

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

APPLE INC.
Petitioner
v.
MAXELL, LTD.
Patent Owner

Case No. IPR2020-00408
U.S. Patent No. 6,430,498 B1

PETITIONER APPLE INC.'S PRELIMINARY REPLY

TABLE OF CONTENTS

<i>I. Fintiv’s and NHK’s Focus on the Trial Date Is Misplaced as a Basis for the Board’s Exercise of Its Discretion</i>	<i>1</i>
<i>II. The Fintiv Factors Favor Institution</i>	<i>7</i>
Factor 1 – Evidence exists that a stay may be granted if IPR is instituted:	7
Factor 2 – Litigation will continue after the FWD:	7
Factor 3 – The Court has little substantive investment:.....	8
Factor 4 – There is little to no overlap between the IPR and Litigation:	9
Factor 5 – Parties in Litigation and IPR:	10
Factor 6 – Other Circumstances:.....	10

Petitioner disputes the statutory authority of the Board to deny institution under *NHK/Fintiv*. Even if such authority exists, *Fintiv* is inapplicable here.

I. Fintiv’s and NHK’s Focus on the Trial Date Is Misplaced as a Basis for the Board’s Exercise of Its Discretion

The *NHK/Fintiv* factors are based on the Board’s belief that it has broad discretion under § 314(a) to deny institution. *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 15, at 11 (PTAB May 13, 2020). In *Fintiv*, the Board ruled that “considerations of efficiency and fairness ... can serve as an independent reason to apply discretion to deny institution.” *Id.* This is misplaced. An agency “literally has no power to act ... unless and until Congress confers power upon it.” *La. Pub. Serv. Comm’n v. FCC*, 476 U.S. 355, 374 (1986). “[A]n agency’s power is no greater than that delegated to it by Congress.” *Lyng v. Payne*, 476 U.S. 926, 937 (1986). The express language of 35 U.S.C. § 314(a) limits the Director’s decision on institution to whether “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged.” This is a substantive analysis on the patentability of the claims—not a subjective assessment of “fairness” as proposed by *Fintiv*. The fact that § 314(a) is phrased as a prohibition on institution “unless” the “reasonable likelihood” standard is met indicates other statutory provisions impose additional limits on institution. Section 314(a) is not an invitation to create other, non-statutory grounds for denial.

The exclusive grounds for denying institution are within the statute. Section

313 states a preliminary response to a petition “sets forth reasons why no *inter partes* review should be instituted *based upon the failure of the petition to meet any requirement of this chapter.*” 35 U.S.C. § 313 (emphasis added). If Congress had wanted the Patent Owner and the Board to rely on non-statutory reasons to deny review beyond “any requirement of this chapter,” it would have said so. There is no statutory provision that empowers discretion based on the overlap with litigation or on the basis of “efficiency and fairness.” *Fintiv*, Paper 15, at 12. The guidance set forth in *NHK/Fintiv* is beyond the scope of the Board’s statutory authority and, if not, is arbitrary and capricious. 5 U.S.C. §§ 706(2)(A) and (C).

Moreover, even if the Director had authority to adopt the *NHK/Fintiv* factors, the *Board* has no authority to do so outside of the Director doing so through notice-and-comment rulemaking. “Congress organized the PTO with certain powers delegated to the Director, and others delegated to the Board.” *Facebook, Inc. v. Windy City Innovations, LLC*, 953 F.3d 1313, 1341 (Fed. Cir. 2020) (additional views of Prost, C.J., and Plager and O’Malley, JJ.). To the Board, Congress delegated merely the power to “conduct each *inter partes* review.” 35 U.S.C. § 316(c); *see Facebook*, 953 F.3d at 1341 (Congress “delegated the power to adjudicate IPRs to the Board”). That “is not a delegation of authority to issue adjudicative decisions interpreting statutory provisions of the AIA.” *Facebook*, 953 F.3d at 1340. When it comes to the task of “setting forth the standards for the

showing of sufficient grounds to institute a review under section 314(a)” and “establishing and governing inter partes review,” Congress vested that power in the Director. And he must exercise it through notice-and-comment rulemaking: “The Director shall prescribe regulations.” 35 U.S.C. §§ 316(a)(2) & (4). Further, Congress did not authorize the Director “to engage in any rulemaking other than through the mechanism of prescribing regulations,” including “adjudication.” *Facebook*, 953 F.3d at 1340, 1342. Even if Congress had, the Director cannot use precedential opinions to establish rules for the institution of IPRs in circumvention of the requirement of notice-and-comment rulemaking by the Director. *Cf. N.L.R.B. v. Bell Aerospace Co. Div. of Textron*, 416 U.S. 267, 294 (1974) (Board could announce new rules through adjudication because it “had both adjudicative and rule-making powers”).

The *Fintiv* factors also are misplaced. **First**, Congress explicitly allows petitioners one year to file IPR petitions after service of a complaint. Congress did not choose to set the bar backwards from a scheduled trial date—a date not known for months after a suit begins, and which may vary and change.

Particularly in cases where a plaintiff asserts multiple patents (ten in this case), the certainty a 1-year window provides is essential to meet the deadline. Trial-based timing forces defendants to forego an IPR or hastily file an IPR without opportunity to develop the record. *See Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

Second, the Board’s focus on overlap with trial directly undermines the AIA’s objectives of improving patent quality. “Congress, concerned about overpatenting and its diminishment of competition, sought to weed out bad patent claims efficiently.” *Thryv, Inc. v. Click-to-Call Techs., LP*, __ U.S. __ (Apr. 20, 2020) (slip op., at 8); *see also Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 474 (Fed. Cir. 1991). Congress intended for IPRs to “serve as a less-expensive alternative to the courtroom litigation.” 157 Cong. Rec. S1352 (March 8, 2011) (Sen. Udall).

To achieve this, Congress gave litigants “access to the expertise of the Patent Office on questions of patentability” and noted IPRs should be “the preferred method of examination because a panel of experts is more likely to reach the correct decision.” *Id*; *see also* 157 Cong. Rec. S5319 (Sept. 6, 2011) (Sen. Kyle). There is no doubt Congress was aware of the overlap between litigation and IPRs. The Supreme Court also was aware of the overlap and noted it was inherent to Congress’s design. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2146 (2016) (“This possibility, however, has long been present in our patent system, which provides different tracks—one in the Patent Office and one in the courts—for the review and adjudication of patent claims. [] These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’s regulatory design.”). There simply is no basis to use overlap as a basis of denial.

Third, the *NHK/Fintiv* factors' focus on a trial date ignores that IPR proceedings not only may stop trials on invalid patents, but also may eliminate the injustice of infringement verdicts rendered on invalid patents.¹ The Federal Circuit has embraced this significant benefit. In *Fresenius v. Baxter*, it explained that a final, post-grant decision of invalidity renders a patent void *ab initio* and, unless final, overrides any corresponding district court finding. 721 F.3d 1330 (Fed. Cir. 2013).

Fourth, looking speculatively at a trial date ignores the practical realities of shifting litigation dockets. Over 40% of cases have their initial trial dates continued by more than four months, some even longer.² Post-trial motions may continue for months after the verdict. Ironically, the trial date in *NHK* was extended more than eight months. If the Board had instituted, the FWD would have issued several months before the trial. And that assumes a case normally progresses to trial. In cases where a motion to transfer venue is filed, over 51% of those requests were granted in 2019 (Ex. 1044, Transfer Statistics) and, once transferred, a new trial date is set, and the new judge will have a different view on stays pending IPRs.

Fintiv's focus on trial also allows so-minded courts to artificially influence institution. For example, J. Albright (W.D. Tex.) recently denied a motion to stay pending IPR pre-institution and *sua sponte* shortened the time to trial such that the

¹ (Ex. 1055, stay statistics, showing stays granted 74+% of the time).

² (Ex. 1043, trial date statistics).

new trial date now precedes the FWD's expected statutory deadline. The Board's guidelines should not allow manipulation. (Ex. 1049, minute entry moving trial to 5/10/21); (Ex. 1050, scheduling order showing trial previously in July 2021); *see also* IPR2020-00140 (filing date of 5/14/2020, with anticipated FWD on 5/14/2021).

Fifth, economies exist well after trial. Post-trial events may take years. Cancelling claims through IPR prevents this. In *Fresenius*, the trial concluded, an appeal was filed, and while the case was pending on remand, the Patent Office found all asserted claims invalid, thus avoiding more appeals. This highlights the error in thinking a fast-approaching trial is more “efficient” and will “save resources.”³

Sixth, considering a trial date as a threshold of institution ignores Congress's desire to obtain a district court stay based on institution. *See, e.g., IOENGINE, LLC v. PayPal Holdings, Inc.*, 2019 U.S. Dist. LEXIS 141545, at *9-10 (D. Del. Aug. 21, 2019) (J. Bryson); 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (Sen. Schumer). A perverse situation emerges where a district court sets a relatively short initial time to trial, the Board denies an IPR based on that trial date, and the district court then denies a stay. This self-fulfilling prophecy will deprive significant numbers of petitioners what is otherwise available to them by statute.

³ The judge denied multiple requests to stay the case, which became moot after the PTO canceled the claims, thus wasting significant resources. *Id.* at 1335.

Finally, by focusing on a putative trial date, the Board encourages patent owners to forum shop. If the mere possibility of a district court trial before an FWD is a *de facto* bar on institution, the PTAB’s doors will be closed to any defendant in a jurisdiction that is “fast,” and the public interest in eliminating invalid patents will be harmed. No statute supports allowing litigation venue to carry such sway.

II. The Fintiv Factors Favor Institution

Factor 1 – The Court will revisit a stay if an IPR is instituted: Apple moved to stay the underlying litigation. (Ex. 1045, District Court Docket, Dkt. 239). The Court denied but noted that a renewed motion after institution may be granted. (Ex. 1052, District Court Docket, Dkt. 298). This favors Apple because institution will increase the chance of a stay being granted. “If [the Board] were to institute trial and reach a final written decision [], we would likely simplify, if not resolve entirely, the invalidity issues the district court must address.” *Cisco Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, IPR2020-00122, Paper 14, Dissent at 5.

Factor 2 – Trial may be moved based on this Board’s decision: Trial is currently scheduled for October 26, 2020,⁴ and the FWD is expected by August 12, 2021. But “the consideration of the ‘proximity’ of the trial date cannot be as simple as comparing two dates on the calendar and determining which is first.” *Id.* at 7.

⁴ This date assumes there will be no changes due to COVID-19, which is unlikely.

“Obviously, if the litigation is stayed [upon a renewed motion] ... the trial date in [October] of this year will necessarily be pushed back, and will occur after the issuance of [the Board’s] final written decision.” *Id.* And if the IPRs are successful, there will be no need for a trial and significant resources will be saved for all parties.

Moreover, the deadlines in this case highlight the problems with focusing on trial. Maxell filed suit alleging infringement of **10 patents** on March 15, 2019. (Petition, Paper 1, at 8-10). To guarantee FWDs before the current trial date, Apple would have needed to file all 10 of its petitions in April 2019, **less than one month after it was sued**. Requiring Apple to locate art for 10 different patents and 132 possibly-asserted claims, and then prepare and file petitions in less than 30 days is completely unreasonable. *See* 157 Cong. Rec. S5429 (Sept. 8, 2011) (Sen. Kyl) (“High-technology companies ... are often sued by defendants asserting multiple patents with large numbers of vague claims [I]t is important that the section 315(b) deadline afford defendants a reasonable opportunity to identify and understand the patent claims that are relevant to the litigation.”)

Factor 3 – The Court has little substantive investment: This factor should only favor denial if the forward-looking investment from the Court outweighs the investment done in the past. *Cisco*, IPR2020-00122, Paper 14, Dissent at 8. The Board must consider “the investment that will be required of the parties and the court” as the cases moves to trial. No briefing on dispositive issues or pre-trial efforts

have begun, and the Court has not made any rulings on the merits. This outweighs the limited work the Court has done on *Markman*, which does not favor denial. The Board's own rules contemplate taking up an IPR **after** a district court has construed the claims. *Id.* at FN.3; 37 C.F.R. § 42.100(b). Nor did the litigation give Apple a tactical advantage. Maxell did not substantively respond to Apple's invalidity contentions, and Apple could not have used any substantive insight in its IPR filings.

Factor 4 – There is little to no overlap between the IPR and Litigation:

As the legislative history makes clear, Congress was not concerned with overlap. Congress expected the PTAB to provide its expertise and even provided a different standard (rather than the clear and convincing standard in district courts) to evaluate patents. Instead, Congress anticipated overlap and provided estoppel in the district court to account for any such overlap. Thus, overlap between the litigation favors institution because it will ultimately create simplification and efficiencies through the estoppel. *Id.* at 10. And, if instituted, the overlap will be resolved, or Petitioner will be constrained by estoppel. Thus, “overlapping issues are unlikely, and Congress’ goal of providing an efficient alternative venue for resolving questions of patentability is achieved.” *Cisco*, IPR2020-00122, Paper 14, Dissent, at 10.

Regardless, there are differences between the IPR and litigation. First, this IPR challenges different claims. Maxell asserts only claims 3 and 13 in the litigation. Ex. 1053, Maxell's Final Election of Asserted Claims, at 1. The Petition challenges

claims 1, 3-5, 7-11, and 13. Second, this IPR presents different grounds. Ground 1 advances *Hayashida* in view of the knowledge of a PHOSITA and Ground 3 advances *Hayashida* in view of *Abowd*. Paper 1, 5. Grounds 2 and 4 additionally rely on secondary reference, *Ikeda*. None of these grounds remains in the litigation. There, two of the four remaining obviousness grounds rely on *NavTalk* as a base reference, a product not at issue in the IPR. Ex. 1047, Apple's Final Election of Prior Art, 2. A third remaining obvious ground combines *Hayashida* with *Maruyama*, which is not in the IPR. *Id.* The final obvious ground in the litigation relies on the *CyberGuide* system modified pursuant to *Hayashida*. *Id.* This ground is materially different from Ground 3 in the IPR. The *CyberGuide* reference relied upon in the litigation is system prior art, only some details of which are described in *Abowd*. Also, Ground 3 in the IPR proposes *Hayashida* modified in view of *Abowd's* teachings. The litigation ground depends on *CyberGuide* as a base reference modified in view of *Hayashida*. Not only will the motivations to combine be different, but the proposed modified system will be significantly different.

Factor 5 – Parties in Litigation and IPR: This factor is only relevant when the district court defendant and the petitioner are unrelated. In cases such as this, the factor is neutral. *Cisco*, IPR2020-00122, Paper 14, Dissent at 11.

Factor 6 – Other Circumstances: See Section I. Additionally, this case does not involve serial or parallel petitions, which also favors institution.

III. Maxell Misinterprets Abowd's "Do Not Circulate" Stamp

To establish the public availability of *Abowd*, Petitioner submitted a declaration from librarian expert, Jacob Munford. Ex. 1009. Mr. Munford discussed Appendix AB01, which is a scanned copy of the *Abowd* reference contained within a bound collection of *Wireless Networks*. Ex. 1009, ¶¶ 6-7. AB01 and its MARC record, AB02, demonstrate that the University of Pittsburgh began cataloguing *Wireless Networks* in 1995 and sent a collection of issues (including the October 1997 issue containing *Abowd*) to a book bindery between January and March of 1998—all of which occurred more than one year prior to the priority date. *Id.*

Without support, Maxell argues that a “Do Not Circulate” stamp on AB01 “indicate[s] that it was not meant for public use.” Paper 6, 47. The specific transaction Mr. Munford conducted with AB01, however, demonstrates that Maxell’s interpretation cannot be correct. Ex. 1054, *Supp. Munford Dec.* Namely, Mr. Munford requested AB01 via the library’s public catalog. *Id.* He was permitted to directly access AB01 in a special collections room and photocopy without restriction. Consistent with common practice in library sciences to preserve archived references, the “Do Not Circulate” stamp simply means the reference cannot be removed from the premises, not that it is inaccessible to the public. *Id.*

Respectfully submitted,

ERISE IP, P.A.

BY: /s/Adam P. Seitz
Adam P. Seitz, Reg. No. 52,206
Jennifer C. Bailey Reg. No. 52,583
Robin A. Snader, Reg. No 66,085
7015 College Blvd., Suite 700
Overland Park, KS 66211
P: (913) 777-5600
F: (913) 777-5601
adam.seitz@eriseip.com
jennifer.bailey@eriseip.com

Paul R. Hart, Reg. No. 59,646
5299 DTC Blvd., Suite 1340
Greenwood Village, CO 80111
P: (913) 777-5600
F: (913) 777-5601
paul.hart@eriseip.com

ATTORNEYS FOR PETITIONER
APPLE INC.

CERTIFICATE OF SERVICE ON PATENT OWNER
UNDER 37 C.F.R. § 42.6

Pursuant to 37 C.F.R. § 42.6(e), the undersigned certifies that on June 4, 2020 the foregoing *Petitioner Apple Inc.'s Preliminary Reply* was served via electronic filing with the Board and via Electronic Mail on the following practitioners of record for Patent Owner:

Robert G. Pluta (rpluta@mayerbrown.com)
Maxell-Apple-Service@mayerbrown.com

/s/ Adam P. Seitz

Adam P. Seitz, Reg. No. 52,206

ATTORNEY FOR PETITIONER