18] *Id.* at 12-13.

[19] *Id.* at 13-14.

[20] *Id.* at 14-16.

[21] *Id.* at 6.

[22] Id. at 6-7.

[23] Id. at 6.

[24] See Fintiv II, Paper 15; Sand, Paper 24.

[25] Fintiv II, Paper 15 at 17.

[26] Sand, Paper 24 at 2-3.

[27] Id.

[28] Id. at 14.

[29] Id. at 12-13.

[30] Id. at 10-11.

[31] Id. at 8-10

[32] Id. at 11-12.

[33] Id. at 13.

[34] Sand, Paper 24 at 11-12.

[35] Fintiv II, Paper 15 at 15.

[36] Sand, Paper 24 at 13.

[37] Fintiv II, Paper 15 at 15-17.