UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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

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Case No. IPR2020-00407
U.S. Patent No. 6,748,317 B2

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PETITIONER APPLE INC.'S PRELIMINARY REPLY

TABLE OF CONTENTS

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).

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