

UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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NAUTILUS HYOSUNG INC.,  
Petitioner,

v.

DIEBOLD, INC.,  
Patent Owner.

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Case IPR2017-00426  
Patent 7,832,631 B2

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Before BARBARA A. BENOIT, GEORGIANNA W. BRADEN, and  
KERRY BEGLEY, *Administrative Patent Judges*.

BENOIT, *Administrative Patent Judge*.

DECISION

Denying Institution of *Inter Partes* Review  
35 U.S.C. § 314(a) and 37 C.F.R. § 42.108

## I. INTRODUCTION

Nautilus Hyosung Inc. (“Petitioner”) filed two petitions seeking *inter partes* review of certain claims of U.S. Patent No. 7,832,631 B2 (Ex. 1001, “the ’631 patent” or “the challenged patent”). This proceeding addresses Petitioner’s second petition (Paper 2, “Second Petition,” “Second Pet.,” or “Pet.”), filed on December 7, 2016. Previously, in IPR2016-00633 on August 22, 2016, we denied institution of an *inter partes* review based on Petitioner’s first petition (IPR2016-00633, Paper 1 (of record in this proceeding as Ex. 2009), “First Petition” or “First Pet.”), which was filed February 18, 2016. *Nautilus Hyosung, Inc. v. Diebold, Inc.*, Case IPR2016-00633, slip op. at 35 (PTAB Aug. 22, 2016) (Paper 9, “IPR633-Decision” or “IPR-633 Dec.”) (concluding that the information presented in the petition does not establish a reasonable likelihood that Petitioner would prevail in showing at least one of the challenged claims is unpatentable).

Patent Owner, Diebold, Inc., filed a Preliminary Response to the Second Petition on April 5, 2017. Paper 10 (“Preliminary Response” or “Prelim. Resp.”). In its Preliminary Response, Patent Owner argued that the Board should exercise its discretion under 35 U.S.C. §§ 314(a) and 325(d) to deny institution of an *inter partes* review. *Id.* at 20–25. On May 5, 2017, Petitioner requested authorization to file a reply to Patent Owner’s Preliminary Response for the limited purpose of addressing Patent Owner’s arguments regarding the Board’s discretion under 35 U.S.C. §§ 314(a) and 325(d) to institute an *inter partes* review. We granted Petitioner’s request (Paper 13) and Petitioner filed a Reply (Paper 14, “Pet. Reply”). Patent

Owner, with our authorization, then filed a Sur-Reply. Paper 16 (“PO Sur-Reply”).

After considering the Second Petition, Patent Owner’s Preliminary Response, Petitioner’s Reply to Patent Owner’s Preliminary Response, and Patent Owner’s Sur-Reply, we exercise our discretion under 35 U.S.C. § 314(a) not to institute *inter partes* review of claims 1–8 and 12–20 of the ’631 patent for the reasons explained below.

*A. Related Proceedings*

The Board requires certain mandatory notices be filed by each party under 37 C.F.R. § 42.8. Among other notices, each party is required to “[i]dentify any other judicial or administrative matters that would affect, or be affected by, a decision in the proceeding.” 37 C.F.R. § 42.8(b)(2) (Related matters). Petitioner and Patent Owner represent that the challenged patent is involved in an United States district court proceeding—*Diebold, Inc. v. Nautilus Hyosung Inc.*, No. 1:15-cv-2153 (N.D. Ohio)—and an International Trade Commission Investigation—*In the Matter of Certain Automated Teller Machines, ATM Modules, Components Thereof, and Products Containing Same*, No. 337-TA-972 (“the ITC investigation”). Pet. 2; Paper 4 (Patent Owner’s Mandatory Notices).

Patent Owner also identifies IPR2016-00633, in which we addressed the First Petition and denied the requested institution of an *inter partes* review of the same claims (claims 1–8 and 12–20) of the ’631 patent challenged here. Paper 4, 2; IPR-633 Dec. 35. Despite having filed the First

Petition, Petitioner indicates that it “is not aware of any . . . petitions for *inter partes* review for the ’631 patent.” Pet. 2.

### *B. The Challenged Patent*

The challenged patent claims methods for sensing magnetic ink character recognition (“micr” or “MICR”) lines on financial checks, generally in the context of an automated banking machine. Ex. 1001, 41:24–44, 43:10–13. A micr line identifies the institution upon which the check is drawn, the bank account number, and the check number associated with a particular financial check. See Ex. 1001, 2:24–32.

Figure 43 of the challenged patent is reproduced below.

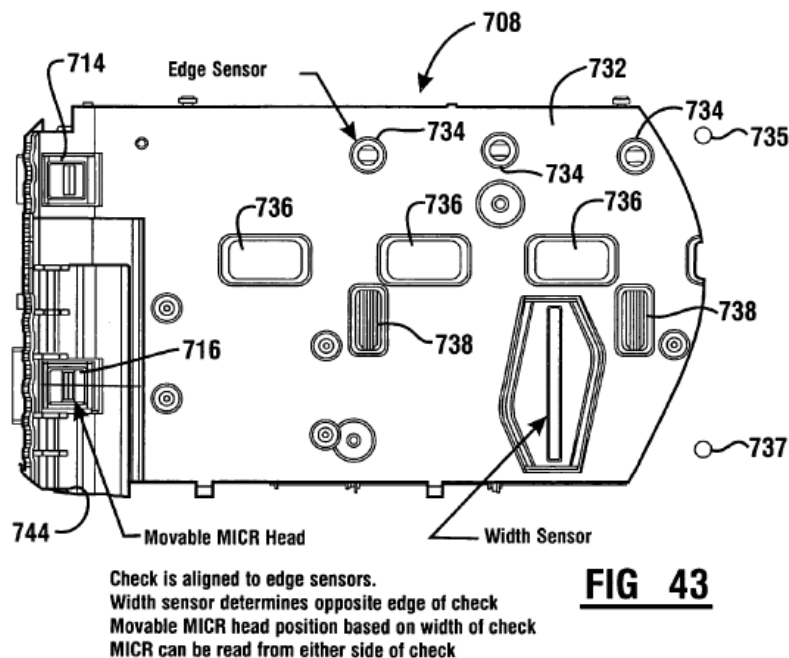


Figure 43 shows document alignment area 708 including platen 732, which includes alignment sensors 734.<sup>1</sup> Ex. 1001, 30:51–54. Rollers 736 generally move a financial check until it is aligned based on alignment sensors 734. *Id.* at 30:58–31:9. Magnetic read head 714 is in a fixed position that is generally positioned “so that a check that has been aligned in the document alignment area will generally have the micr line indicia on the check pass adjacent to the magnetic read head 714.” *Id.* at 31:17–24. “This is true for two of the four possible facing positions of a check as it passes through the device” and is illustrated in Figure 44, reproduced below. *Id.* at 31:24–27.

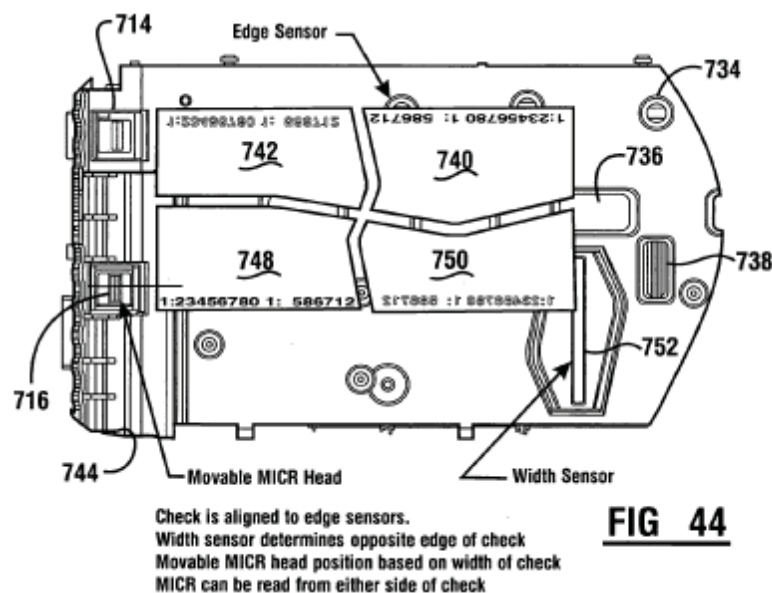


Figure 44 shows a view similar to Figure 43 but also includes “portions of a check therein showing the location of the indicia included in the micr line in the four possible orientations of a check in the document assignment

<sup>1</sup> As indicated in Figure 43 itself, alignment sensors 734 also may be referred to as edge sensors. Ex. 1001, Fig. 43.

area” 708. *Id.* at 7:18–23. Figure 44 depicts exemplary check segments 740 and 742 for which the micr line indicia pass adjacent to magnetic read head 714.

In contrast to magnetic read head 714, magnetic read head 716 is movable transversely to the path of a check as it moves through the device. *Id.* at 31:28–33. As shown in Figure 44, “when a check is in the two orientations where the micr line data would not pass adjacent to [magnetic] read head 714” (and as represented by exemplary check segments 748 and 750), movable magnetic read head 716 is positioned “so that the micr line data [of the check] would pass adjacent to [magnetic] read head 716.” *Id.* at 31:38–43.

Magnetic read heads 714 and 716 “are operative to read the micr indicia regardless of whether the indicia is on the check immediately adjacent to the [magnetic] read head or on an opposed side of the check from the [magnetic] read head.” *Id.* at 32:5–9. “This is because the magnetic characters can be sensed through the paper.” *Id.* at 32:9–10.

An exemplary embodiment of document alignment area 708, shown in Figure 44, includes width sensor 752 (which is also shown in Figure 43) “operative to sense at least one dimension or property which corresponds to a width associated with a check.” *Id.* at 31:44–50. Determining the width of the aligned check enables magnetic read head 716 to be moved to the appropriate “position for reading the micr line indicia on the check in the event that the check is in one of the two positions wherein the micr indicia is

disposed on the opposite of the check from [magnetic] read head 714.” *Id.* at 31:52–59.

*C. Illustrative Claim*

Of the challenged claims, claims 1, 17, and 18 are independent.

Claim 1 is illustrative of the claimed subject matter:

1. A method of sensing magnetic indicia on at least one financial check, comprising:

(a) receiving at least one check in an automated banking machine, wherein the at least one check includes a check comprising magnetic indicia encoded in a micr line thereon;

(b) sensing through operation of at least one sensor in the machine, a width associated with the check, wherein the at least one sensor is in operative connection with at least one processor in the machine;

(c) moving responsive at least in part to the width sensed in (b), at least one of two magnetic read heads in the machine, wherein the at least one magnetic read head is moved responsive at least in part to operation of the at least one processor, wherein the at least one magnetic read head is moved such that the micr line on the check is aligned with one of the magnetic read heads regardless of a facing position of the check;

(d) moving the check past the two magnetic read heads in the machine responsive at least in part to operation of the at least one processor;

(e) sensing micr line data on the check with one of the two magnetic read heads.

Ex. 1001, 41:24–46.

*D. The Asserted Grounds of Unpatentability*

In its Second Petition, Petitioner contends that claims 1–8 and 12–20 of the ’631 patent are unpatentable under 35 U.S.C. § 103 over the following specific references:

References	Claims Challenged
Kim, <sup>2</sup> Kitagawa, <sup>3</sup> and Volpa <sup>4</sup>	1 and 17–20
Kim, Kitagawa, Volpa, and Graef <sup>5</sup>	2–8 and 12–26

II. DISCUSSION

As threshold matters, Patent Owner argues in its Preliminary Response to the Petition that the Board should exercise its discretion and deny institution of an *inter parties* review under 35 U.S.C. §§ 314(a) and 325(d). Prelim. Resp. 16–26; PO Sur-Reply 1–3. In its Reply to Patent Owner’s Preliminary Response, Petitioner opposes. Pet. Reply 1–3.

*A. The First and Second Petitions*

Both the First and Second Petitions challenge claims 1–8 and 12–26 of the ’631 patent. In its First Petition, Petitioner contended that the challenged

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<sup>2</sup> Korean Patent Registration No. 10-613889, published August 21, 2006, for which Petitioner provided a certified English translation (Ex. 1005, “Kim”).

<sup>3</sup> Japanese Patent Application Publication No. 2004-110612, published on April 8, 2004, for which Petitioner provided an English translation (Ex. 1006, “Kitagawa”).

<sup>4</sup> U.S. Patent No. 7,474,780, issued January 6, 2009 from an application filed on August 30, 2003 (Ex. 1007, “Volpa”).

<sup>5</sup> U.S. Patent No. 5,534,682, issued July 9, 1996 (Ex. 1005, “Graef”).



claims would have been obvious under 35 U.S.C. § 103(a)<sup>6</sup> over the combination of Graef, Kawai,<sup>7</sup> and Mennie<sup>8</sup> (First Pet. 3, 7–46). For example, regarding independent claim 1, Petitioner relied on Graef’s teachings for many of the limitations, relied on the teachings of the combination of Graef and Kawai for the recited “moving the micr head based on the width of a check,” and relied on Mennie’s teaching for the two magnetic read heads required by claim 1. First Pet. 8–21, IPR633-Dec. 15–16. In our Decision denying institution of the First Petition, we found that, contrary to Petitioner’s contentions, the cited portion of Mennie on which Petitioner relied did not teach two magnetic read heads. IPR-633 Dec. 18–21.

In its Second Petition, Petitioner presents two grounds. Second Pet. 8–57. In its ground asserted against five claims that includes the three challenged independent claims, Petitioner relies on a combination of Kim, Kitagawa, and Volpe. *Id.* at 10–32. In its other ground asserted against the other fifteen challenged claims, Petitioner additionally relies on Graef in its combination. *Id.* at 32–57. Regarding independent claim 1, Petitioner contends that Kim discloses two magnetic read heads (*id.* at 11), the

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<sup>6</sup> The Leahy-Smith America Invents Act (“AIA”), Pub. L. No. 112-29, 125 Stat. 284, 287–88 (2011), revised 35 U.S.C. § 103, effective March 16, 2013. Because the challenged patent was filed before March 16, 2013, we refer to the pre-AIA version of § 103 in this decision.

<sup>7</sup> U.S. Patent Application Publication US 2006/0196940 A1, published Sept. 7, 2006 (Ex. 1006, “Kawai”).

<sup>8</sup> U.S. Patent No. 5,875,259, issued Feb. 23, 1999 (Ex. 1007, “Mennie”).

combination of Kim and Kitagawa would have rendered obvious a system that senses a width associated with a check and moves responsive to the sensed width (*id.* at 18–22), and the combination of Kim, Kitagawa and Volpa renders obvious the required moving the read head to align the micr line regardless of the facing position of the check (*id.* at 22–24).

*B. 35 U.S.C. § 314(a)*

Section 314(a) of Title 35 of the United States Code sets forth the threshold for instituting an *inter partes* review—an *inter partes* review “may not . . . be instituted unless . . . the information presented in the petition . . . and any response . . . shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”

*1. The Parties’ Contentions*

Patent Owner urges us to deny institution under 35 U.S.C. § 314(a) because of the inequity that the Second Petition affords Petitioner. Prelim. Resp. 23. Specifically, Patent Owner identifies the inequity of Petitioner having the opportunity to adjust its positions based on Patent Owner’s Preliminary Response to the First Petition and the Board’s denying institution of the First Petition, as well as the initial determination from the ITC investigation. *Id.*

Petitioner contends its Second Petition is not prohibited by statute and denying institution under § 314(a) would be “tantamount to an outright prohibition on subsequent petitions, which is inconsistent with Congressional intent and the Board’s precedent.” Pet. Reply 2–3 (citing a single case in

which the Board instituted an *inter partes* review based on a third petition challenging the same patent). Petitioner further contends that it “did not simply recast prior art and arguments” and instead, “this IPR represents a vastly different theory of invalidity.” *Id.* at 3.

## 2. Analysis

Institution of an *inter partes* review is discretionary. 35 U.S.C. § 314(a) (phrasing the threshold for institution in permissive terms); *Harmonic Inc. v. Avid Tech, Inc.*, 815 F.3d 1356, 1367 (Fed. Cir. 2016) (“the PTO is permitted, but never compelled, to institute an IPR proceeding”); *see also* 37 C.F.R. § 42.108(a) (“When instituting *inter partes* review, the Board may authorize the review to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim.”).

We do not take lightly denying a petition on grounds unrelated to its substantive patentability challenges. Rather, in determining whether to exercise our discretion to deny institution under 35 U.S.C. § 314(a), we seek to balance the equities between the parties, including Petitioner’s desire to be heard against Patent Owner’s interest in avoiding harassment.<sup>9</sup> *See* H.R. Rep. No. 112-98, pt.1, at 48 (2011) (post-grant proceedings conducted under the AIA “are not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the

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<sup>9</sup> We note that panels of the Board have discussed various equitable factors in determining whether to exercise discretion to institute under § 314(a) and § 325(d).

validity of a patent. Doing so would frustrate the purpose of the section as providing quick and cost effective alternatives to litigation.”).

As the Board has done frequently in the past, we consider potential inequity of a petitioner filing serial attacks against the same claims of a patent, while benefiting from patent owner’s arguments and/or the Board’s decision in prior cases. *See, e.g., Xactware Sols., Inc. v. Eagle View Techs., Inc.*, Case IPR2017-00034, slip op. 6–11 (PTAB April 13, 2017) (Paper 9); *Baker Hughes Inc. v. LiquidPower Specialty Prods., Inc.*, Case IPR2016-01896, slip op. at 9–11 (PTAB March 31, 2017) (Paper 10); *Duk San Neolux Co., Ltd. v. Idemitsu Kosan Co., Ltd.*, slip op. at 4–11 (PTAB March 31, 2017) (Paper 10); *NVIDIA Corp. v. Samsung Elec. Co.*, Case IPR2016-00134, slip op. at 8 (PTAB May 4, 2016) (Paper 9); *Toyota Motor Corp. v. Cellport Sys., Inc.*, Case IPR2015-01423, slip op. at 8 (PTAB Oct. 28, 2015) (Paper 7).

Several factors counsel against institution in the present case. *See, e.g., General Plastic Industrial Co. Ltd. v. Canon Kabushiki Kaisha*, Case IPR2016-01358, slip op. at 9–12 (PTAB Nov. 14, 2016) (Paper 12) (identifying seven factors that may be relevant to determining whether to exercise our discretion).

First, Petitioner previously filed a petition directed to the same claims of the same patent. Thus, Petitioner has had an opportunity to be heard with regard to the patentability of the claims challenged in the Second Petition. This weighs toward exercising our discretion not to institute. In addition, Patent Owner provides persuasive evidence that the ITC investigation

involving Petitioner as a respondent and the '631 patent (among other patents) involves some of the same prior art asserted in the Second Petition, including Kim, Kitagawa, Volpe, and Graef. Prelim. Resp. 17, 19.

Second, Petitioner has not explained why the arguments and evidence relied on in its Second Petition were not filed with the First Petition. *See Unilever, Inc. v. Procter & Gamble Co.*, Case IPR2014-00506, slip op. at 6 (PTAB July 7, 2014) (Paper 17) (informative) (“Unilever, however, presents no argument or evidence that the seven newly cited references were not known or available to it at the time of filing the [earlier petition].”); *Intelligent Bio-Systems*, Case IPR2013-00324, slip op. at 6 (merely identifying newly cited art after the filing of an earlier petition cannot alone justify institution of a later filed petition).

Furthermore, Patent Owner provides persuasive evidence that Petitioner was aware of at least Kim and Kitagawa when Petitioner filed its First Petition. Prelim. Resp. 17, 19 (indicating that Petitioner in the ITC investigation asserted that claims 1–8 and 12–20 would have been obvious over “(i) Kitagawa combined with Kim, Graef, and Volpa, and (ii) Graef . . . combined with Mennie and/or Kitagawa (then referred to as “Yasuhiko” (citing Ex. 2001, 6, 163–81)). Thus, we conclude that Petitioner knew of three of the four references asserted in its Second Petition—Kim, Kitagawa, and Graef—when it filed its First Petition on February 18, 2006. Prelim. Resp. 16 (citing evidence (Ex. 2008, 8–9) from the ITC investigation to show that Petitioner identified Kim, Kitagawa, and Graef as prior art as of

December 2015). This weighs toward exercising our discretion not to institute.

Third, the Second Petition was filed seven months after Patent Owner filed its Preliminary Response to the First Petition and more than three months after we issued a decision not to institute an *inter partes* review based on the First Petition. The timing of the Second Petition also weighs toward exercising our discretion not to institute in two ways. One, when Petitioner filed its Second Petition, Petitioner had both the Patent Owner's Preliminary Response and the Board's Decision denying institution of the First Petition. Two, not only did Petitioner have Patent Owner's Preliminary Response and the Board's prior decision, but Petitioner had sufficient time to take advantage of Patent Owner's and the Board's responses to the First Petition when filing its Second Petition. *See Xactware*, Case IPR2017-00034, slip op. at 9 (indicating that (i) the elapsed time of over four months between filing of the Second Petition and when Petitioner had Patent Owner's Preliminary Response and (ii) the elapsed time of over two months when Petitioner had the Board's decision on institution provided "Petitioner with sufficient time to take advantage of Patent Owner's and the Board's responses to the First Petition").

Fourth, Petitioner's explanation as to why it should be permitted another challenge to the same claims of the same patent under the circumstances of this case is conclusory and inaccurate. Petitioner asserts that exercising discretion not to institute in this case would be "tantamount to an outright prohibition on subsequent petitions, which is inconsistent with

Congressional intent and the Board’s precedent.” Pet. Reply 2–3 (citing a single case in which the Board instituted an *inter partes* review based on a third petition challenging the same patent).

We disagree. Although Petitioner cites a single case in which the Board instituted a review based on a third petition, Petitioner does not address the Board’s prior exercise of discretion not to institute a second petition. *See, e.g., NVIDIA*, Case IPR2016-00134, slip op. at 8, 12 (denying a second petition under § 314). In addition, we have identified and cited various cases in which the Board has exercised discretion not to institute a review with at least some facts similar to those of this proceeding. Thus, we do not agree that exercising our discretion would be counter to Board precedent.

Moreover, the United States Court of Appeals for the Federal Circuit recognizes our discretion to institute an *inter partes* review. *Harmonic*, 815 F.3d at 1367 (“the PTO is permitted, but never compelled, to institute an IPR proceeding”). Petitioner does not acknowledge this decision, which also indicates the flaw in Petitioner’s argument that exercising our discretion here not to institute would be “tantamount to an outright prohibition on subsequent petitions.”

Regarding Petitioner’s assertion regarding Congressional intent, Congress recognized the problem of multiple, harassing attacks on the validity of a patent. *See* H.R. Rep. No. 112-98, pt.1, at 48 (2011) (post-grant proceedings conducted under the AIA “are not to be used as tools for harassment or a means to prevent market entry through repeated litigation

and administrative attacks on the validity of a patent. Doing so would frustrate the purpose of the section as providing quick and cost effective alternatives to litigation.”). Thus, we do not agree that exercising our discretion would be counter to Congressional intent.

For these reasons, Petitioner’s explanation does not weigh against exercising our discretion to decline to institute.

To be clear, we are not saying that multiple petitions against the same claims of the same patent by the same petitioner are never permitted. Rather, we look to the particular circumstances of each proceeding, including what rationale a petitioner offers for filing multiple petitions and for the time elapsed between those filings. *See NVIDIA*, Case IPR2016-00134, slip op. at 8 (After acknowledging that the potential inequity of multiple petitions “is real and cannot be ignored,” the panel indicates that “[t]his is not to say, however, that multiple petitions against the same claims of the same patent are never permitted. Rather, each case depends on its own facts.”).

After weighing the respective factors here, and in the particular circumstances of this proceeding, we exercise our discretion under § 314(a) and decline to institute *inter partes* review given the limited resources of the Board.

Because we exercise our discretion to deny institution under § 314(a), we do not reach Patent Owner’s additional argument that we should deny institution under § 325(d).



### III. CONCLUSION

After due consideration of the record before us and for the foregoing reasons, we conclude that the circumstances of this case justify exercising our discretion under 35 U.S.C. § 314(a) and 37 C.F.R. § 42.108(a) to deny institution of an *inter partes* review.

### IV. ORDER

It is hereby:

ORDERED that the Petition is denied as to all challenged claims of the '631 patent and no trial is instituted.

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Patent 7,832,631 B2

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