

UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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PHILIP MORRIS PRODUCTS, S.A.,  
Petitioner,

v.

RAI STRATEGIC HOLDINGS, INC.  
Patent Owner.

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IPR2020-00921  
Patent 9,814,268 B2

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Before JO-ANNE M. KOKOSKI, ELIZABETH M. ROESEL, and  
MICHELLE N. ANKENBRAND, *Administrative Patent Judges*.

PER CURIAM

DECISION  
Denying Institution of *Inter Partes* Review  
*35 U.S.C. § 314*

## I. INTRODUCTION

### A. *Background and Summary*

Philip Morris Products, S.A. (“Petitioner”) filed a Petition (Paper 2, “Pet.”) seeking *inter partes* review of claims 16 and 17 (“the challenged claims”) of U.S. Patent No. 9,814,268 B2 (Ex. 1001, “the ’268 Patent”). RAI Strategic Holdings, Inc. (“Patent Owner”) filed a Preliminary Response. Paper 6 (“Prelim. Resp.”). With the Board’s prior authorization, the parties filed additional briefs limited to the issue of discretion to institute pursuant to *NHK*<sup>1</sup>/*Fintiv*<sup>2</sup> and 35 U.S.C. § 325(d). Paper 7 (“Pet. Reply”); Paper 8 (“PO Sur-reply”).

We have authority to determine whether to institute an *inter partes* review. 35 U.S.C. § 314 (2018); 37 C.F.R. § 42.4(a) (2020). After considering the parties’ arguments addressing § 325(d), we decline to exercise discretion to deny institution under that statute. In view of the proximity of the district court’s anticipated trial date to the projected statutory deadline for issuing a final decision and other factors, institution is denied under § 314(a) and *Fintiv*.

### B. *Real Parties in Interest*

Petitioner identifies Philip Morris Products, S.A.; Philip Morris International, Inc.; Altria Client Services LLC; and Philip Morris USA as real parties in interest. Pet. 5. Petitioner additionally states that Altria Group, Inc. is not a real party in interest but nevertheless agrees to be bound

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<sup>1</sup> *NHK Spring Co. v. Intri-Plex Technologies, Inc.*, IPR2018-00752, Paper 8 (PTAB Sept. 12, 2018) (precedential).

<sup>2</sup> *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 (PTAB Mar. 20, 2020) (precedential).

by any final written decision in this proceeding. *Id.* (citing 35 U.S.C. § 315(e)).

Patent Owner identifies RAI Strategic Holdings, Inc.; R.J. Reynolds Vapor Company; RAI Innovations Company; and R.J. Reynolds Tobacco Company as real parties in interest. Paper 5, 1 (Mandatory Notice).

*C. Related Matters*

The parties identify the following district court action in which Patent Owner is asserting the '268 Patent: *RAI Strategic Holdings, Inc. v. Altria Client Services LLC*, No. 1:20-cv-393 (E.D. Va. filed Apr. 9, 2020). Pet. 5; Paper 5, 2.

The parties also identify IPR2020-00919 involving U.S. Patent No. 9,901,123 (“the '123 Patent”), which is related to the '268 Patent.<sup>3</sup> Pet. 5–6; Paper 5, 2.

*D. The '268 Patent (Ex. 1001)*

The '268 Patent describes and claims a tobacco-containing, electrically-powered smoking article. Ex. 1001, codes (54), (57), 1:19–20, 32:41–42, 34:13–14 (preamble of independent claims 1 and 16). One objective is “to provide a smoking article that provides a smoker with an ability to enjoy using tobacco without the necessity of burning any significant amount of tobacco.” *Id.* at 4:27–29.

A first embodiment is depicted in Figure 1, reproduced below:

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<sup>3</sup> The '268 Patent and the '123 Patent both claim the benefit of Application No. 11/550,634, filed October 18, 2006, through a series of continuation and/or division applications.

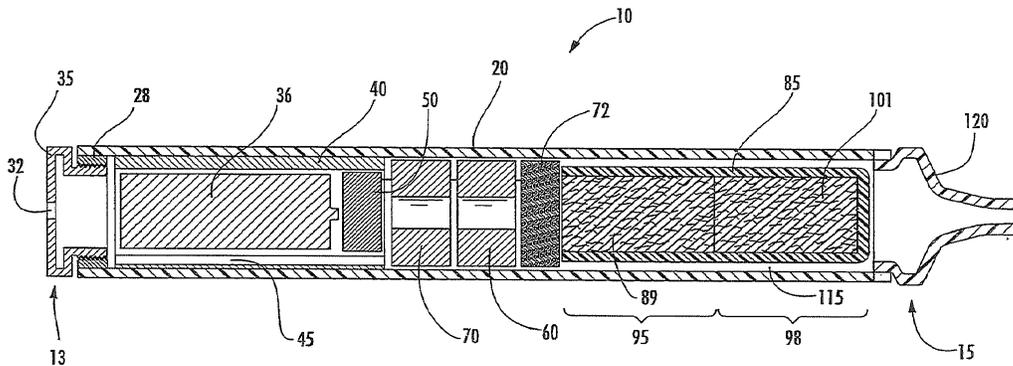


FIG. 1

Figure 1 of the '268 Patent is a longitudinal cross-sectional view of an electrically powered, tobacco-containing smoking article. Ex. 1001, 8:28–30, 19:31–35.

As shown in Figure 1, smoking article 10 includes outer container or housing 20 that is generally tubular in shape and has distal end 13 and mouth-end 15. Ex. 1001, 19:40–44, 19:53–55. “[T]he mouth-end comprises an opening adapted for egress of an aerosol generated within the smoking article and the distal end comprises an opening adapted for intake of air into the smoking article 10.” *Id.* at 19:55–58. Within outer container 20 is electric power source 36, such as a battery. *Id.* at 20:6–7.

As shown in Figure 1, smoking article 10 includes controller 50 having microchips that provide control of time of operation, current, and electrical resistance heat generation. Ex. 1001, 20:27–28, 20:31–36, Figs. 4, 5. Smoking article 10 also includes sensor 60 for sensing draw, i.e., intake of air by the user of the smoking article. *Id.* at 20:43–46, 20:61–63. Controller 50 and sensor 60 are powered by battery 36 and function in concert as a puff-actuated controller for regulating the flow of current through the resistance heating elements. *Id.* at 20:36–37, 20:53–54, 20:57–61.

Smoking article 10 of Figure 1 includes electrical resistance heating elements 70, 72, which are configured to allow airflow through the heating elements. Ex. 1001, 21:10–11, 21:21–22. First electrical resistance heating element 70 heats drawn air passing through the smoking article from distal end 13 of outer housing 20. *Id.* at 21:11–15. Second electrical resistance heating element 72 heats an aerosol-forming material supported by or in close proximity to the heating element. *Id.* at 21:26–40. Aerosol-forming material can be transferred to the heating element by the wicking action of a high surface area absorbent material that either forms the heating element or is in close proximity to the heating element. *Id.*

Smoking article 10 of Figure 1 includes cartridge 85, which has upstream segment 95 composed of tobacco filler or processed tobacco filler material 89 incorporating aerosol-forming material and downstream segment 98 composed of substrate 101 carrying flavors and/or aerosol-forming material. Ex. 1001, 21:58–59, 21:63–21:1, 22:8–14. The '268 Patent discloses that “smoking article 10 is assembled such that a certain amount of aerosol-forming material and tobacco components can be wicked or otherwise transferred to heating element 72 or the region in close proximity to the heating element.” *Id.* at 22:14–18. As shown in Figure 1, “extreme mouth end region of cartridge 85 is sealed, and as such, tobacco components and aerosol-forming material have a tendency to travel upstream towards the resistance heater 72.” *Id.* at 22:19–22.

Smoking article 10 of Figure 1 has mouth-end piece 120, which is “typically removable” and can be maintained in place by friction fit or complementary threaded screw mechanisms on the mouth-end piece and outer housing. Ex. 1001, 23:63–24:1.

Another embodiment is depicted in Figure 2, reproduced below:

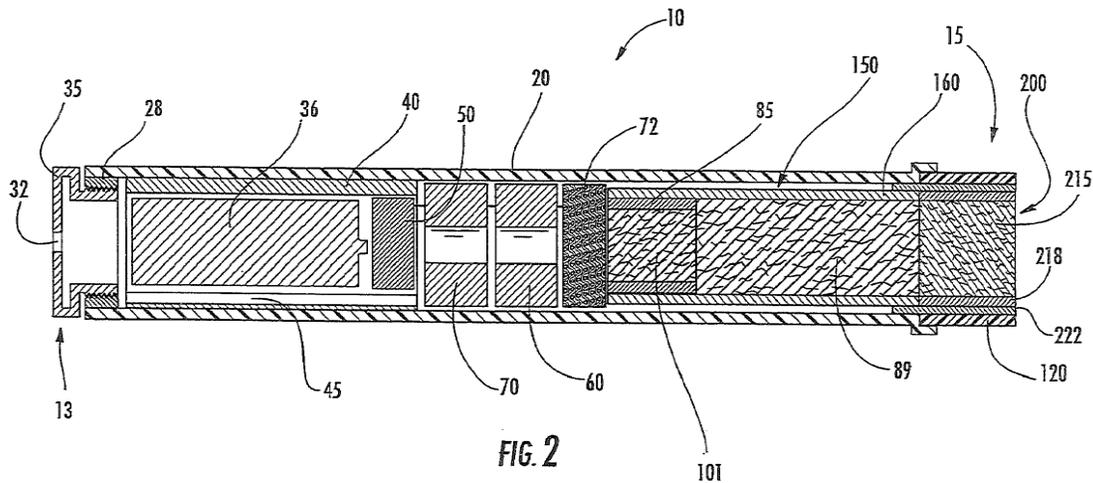


Figure 2 of the '268 Patent is a longitudinal cross-sectional view of an electrically powered, tobacco-containing smoking article. Ex. 1001, 8:28–30, 24:42–43. According to the '268 Patent, the smoking article of Figure 2 has “certain components comparable to” the Figure 1 embodiment; “[h]owever, the smoking article is adapted to incorporate a cigarette 150.” *Id.* at 24:45–49.

The '268 Patent discloses that cigarette 150 has a charge or roll of tobacco 89 wrapped in wrapping material 160 so as to form a generally cylindrical cigarette rod or tobacco rod. Ex. 1001, 24:50–53, 25:1–3. According to the '268 Patent, “wrapping material 160 is formed into a generally tubular shape, and the tobacco is positioned within the hollow region within that tube,” and “wrapping material 160 is formed such that each end of the tobacco rod is open to expose the tobacco contained therein, and to allow the passage of drawn air therethrough.” *Id.* at 25:3–9.

As shown in Figure 2, cigarette 150 has a type of cartridge 85 at its distal end within the wrapping material 160 and in fluid communication with the tobacco rod. Ex. 1001, 25:21–24. Cartridge 85 contains aerosol-

generating material composition 101 and has a tubular shape with open ends such that air can flow through the cartridge. *Id.* at 25:24–25, 25:31–32. The '268 Patent describes an alternative embodiment in which cartridge 85 is not incorporated within cigarette 150 and the region of cigarette 150 that is wrapped in paper wrapper 160 is composed entirely of tobacco material and aerosol-forming materials, which are not necessarily arranged in a segmented fashion. *Id.* at 26:43–52.

As shown in Figure 2, cigarette 150 has filter element 200 composed of filter material 215 wrapped in circumscribing plug wrap 218 and attached to the tobacco rod using tipping material 222 that circumscribes the length of the filter element 200 and an adjacent region of the tobacco rod at its downstream end. Ex. 1001, 26:53–61. The '268 Patent discloses that tubular mouth-end piece 120 can act as a support for filter element 200 of cigarette 150, and can be removably attached to outer housing 20. *Id.* at 26:62–27:7.

Another embodiment is depicted in Figure 3, reproduced below:

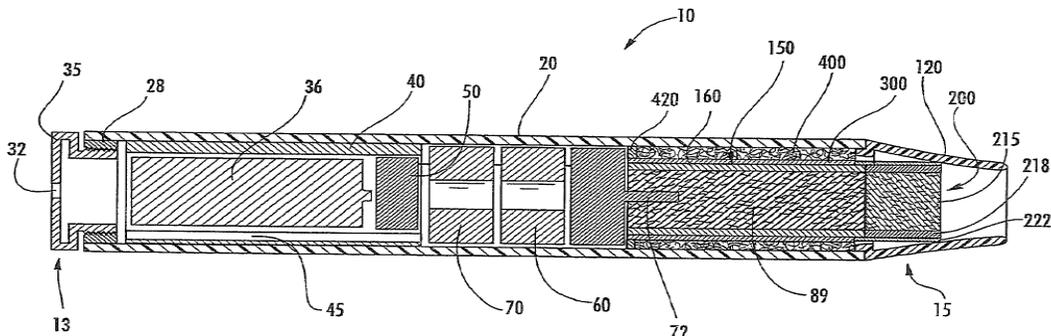


FIG. 3

Figure 3 of the '268 Patent is a longitudinal cross-sectional view of an electrically powered, tobacco-containing smoking article. Ex. 1001, 8:28–30, 27:28–29. According to the '268 Patent, the smoking article of

Figure 3 has “certain components comparable to” the Figure 1 embodiment and is “adapted to incorporate a type of cigarette 150.” *Id.* at 27:30–35.

In the Figure 3 embodiment, smoking article 10 has tube-shaped third resistance heating element 300 that fits snugly around a portion of tobacco rod 89 and provides heat to at least a portion of tobacco 89 of cigarette 150. Ex. 1001, 27:49–51, 27:63–28:2. First, second, and third resistance heating elements 70, 72, 300 can each be separately controlled in response to timing mechanisms, switching mechanisms, and/or sensing mechanism 60 so that each resistance heating element can provide differing amounts of heat and during differing periods. *Id.* at 28:6–26. As shown in Figure 3, second resistance heating element 72 can have an elongated portion that extends into tobacco segment 89 and is “in close contact with a significant amount of substrate and aerosol-forming material within the tobacco.” *Id.* at 28:28–35. As shown in Figure 3, thermally insulated region 400 circumscribes resistance heating element 300 of smoking article 10. *Id.* at 28:36–40.

*E. Illustrative Claim*

The '268 Patent includes 17 claims. Claims 16 and 17 are challenged in the Petition. Claim 16 is representative of the challenged subject matter and is reproduced below:

16. A tobacco-containing, electrically-powered smoking article comprising:

(a) a tubular outer housing having a mouth-end and an end distal to the mouth-end, the housing comprising an opening adapted for intake of air into the smoking article;

(b) an electrical power source within the outer housing;

(c) a controller adapted for regulating current flow through the heater;

(d) a rod-shaped carrier device removably engaged with the mouth-end of the outer housing and comprising a tubular mouth-end piece and a tubular cartridge with two open ends allowing air to flow therethrough, wherein the cartridge includes a tobacco material and an aerosol-generating material; and

(e) an electrical resistance heater in contact with the tobacco material and the aerosol-generating material and adapted for heating at least a portion of the tobacco material and the aerosol-generating material.

Ex. 1001, 34:13–31.

*F. Asserted Grounds and Evidence*

Petitioner asserts the following grounds of unpatentability:

<b>Claim(s) Challenged</b>	<b>35 U.S.C.</b>	<b>Reference(s)</b>
16	§ 103(a) <sup>4</sup>	Morgan, <sup>5</sup> Collins, <sup>6</sup> Adams, <sup>7</sup> Brooks <sup>8</sup>
17	§ 103(a)	Morgan, Collins, Adams, Brooks, Counts-962 <sup>9</sup>
16 and 17	§ 103(a)	Counts-962, Brooks

Petitioner relies on a Declaration of Seetharama C. Deevi, Ph.D. Ex. 1003.

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<sup>4</sup> The Leahy-Smith America Invents Act (“AIA”), Pub. L. No. 112-29, 125 Stat. 284, 287–88 (2011), amended 35 U.S.C. § 103, effective March 16, 2013. Because the ’268 Patent issued on an application that is a division of an application filed before this date, the pre-AIA version of § 103 applies. Ex. 1001, code (60).

<sup>5</sup> Ex. 1005, US 5,249,586, issued Oct. 5, 1993.

<sup>6</sup> Ex. 1006, US 5,865,185, issued Feb. 2, 1999.

<sup>7</sup> Ex. 1007, US 2007/0102013 A1, published May 10, 1997.

<sup>8</sup> Ex. 1009, US 4,947,874, issued Aug. 14, 1990.

<sup>9</sup> Ex. 1008, US 5,144,962, issued Sept. 8, 1992.

## II. ANALYSIS

### A. Patent Owner's Argument for Discretionary Denial under § 325(d)

Patent Owner argues that the Board should deny institution under 35 U.S.C. § 325(d). Prelim. Resp. 35–58. Patent Owner argues that all of Petitioner's references were presented to the Examiner during prosecution and identifies various ways the asserted references or equivalent teachings would have been brought to the Examiner's attention, including listing the references on an Information Disclosure Statement ("IDS"). *Id.* at 37–47. Patent Owner argues that the Examiner already considered Petitioner's arguments regarding the "electrical resistance heater" element and Petitioner's arguments based on Adams. *Id.* at 47–53. According to Patent Owner, the Petition does not even attempt to demonstrate that the Office materially erred in issuing the claims. *Id.* at 53–58.

The statute provides that, in determining whether to institute an *inter partes* review, "the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office." 35 U.S.C. § 325(d).

The Board's most recent precedential decision addressing § 325(d) provides the following two-part framework:

- (1) whether the same or substantially the same art previously was presented to the Office or whether the same or substantially the same arguments previously were presented to the Office; and
- (2) if either condition of first part of the framework is satisfied, whether the petitioner has demonstrated that the Office erred in a manner material to the patentability of challenged claims.

*Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH*, IPR2019-01469, Paper 6 at 8 (PTAB Feb. 13, 2020) (precedential).

*Advanced Bionics* explains that the *Becton, Dickinson* factors<sup>10</sup> provide “useful insight” into how to apply the statutory framework and address “challenging factual questions, such as when a ground of unpatentability presents ‘substantially the same prior art or arguments’ previously presented to the Office.” *Id.* at 9.

Applying the *Advanced Bionics* two-part framework to Patent Owner’s arguments, we determine that the art presented in the Petition is the same as the art previously presented to the Office during examination because all of Petitioner’s references were cited in an IDS and are listed as cited art on the front face of the ’268 Patent. Ex. 1001, code (56); Ex. 1002, 100–03, 107, 401–404, 408.

Under the second part of the *Advanced Bionics* framework, we find that Petitioner has demonstrated that the Office erred in a manner material to the patentability of challenged claims.

Other than initials on a lengthy IDS, nothing in the record indicates that the Examiner substantively considered Morgan, Adams, Brooks, or Counts-962. In that regard, Petitioner shows that the asserted references

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<sup>10</sup> *Becton, Dickinson* identifies the following non-exclusive factors: (a) the similarities and material differences between the asserted art and the prior art involved during examination; (b) the cumulative nature of the asserted art and the prior art evaluated during examination; (c) the extent to which the asserted art was evaluated during examination, including whether the prior art was the basis for rejection; (d) the extent of the overlap between the arguments made during examination and the manner in which petitioner relies on the prior art; (e) whether petitioner has pointed out sufficiently how the examiner erred in its evaluation of the asserted prior art; and (f) the extent to which additional evidence and facts presented in the petition warrant reconsideration of the prior art or arguments. *Becton, Dickinson and Co. v. B. Braun Melsungen AG*, IPR2017-01586, Paper 8 at 17–18 (PTAB Dec. 15, 2017) (precedential as to § III.C.5, first paragraph).

were among “an extremely large number of references” listed on an IDS and that applicant did not respond to the Examiner’s request that applicant point out “any particular reference or portion of a reference in the list which the examiner should take [*sic*] pay particular attention to.” Ex. 1002, 99–111, 389; Pet. 13; Pet. Reply 1. Petitioner shows that the Examiner rejected the pending claims over Counts-525<sup>11</sup> and that applicants overcame the rejection after amending the claims and arguing that Counts-525 did not disclose two features—a “tubular outer housing” and a heater “in contact with” the tobacco and aerosol-forming materials. Ex. 1002, 390, 392–93, 427, 431–432, 452; Pet. 13–14; Pet. Reply 2. Petitioner shows that Petitioner’s asserted primary references (Morgan and Counts-962) teach the two features applicant argued were absent from the Counts-525. Pet. 31, 53–55, 62–63, 68–69; *see also* Pet. 60 (arguing that “Counts-962 discloses the two features the applicants argued were absent from Counts-525—a battery **within** a tubular outer housing and a heater **in contact with** the medium it heats”); Pet. Reply 1–2 (identifying teachings of Morgan and Counts-962 that the Examiner overlooked).

Patent Owner contends that the relevant teachings of Morgan and Counts-962 would have been brought to the Examiner’s attention by virtue of Counts-525’s incorporation by reference of Counts-962 and Counts-525’s incorporation by reference of Fleischhauer’s<sup>12</sup> heating elements that Patent Owner contends are equivalent to Morgan’s heating elements. Prelim. Resp. 41–47; PO Sur-reply 3. Although Patent Owner argues that the Examiner “would have naturally turned to” the portions of Counts-525 that

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<sup>11</sup> Ex. 1010, US 5,692,525, issued Dec. 2, 1997.

<sup>12</sup> Ex. 2002, US 5,591,268, issued Jan. 7, 1997.

incorporate by reference Counts-962 and Fleishhauer (Prelim. Resp. 43, 47), the Examiner requested that *applicant* point out the relevant teachings of the references listed on the IDS. Ex. 1002, 389 (“If the applicant and/or applicant’s representative are aware of any particular reference or portion of a reference in the list which the examiner should take pay particular attention to it is requested that it be specifically pointed out in response to this Office action.”).

Patent Owner argues that applicant’s amendment and argument during prosecution would have brought Counts-962 and Fleischhauer to the Examiner’s attention. Prelim. Resp. 42, 46. If that is true, then applicant’s amendment and argument during prosecution also would have brought Counts-962 and Fleischhauer to *the attention of the author* of the amendment and argument. If applicant was aware of the relevant teachings of Counts-962 and Morgan (or Fleischhauer) during prosecution, then they should have pointed those out in response to the Examiner’s request. Ex. 1002, 389. If applicant was not aware of the relevant teachings of Counts-962 and Morgan (or Fleischhauer) during prosecution (*see* PO Reply 2), then Patent Owner cannot now impute such awareness to the Examiner in support of its § 325(d) argument.

Patent Owner argues that the Examiner already considered Petitioner’s arguments, presenting essentially the same arguments as it relies upon to counter Petitioner’s showing on the merits. *Compare* Prelim. Resp. 49–52 & n.9 (distinguishing claimed heater elements from Morgan and Counts-962), *with id.* at 64–66 (same). We are not persuaded by Patent Owner’s arguments for the reasons discussed in Section II.B.6 below.

Accordingly, Petitioner has shown that the Office erred by allowing the claims over Morgan and Counts-962.<sup>13</sup> For these reasons, we decline to exercise our discretion to deny institution under § 325(d).

*B. Patent Owner's Argument for Discretionary Denial in view of the Parallel District Court Case*

Patent Owner argues that the Petition should be denied because trial in the related district court case “will . . . occur some *eight to nine months before* a Final Written Decision would be due in this proceeding.” Prelim. Resp. 58–59 (citing *Fintiv*, Paper 11; *NHK*, Paper 8). According to Patent Owner, “[e]ach of the six *Fintiv* factors favors denial of institution in light of the co-pending district court case.” *Id.* at 60–62.

Petitioner argues that “[a] ‘holistic’ evaluation [of the *Fintiv* factors] reveals that institution furthers the Board’s considerations of ‘efficiency, fairness, and the merits.’” Pet. Reply 3 (citing *Fintiv*, Paper 11 at 6).

The Board’s precedential *Fintiv* order identifies the following factors that should be considered and balanced when the patent owner raises an argument for discretionary denial under *NHK* due to an earlier trial date:

1. whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted;
2. proximity of the court’s trial date to the Board’s projected statutory deadline for a final written decision;
3. investment in the parallel proceeding by the court and the parties;
4. overlap between issues raised in the petition and in the parallel proceeding;

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<sup>13</sup> As discussed above, the Office error may be attributed, at least in part, to applicant’s failure to respond to the Examiner’s request to identify the relevant references and portions of the references.

5. whether the petitioner and the defendant in the parallel proceeding are the same party; and
6. other circumstances that impact the Board's exercise of discretion, including the merits.

*Fintiv*, Paper 11 at 5–6. According to *Fintiv*, these factors relate to “efficiency, fairness, and the merits” and require the Board to take “a holistic view of whether efficiency and integrity of the system are best served by denying or instituting review.” *Id.* at 6. Our analysis of the *Fintiv* factors is set forth below.

1. *Factor 1—Likelihood of a Stay*

Neither party presents persuasive evidence that a stay of the district court action is either likely or unlikely. *See* Prelim. Resp. 60; Pet. Reply 7. Therefore *Fintiv* factor 1 is neutral. *See Sand Revolution II, LLC, v. Continental Intermodal Group – Trucking LLC*, IPR2019-01393, Paper 24 at 7 (PTAB June 16, 2020) (informative) (where no stay was requested or ordered in the related district court litigation, *Fintiv* factor 1 does not weigh in favor of either exercising or not exercising discretion to deny institution); *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 15 at 12 (PTAB May 13, 2020) (informative; hereinafter “*Fintiv DDI*”) (same).

2. *Factor 2—Trial Date Versus FWD Due Date*

No day certain for a trial has been set yet in the related district court action. The court's August 10, 2020, scheduling order provides that a final pretrial conference will be held January 15, 2021, and that “trial . . . will be set for a day certain, within 4–8 weeks of the final pretrial conference.” Ex. 2009. The parties agree that the anticipated trial date is eight to nine months before the projected statutory deadline for a final decision in this proceeding. Prelim. Resp. 60; Pet. Reply 7.

Patent Owner argues that *Fintiv* factor 2 favors denial. Prelim. Resp. 60. Petitioner argues that *Fintiv* factor 2 should be evaluated on a “sliding scale” that takes into account the Petition’s filing date relative to the one-year statutory deadline for filing an IPR. Pet. Reply 7 (citing *Apple Inc. v. Seven Networks*, IPR2020-00506, Paper 11 at 9 & n.6 (PTAB Sept. 1, 2020) (discussing sliding scale and finding that *Fintiv* factor 2 weighs moderately in favor of Patent Owner in view of uncertainty as whether trial will begin on scheduled date); *Apple Inc. v. Maxell, Ltd.*, IPR2020-00204, Paper 11 at 18–19 (June 19, 2020) (instituting *inter partes* review despite trial date nine months before final decision deadline)). Petitioner argues that it was “exceptionally diligent,” filing its Petition less than one month after Patent Owner filed its complaint in the district court, “when eleven of its allotted twelve months still remained.” *Id.* at 3, 7.

This factor looks at the *proximity* of the district court’s trial date to the expected statutory deadline for the Board’s final decision. *Fintiv*, Paper 11 at 9. This proximity inquiry is a proxy for the likelihood that the trial court will reach a decision on validity issues before the Board reaches a final written decision. Here, even though no day certain has been set for trial, the parties agree that the anticipated trial date is eight to nine months before the projected statutory deadline for a final decision. In this situation, the efficiency and system integrity concerns that underlie the *Fintiv* analysis are relatively strong. Thus, we find that *Fintiv* factor 2 weighs in favor of denial of institution.

### 3. *Factor 3—Investment in Proceedings*

Patent Owner recognizes that the district court action is “at an early stage” but argues that the Eastern District of Virginia (“EDVA”) is “fast-

paced,” “[d]iscovery has already opened,” and “before the Board would have issued its decision on whether to institute here by November 2020, the district court action will have undertaken significant work.” Prelim.

Resp. 61.

Addressing *Fintiv* factor 3, Petitioner argues that its “exceptional diligence also ensures there will be the minimum possible investment in the EDVA case” at the time of institution. Pet. Reply 5.

Petitioner informs us that the district court recently adopted Petitioner’s proposed discovery schedule. Pet. Reply 5 (citing Ex. 1035, 25–26 (parties’ proposed discovery schedules); Ex. 1036 (district court’s Sept. 8, 2020 order adopting defendant’s proposed timetable for discovery)).

Pursuant to that schedule, a claim construction hearing was set for November 10–13, 2020; the close of fact discovery was set for November 13, 2020; opening expert reports were due November 20, 2020; responsive expert reports were due December 18, 2020; and the close of expert discovery was set for January 8, 2021. Ex. 1035, 26. Our review of the district court’s docket reveals a subsequent clarification and some changes to that schedule.<sup>14</sup> The parties also inform us they have not yet exchanged invalidity contentions in the district court action. Prelim. Resp. 62; Pet. Reply 4.

The statutory deadline for issuing this decision is November 17, 2020.

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<sup>14</sup> A claim construction hearing is currently set for November 18, 2020. Both fact and expert discovery are set to close on January 8, 2021. Opening expert reports are due November 27, 2020, and responsive expert reports are due December 28, 2020. *See* Ex. 3001 (EDVA docket entry 308, Brief in support of Plaintiffs’ Motion to Modify Scheduling Order). Patent Owner (plaintiff in the district court) seeks to postpone the expert report deadlines until after the Court’s claim construction order. *Id.*

The Board's precedential *Fintiv* order provides the following guidance:

[I]f, at the time of the institution decision, the district court has issued substantive orders related to the patent at issue in the petition, this fact favors denial. Likewise, district court claim construction orders may indicate that the court and parties have invested sufficient time in the parallel proceeding to favor denial. If, at the time of the institution decision, the district court has not issued orders related to the patent at issue in the petition, this fact weighs against exercising discretion to deny institution under *NHK*.

*Fintiv*, Paper 11 at 9–10. The *Fintiv* order explains that “[t]his investment factor is related to the trial date factor, in that more work completed by the parties and the court in the parallel proceeding tends to support the arguments that the parallel proceeding is more advanced, a stay may be less likely, and instituting would lead to duplicative costs.” *Id.* at 10.

In this case, there is no evidence that the district court has issued any substantive order related to the '268 Patent. The parties have completed some work, e.g., claim construction briefing, but much remains to be completed in advance of trial.

We also find that Petitioner's diligence in filing the Petition less than one month after Patent Owner filed its complaint in the related district court action weighs against exercising discretion to deny institution. *Fintiv*, Paper 11 at 11 (“If the evidence shows that the petitioner filed the petition expeditiously, such as promptly after becoming aware of the claims being asserted, this fact has weighed against exercising the authority to deny institution under *NHK*.”).

Accordingly, *Fintiv* factor 3 weighs against exercising discretion to deny institution. *Fintiv*, Paper 11 at 10.

4. *Factor 4—Overlap of Issues*

Patent Owner argues that this factor favors denial of institution, noting that it “has asserted at least claim 16 of the ’268 patent in the district court action[, and] that is the only independent claim at issue here.” Prelim. Resp. 62. Petitioner argues that *Fintiv* factor 4 weighs strongly in favor of institution because “Petitioner stipulates that it will not pursue any IPR grounds in the EDVA case if the Board institutes.” Pet. Reply 4 (citing Ex. 1037). Patent Owner responds that “Petitioner’s narrowly crafted stipulation would still allow it to pursue substantially overlapping arguments in the district court, using *identical* prior art references, if those references are combined in different ways.” PO Sur-reply 6–7.

*Fintiv* factor 4 evaluates “concerns of inefficiency and the possibility of conflicting decisions” when substantially identical prior art is submitted in both the district court and the *inter partes* review proceedings. *Fintiv*, Paper 11 at 12.

Because Petitioner has not yet disclosed its invalidity contentions in the district court action (*see* Prelim. Resp. 62; Pet. Reply 4), it is impossible to determine the extent of any overlap. *Cf. Fintiv DDI*, Paper 15 at 15 (“[B]ecause the identical claims are challenged based on the same prior art in both the Petition and in the District Court, this factor weighs in favor of discretionary denial . . .”). We agree with Patent Owner’s characterization of Petitioner’s stipulation as “narrowly crafted.” PO Sur-reply 7; Ex. 1037. Nevertheless, the stipulation will lessen to some degree the concerns about duplicative efforts and the possibility of conflicting decisions. *See Fintiv*, Paper 11 at 12.

Accordingly, *Fintiv* factor 4 weighs marginally against exercising discretion to deny institution. *See Sand Revolution*, Paper 24 at 11 & 12 n.5 (similar finding in view of petitioner’s narrow stipulation).

5. *Factor 5—Identity of Parties*

The parties agree that the district court action involves the same parties as this proceeding. Pet. Reply 7; Prelim. Resp. 62 (Patent Owner asserts only that “Petitioner is a named defendant in the district court action.”).

“If a petitioner is unrelated to a defendant in an earlier court proceeding, the Board has weighed this fact *against exercising discretion* to deny institution under *NHK*.” *Fintiv*, Paper 11 at 13–14 (emphasis added).

The Board’s informative decision in *Sand Revolution* observes:

Although it is far from an unusual circumstance that a petitioner in *inter partes* review and a defendant in a parallel district court proceeding are the same, or where a district court is scheduled to go to trial before the Board’s final decision would be due in a related *inter partes* review, this factor weighs in favor of discretionary denial.

*Sand Revolution*, Paper 24 at 12–13; *see also Fintiv DDI*, Paper 15 at 15 (“Because the petitioner and the defendant in the parallel proceeding are the same party, this factor weighs in favor of discretionary denial.”).

Accordingly, *Fintiv* factor 5 weighs in favor of discretionary denial.

6. *Factor 6—Other Circumstances, Including the Merits*

Patent Owner argues that “the Petition presents several procedural deficiencies that threaten the efficiency and integrity of the patent system, if review were instituted” and “the lack of merit as to each ground for at least one reason . . . warrant[s] denial of institution.” Prelim. Resp. 62–63 (referring back to its arguments regarding lack of particularity, § 325(d), and

the merits). Petitioner argues that “[t]he Petition’s strong merits . . . favor institution.” Pet. Reply 6.

*Fintiv* factor 6 represents a catch-all for any other relevant circumstances, including the merits of the patentability dispute. Whether to exercise discretion to deny institution under § 314(a) involves “a balanced assessment of all relevant circumstances in the case, including the merits.” Consolidated Trial Practice Guide November 2019<sup>15</sup> at 58. “For example, if the merits of a ground raised in the petition seem particularly strong on the preliminary record, this fact has favored institution.” *Fintiv*, Paper 11 at 14–15. “By contrast, if the merits of the grounds raised in the petition are a closer call, then that fact has favored denying institution when other factors favoring denial are present.” *Id.* at 15.

a) *Merits: Petitioner’s First Ground*

Petitioner challenges claim 16 based on Morgan, Collins, Adams, and Brooks. Pet. 7, 23–56. Petitioner contends that Morgan discloses “an electrical resistance heater in contact with the tobacco material and the aerosol-generating material,” as recited in claim element 16(e). Ex. 1001, 34:28–29; Pet. 52–55 (citing Ex. 1005, 2:26–32, 3:66–68, 4:3–5, 4:9–15, 4:18–39, 5:35–46, 7:38–43 (claim 1), 9:1–11 (claims 25–27)). Petitioner directs us, in particular, to Morgan’s Figures 7 and 8, which “illustrate sharp heating elements 71 that ‘pierce and extend into disposable portion 21 to provide [a] desired **intimate thermal contact**’ with tobacco and aerosol-generating material.” Pet. 54 (quoting Ex. 1005, 6:46–52 and reproducing Morgan Figures 7, 8).

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<sup>15</sup> Available at <https://www.uspto.gov/TrialPracticeGuideConsolidated>.

In our view, Petitioner makes a strong showing that Morgan discloses “an electrical resistance heater in contact with the tobacco material and the aerosol-generating material,” as recited in claim element 16(e). Pet. 52–55. Petitioner’s contention is supported by Morgan’s Figures 7 and 8, which depict sharp-tipped heating elements 71 that “pierce and extend into disposable portion 21 to provide the desired intimate thermal contact.” Ex. 1005, 6:50–52.

Patent Owner argues that, in “Morgan’s Figure 2, heating elements 23 are separated from flavor segment 27 by paper” and, therefore, do not meet the “in contact with” limitation of claim element 16(e). Prelim. Resp. 64. The Petition, however, relies on Morgan Figures 7 and 8, not Figure 2, to show the “in contact with” feature of claim 16. Pet. 54.

Patent Owner argues that “the embodiment of Figure 2 already includes heating elements, and Petitioner fails to show why the POSA would have been motivated to modify the embodiment of Figure 2 to include the heating elements of the different Figures 7 and 8 embodiment.” Prelim. Resp. 65. In our view, however, Petitioner has met its burden by directing us to Morgan’s Figures 7 and 8, which show an “alternative heater embodiment,” i.e., one that can be used instead of Morgan’s heating elements 23 in Figure 2. Ex. 1005, 2:62–68, 3:28–37, 6:46–52.

Patent Owner additionally argues that “Collins[] disparages the teachings of Morgan and states that heaters should *not* be placed in contact with tobacco—as they are in Morgan’s Figures 7 and 8—because this arrangement can result in contaminants building up on the heaters.” Prelim. Resp. 15, 66. Collins teaches that “[a] disadvantage of reusable heating elements is that residual aerosol can settle and condense on the heating elements . . . resulting in the generation of undesirable aerosol components if

the residual aerosol is reheated after new disposable tobacco flavor medium is inserted into the article.” Ex. 1006, 2:7–13; *see also id.* at 4:52–56 (discussing importance of minimizing condensation of aerosol on the heating elements). In the portions Patent Owner cites, Collins teaches a carrier that separates the heating elements from the tobacco flavor material. *Id.* at 5:11–15, 8:23–26, 8:31–34; *see* Prelim. Resp. 15, 66. Patent Owner does not direct us to any disparagement, and on this record, there is no evidence that Collins’ discussion of a “disadvantage of reusable heating elements” (Ex. 1006, 2:7–13) would have been understood by a POSA as disparagement of Morgan’s Figure 7 and 8 embodiment in which the heating elements pierce and extend into the tobacco material.

*b) Merits: Petitioner’s Second Ground*

Petitioner challenges claim 17 based on Morgan, Collins, Adams, Brooks, and Counts-962. Pet. 7, 23–56. Claim 17 depends from claim 16 and recites: “wherein the electrical resistance heater is positioned between the electrical power source and the cartridge.” Ex. 1001, 34:32–34.

Applying a claim construction based on Patent Owner’s district court infringement position, Petitioner contends that Morgan’s “Figure 7 and 8 heaters are ‘between’ Morgan’s power source and the cartridge into which they have been inserted” and include “heater portions that are not inserted into portion 21, i.e., the spacers 80.” Pet. 58. Alternatively, Petitioner contends that “POSA often placed heaters completely between electrical power sources and flavor cartridges, for example, to preheat the air before it enters the tobacco,” citing Counts-962 Figure 3 as an example of such a configuration. Pet. 59.

Addressing claim 17, Patent Owner argues that “the Petition fails to provide any explanation as to why the POSA would allegedly have been motivated to combine Counts-962 with any, much less all, of the other references.” Prelim. Resp. 34 (citing Pet. 59). We disagree. Although the Petition does not use any form of the word “motivate,” the Petition does provide a rationale for the combination of Morgan and Counts-962, namely that “POAs often placed heaters completely between electrical power sources and flavor cartridges, for example, to preheat the air before it enters the tobacco.” Pet. 59.

*c) Merits: Petitioner’s Third Ground*

Petitioner challenges claims 16 and 17 based on Counts-962 and Brooks. Pet. 7, 60–70. Petitioner contends that Counts-962 discloses “an electrical resistance heater in contact with the tobacco material and the aerosol-generating material,” as recited in claim element 16(e). Ex. 1001, 34:28–29; Pet. 68–69 (citing Ex. 1008, 1:21–25, 3:53–55, 4:1–2, 4:6–12, 4:17–19, 5:41–59, 10:40–42, 10:53–55, Figs. 1, 3). For example, Petitioner directs us to the disclosure in Counts-962 that “[f]lavor-generating medium 12 typically is **placed around** heating element 14” (Ex. 1008, 3:53–55) and that “heating element 14 [is] in contact with flavor-generating medium 12” (*id.* at 4:17–19). Pet. 68.

In our view, Petitioner makes a strong showing that Counts-962 discloses “an electrical resistance heater in contact with the tobacco material and the aerosol-generating material,” as recited in claim element 16(e). Pet. 68–69. Petitioner’s contention is supported by Counts-962 Figure 3 and the description of that figure as showing “a first heating element 14 in contact with flavor-generating medium 12.” Ex. 1008, 6:50–52.

Patent Owner argues that, in “Counts-962, heater element 14 . . . is separated from flavor-generating medium 12 . . . by an insulating tube or protective sheath” and, therefore, does not meet the “in contact with” limitation of claim element 16(e). Prelim. Resp. 66 (citing Ex. 1008, 4:5–14). Patent Owner relies on the following passage in Counts-962:

Heating element 14 may be formed using a variety of materials. *In a preferred embodiment*, heating element 14 is a resistive wire coil (such as tungsten, tantalum, or an alloy of nickel, chromium, and iron (such as that sold by Driver-Harris Company, Harison, N.J., under the trademark NICHROME<sup>®</sup>) disposed within an *insulating tube* which typically may be paper, foil, carbon, plastic, or glass. Alternatively, the heater may be formed with graphite or ceramics, and can be formed with a *protective sheath* of these materials.

Ex. 1008, 4:5–14 (emphasis added). We begin by observing that Counts-962’s description of an insulating tube or protective sheath pertains to a preferred embodiment. *Id.* Counts-962 discloses that “[h]eating element 14 may be formed using a variety of materials” (*id.* at 4:5–6), which broadly encompasses embodiments that do not include an insulating tube or a protective sheath.

Moreover, the above-quoted passage from Counts-962 is reasonably interpreted as teaching that heating element 14 may include an electrically insulating tube or protective sheath *as part of the heating element*, not as a separate element that separates and thermally insulates heating element 14 from flavor-generating medium 12. Our interpretation is consistent with Counts-962’s teachings that “[t]he heating element is designed to heat flavor-generating medium 12 directly” and “heating element 14 [is] in contact with flavor-generating medium 12.” *Id.* at 4:15–19. Our interpretation is further supported by Counts-962 claim 24, which discloses

“a first heating element in thermal contact with said flavor-generating medium for heating said flavor-generating medium.” *Id.* at 15:61–63.

Addressing Petitioner’s combination of Counts-962 and Brooks in Ground 3, Patent Owner argues that “the Petition does not explain why the POSA would allegedly have been motivated to combine these two references.” Prelim. Resp. 34. We disagree. Petitioner asserts that a POSA would have adapted Brooks’ controller for use in Counts-962’s smoking article for the same reasons as Petitioner presented in Ground 1. Pet. 64. For Ground 1, Petitioner asserts that a POSA would have been motivated to use Brooks’ controller to achieve the “accurate and sophisticated current actuation and current regulati[on]” that Brooks describes. Pet. 34–35 (citing Ex. 1003 ¶¶ 140–143; Ex. 1009, 4:50–57, 20:55–58, 21:6–7, 21:38–41).

*d) Assessment of Factor 6, Including the Merits*

The merits of Petitioner’s three grounds are particularly strong on the preliminary record. For example, Petitioner makes a strong showing that each element of claim 16 is disclosed by each of two primary references (Morgan and Counts-962) under claim constructions consistent with Patent Owner’s district court infringement contention. Petitioner also makes a strong showing that certain claim elements are disclosed by secondary references (Collins, Adams, or Brooks) under narrower claim constructions and that a POSA would have had a reason to combine the prior art teachings in a manner recited in the challenged claims.

We view Patent Owner’s substantive response as weak. Patent Owner twice misstates Petitioner’s contention regarding the heater limitation of

claim 16 as relying on Morgan Figure 2.<sup>16</sup> Prelim. Resp. 49, 64 (citing Pet. 31–52). The cited pages of the Petition do not even address the heater limitation. For this limitation, Petitioner relies on Morgan Figures 7 and 8, which show heating elements 71 that pierce and extend into the disposable portion. Pet. 54 (citing Ex. 1005, 6:46–52, Figs. 7, 8). Regarding Counts-962, Patent Owner argues that heater element 14 is separated from flavor-generating medium 12 by an insulating tube or protective sheath, without acknowledging that Counts-962 discloses an insulating tube or protective sheath as part of heater element 14. Prelim. Resp. 66; Ex. 1008, 4:5–14.

We do not agree that the Petition suffers from “procedural deficiencies that threaten the efficiency and integrity of the patent system,” as Patent Owner argues. Prelim. Resp. 21–34, 62. For example, we disagree with Patent Owner’s argument that “[i]n any IPR, the petitioner must show how a challenged claim is unpatentable under ‘*a claim construction that [the petitioner] consider[s] to be correct.*’” *Id.* at 31. Numerous decisions have held that 37 C.F.R. § 42.104(b)(3) does not require a petitioner to express a subjective belief in the correctness of its proffered claim constructions. *See, e.g., Lewis Machine & Tool Co. v. WHG Properties, LLC*, IPR2020-00373, Paper 6 at 33–34 (PTAB July 27, 2020).

Accordingly, *Fintiv* factor 6 weighs against a discretionary denial of institution.

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<sup>16</sup> Patent Owner asserts: “As to Grounds 1 and 2, Petitioner primarily relies on Morgan’s Figure 2 as allegedly meeting this limitation.” Prelim. Resp. 49 (citing Pet. 31–52). Again, Patent Owner asserts, “In Grounds 1 and 2, Petitioner relies on Figure 2 of Morgan as allegedly disclosing ‘an electrical resistance heater in contact with the tobacco material and the aerosol-generating material.’” Prelim. Resp. 64 (citing Pet. 31–52).

7. *Conclusion on § 314(a) Discretion*

Under *Fintiv*, we are required to take “a holistic view of whether efficiency and integrity of the system are best served by denying or instituting review.” *Fintiv*, Paper 11 at 6. As discussed above, *Fintiv* factors 2 and 5 weigh in favor of exercising discretion to deny institution. *Fintiv* factors 3 and 6 weigh against exercising discretion to deny institution, and *Fintiv* factor 4 weighs marginally against exercising discretion to deny institution. This case presents a close call on whether to exercise discretion to deny institution under § 314(a) and *Fintiv*. In general, an anticipated district court trial date substantially in advance of a projected statutory deadline for the Board to issue a final decision increases the likelihood that the district court will reach a determination of the parties’ dispute as to the validity of the challenged claims before the Board will. Under such circumstances, the application of Office policy has often resulted in denial of institution. *See, e.g., Samsung Elecs. Co., Ltd. v. Bell Northern Research, LLC*, IPR2020-00718, Paper 12 at 10 (PTAB Oct. 6, 2020) (denying institution where district court trial date was seven months before a final decision would issue, despite the absence of a substantive response to petition); *Intel Corp. v. VLSI Tech. LLC*, IPR2020-00106, Paper 17 at 13 (PTAB May 5, 2020) (denying institution where district court trial date was seven months before a final decision would issue, issues largely overlapped in district court and petition, and the merits of the petition do not outweigh the other *Fintiv* factors). On balance and taking a holistic view of the circumstances with the aim of maintaining the efficiency and integrity of the system and taking into account the consistent application of Office policy, we determine that, in this instance, the anticipated EDVA trial between the same parties eight to nine months before the projected statutory deadline

outweighs slightly the factors that favor institution, including Petitioner's diligence in filing the Petition, the strength of the Petition on the merits, the relatively modest investment in the district court action to date, and the lack of exact overlap based on Petitioner's narrow stipulation.

*C. Other Arguments about Discretionary Institution*

Patent Owner argues that we should deny institution for several other reasons under § 314(a). Prelim. Resp. 21–34. Because the Petition is denied under § 314(a) and *Fintiv*, we do not reach those additional arguments.

III. CONCLUSION

For these reasons, institution is denied under § 314(a) and *Fintiv*.

IV. ORDER

It is

ORDERED that, the Petition is *denied*, and no trial is instituted.

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