

1 MARK D. SELWYN (CA SBN 244180)
2 mark.selwyn@wilmerhale.com
3 WILMER CUTLER PICKERING
4 HALE AND DORR LLP
5 2600 El Camino Real, Suite 400
6 Palo Alto, California 94306
7 Telephone: (650) 858-6000
8 Facsimile: (650) 858-6100

DANIEL T. SHVODIAN (CA SBN 184576)
DShvodian@perkinscoie.com
PERKINS COIE LLP
3150 Porter Drive
Palo Alto, CA 94304
Telephone: (650) 838-4300
Facsimile: (650) 737-5461

Attorney for Plaintiff Google LLC

6 CATHERINE M.A. CARROLL (*pro hac vice*)
7 catherine.carroll@wilmerhale.com
8 WILMER CUTLER PICKERING
9 HALE AND DORR LLP
10 1875 Pennsylvania Avenue NW
11 Washington, DC 20006
12 Telephone: (202) 663-6000
13 Facsimile: (202) 663-6363

JOHN B. SGANGA (CA SBN 116211)
John.Sganga@knobbe.com
KNOBBE MARTENS OLSON & BEAR LLP
2040 Main St. 14th Floor
Irvine, CA 92614
Telephone: (949) 760-0404
Facsimile: (949) 760-9502

*Attorneys for Plaintiffs Apple Inc., Cisco
Systems, Inc., and Intel Corporation*

*Attorney for Plaintiffs Edwards Lifesciences
Corporation and Edwards Lifesciences LLC*

*A complete list of parties and counsel appears
on the signature page per Local Rule 3-4(a)(1)*

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16 **UNITED STATES DISTRICT COURT**
17 **FOR THE NORTHERN DISTRICT OF CALIFORNIA**
18 **SAN JOSE DIVISION**

19
20 APPLE INC., CISCO SYSTEMS, INC.,
21 GOOGLE LLC, INTEL CORPORATION,
22 EDWARDS LIFESCIENCES
CORPORATION, and EDWARDS
LIFESCIENCES LLC,

23 Plaintiffs,

24 v.

25 ANDREI IANCU, in his official capacity as
26 Under Secretary of Commerce for Intellectual
Property and Director, United States Patent and
27 Trademark Office,

28 Defendant.

Case No. 20-cv-6128-EJD

**AMENDED COMPLAINT FOR
DECLARATORY AND INJUNCTIVE
RELIEF**

Administrative Procedure Act Case

INTRODUCTION

1
2 1. This action under the Administrative Procedure Act (“APA”) challenges a rule
3 adopted by the Director of the U.S. Patent and Trademark Office (“PTO”) governing that agency’s
4 consideration of petitions to institute inter partes review (“IPR”)—an administrative proceeding for
5 determining the patentability of previously issued patent claims.

6 2. A strong patent system is vital to protecting the massive research and development
7 investments that fuel Plaintiffs’ innovative products and services. And a crucial element of any
8 strong patent system is a mechanism for “weeding out” weak patents that never should have been
9 granted because the claimed invention was not novel or would have been obvious in light of prior art.
10 *Thryv, Inc. v. Click-To-Call Techs., LP*, 140 S. Ct. 1367, 1374 (2020). Such patents threaten
11 innovation—particularly in the hands of non-practicing entities that use the patent system not to spur
12 their own inventions, but to extract monetary returns by asserting weak patents in infringement suits.
13 As frequent targets of such tactics, Plaintiffs have a strong interest in having an efficient and
14 accessible means for challenging weak patents that should never have issued to ensure that such
15 patents cannot hamper innovation.

16 3. IPR was a centerpiece of Congress’s efforts to strengthen the U.S. patent system in the
17 Leahy-Smith America Invents Act (“AIA”). In enacting the AIA in 2011, Congress recognized that
18 innovation is inhibited when invalid patents are issued and then deployed in litigation against
19 technology inventors and developers. And Congress found existing procedures for challenging
20 already-issued patents, including litigation, to be insufficient to protect the patent system. Congress
21 accordingly created IPR to provide a more efficient and streamlined administrative alternative to
22 litigation for determining patentability before specialized patent judges. IPR has served to enhance
23 the U.S. patent system and strengthen U.S. technology and innovation by weeding out thousands of
24 invalid patent claims.

25 4. To ensure that IPR fulfills its purpose as a superior alternative to litigation over patent
26 validity, the AIA specifically contemplates that IPR will be available to determine the patentability of
27 patent claims that are also the subject of pending patent infringement litigation.

1 5. In the agency action challenged in this suit (referred to here as the “*NHK-Fintiv* rule”),
2 however, the Director determined that the PTO could deny a petition for IPR based on a balancing of
3 discretionary factors relating to the pendency of parallel patent infringement litigation—factors that
4 appear nowhere in the AIA. The agency’s application of that rule has dramatically reduced the
5 availability of IPR, regardless of the weakness of the patent claims being challenged, thereby
6 undermining IPR’s central role in protecting a strong patent system.

7 6. The *NHK-Fintiv* rule violates the AIA, which allows IPR to proceed in tandem with
8 infringement litigation involving the same patent claims so long as the IPR petition is filed within one
9 year after the petitioner was served with the complaint in the infringement suit. Congress dictated in
10 the AIA exactly when litigation should take precedence over IPR and vice versa, and the *NHK-Fintiv*
11 rule contravenes Congress’s judgment. Indeed, the *NHK-Fintiv* rule defeats the purpose of IPR,
12 which is to provide a streamlined and specialized mechanism for clearing away invalid patents that
13 never should have issued, and to do so without the substantial costs, burdens, and delays of litigation.

14 7. The *NHK-Fintiv* rule is also arbitrary and capricious because its vague factors lead to
15 speculative, unpredictable, and unfair outcomes and will not advance the agency’s stated goal of
16 promoting administrative efficiency.

17 8. Finally, even if it were not contrary to law, the *NHK-Fintiv* rule is procedurally invalid
18 because it was not adopted through notice-and-comment rulemaking. Both the APA and the AIA
19 obligated the Director to follow that procedure, yet the Director instead propounded the *NHK-Fintiv*
20 rule through an internal process within the PTO for establishing binding rules by designating select
21 decisions of the Patent Trial and Appeal Board as “precedential”—a process that provides for no
22 opportunity for or consideration of public input.

23 9. The Court should therefore declare the *NHK-Fintiv* rule unlawful and set it aside under
24 the APA. The Court should further permanently enjoin the Director from applying the rule or the
25 non-statutory factors it incorporates to deny institution of IPR.

JURISDICTION AND VENUE

10. This case arises under the Administrative Procedure Act (“APA”), 5 U.S.C. § 701 *et seq.* This Court has subject matter jurisdiction under 28 U.S.C. § 1331.

11. Pursuant to 5 U.S.C. § 702, Defendant has waived sovereign immunity for purposes of this suit.

12. Plaintiffs’ claims for declaratory and injunctive relief are authorized by 28 U.S.C. §§ 2201 and 2202, by 5 U.S.C. §§ 702-706, by Federal Rules of Civil Procedure 57 and 65, and by the inherent equitable powers of this Court.

13. Venue is proper in this District under 28 U.S.C. § 1391(e) and 5 U.S.C. § 703 because at least one Plaintiff maintains its headquarters in this District.

14. The *NHK-Fintiv* rule is final agency action subject to judicial review under 5 U.S.C. § 704.

INTRADISTRICT ASSIGNMENT

15. This action arises in the San Jose Division because a substantial part of the events giving rise to Plaintiffs’ claims occurred in Santa Clara County, California, where all Plaintiffs maintain their headquarters.

PARTIES

16. Plaintiff Apple Inc. (“Apple”) is a California corporation having its principal place of business at One Apple Park Way, Cupertino, California, 95014.

17. Plaintiff Cisco Systems, Inc. (“Cisco”) is a California corporation having its principal place of business at 170 West Tasman Drive, San Jose, California, 95134.

18. Plaintiff Google LLC (“Google”) is a Delaware limited liability company having its principal place of business at 1600 Amphitheatre Parkway, Mountain View, California, 94043.

19. Plaintiff Intel Corporation (“Intel”) is a Delaware corporation having its principal place of business at 2200 Mission College Boulevard, Santa Clara, California, 95054.

20. Plaintiffs Edwards Lifesciences Corp. and Edwards Lifesciences LLC (collectively “Edwards”) are Delaware corporations having their principal place of business at One Edwards Way,

1 Irvine, California, 92614. Edwards Lifesciences Corp. owns numerous patents that it exclusively
2 licenses to Edwards Lifesciences LLC, which is an operating company that has been sued for patent
3 infringement in the past.

4 21. Defendant Andrei Iancu is the Under Secretary of Commerce for Intellectual Property
5 and Director of the PTO. The Director oversees the operations of the PTO and is statutorily vested
6 with the authority to decide whether to institute IPR of a patent claim. 35 U.S.C. § 314. Defendant
7 Iancu is being sued in his official capacity. His principal place of business is in Alexandria, Virginia.

8 **FACTUAL ALLEGATIONS**

9 **The Patent System**

10 22. “To promote the progress of science and useful arts,” the Constitution empowers
11 Congress to “secur[e] for limited times to ... inventors the exclusive right to their ... discoveries.”
12 U.S. Const., art. I, § 8, cl. 8. The U.S. patent system has long fueled American economic growth and
13 innovation. Plaintiffs each strongly support and rely on a strong patent system that lends robust legal
14 protection to meritorious patent claims.

15 23. Apple is an American success story and developer of iconic consumer devices and
16 software that have transformed the American economy. With more than 90,000 employees in the
17 United States, Apple is one of the country’s largest employers in the high-technology business sector.
18 Overall, Apple supports 2.4 million jobs in all 50 states. Last year, Apple spent over \$60 billion with
19 more than 9,000 domestic suppliers across the country, including at manufacturing locations in 36
20 states. Apple invests billions of dollars annually in U.S. research and development, and it owns more
21 than 22,000 U.S. patents that protect that investment.

22 24. Cisco is an American and worldwide leader in information technology, networking,
23 communications, and cybersecurity solutions. Cisco is a strong supporter of the U.S. patent system,
24 owning more than 16,000 U.S. patents, which protect more than \$6 billion in annual spending on
25 research and development. Cisco’s 20,000 worldwide engineers constantly invent new ways to better
26 connect the world. As a result of its commitment to innovation and intellectual property, Cisco files
27 more than 700 patent applications each year seeking protection for those inventions.

1 25. Google is a diversified American technology company whose mission is to organize
2 the world's information and make it universally accessible and useful. Google offers leading web-
3 based products and services that are used daily around the world. With over 100,000 employees,
4 Google invests over \$20 billion annually to invent and develop its products and services, and it relies
5 on a strong and balanced patent system to protect them—owning more than 25,000 U.S. patents.

6 26. Intel is a global leader in the design and manufacture of semiconductor products,
7 including hardware and software products for networking, telecommunications, cloud computing,
8 artificial intelligence, autonomous driving, and other applications. Intel's chips power a large
9 percentage of the world's computers, from home-office desktops and laptops to the servers that
10 support the digital economy. To develop and improve these products, Intel makes significant
11 investments. Intel currently has more than 42,000 employees actively engaged in research and
12 development worldwide; in the United States, Intel employs more than 52,000 workers. In 2019
13 alone, Intel spent more than \$13 billion on research and development and more than \$16 billion on
14 manufacturing. These investments are protected by more than 25,000 U.S. patents, with more than
15 10,000 U.S. patent applications pending.

16 27. Edwards is the global leader in patient-focused medical innovations for structural heart
17 disease, as well as critical care and surgical monitoring. Driven by a passion to help patients, the
18 company collaborates with the world's leading clinicians and researchers to address unmet healthcare
19 needs, working to improve patients' outcomes and enhance lives. Because many patients remain
20 underserved, Edwards strives for big, bold advancements that will fundamentally change the practice
21 of medicine. In 2019, Edwards spent \$753 million on research and development (up 21% from the
22 previous year), which was 17% of its sales. Globally, Edwards employs over 14,000 workers and
23 over 2,000 engineers. Headquartered in Southern California, the majority of Edwards' sales occur in
24 the United States. Edwards' R&D investments and its patient-focused innovations are protected by
25 almost 1,100 patents, with almost 800 U.S. patent applications pending.

1 28. Each Plaintiff's success in developing transformative, cutting-edge technologies
2 depends on a patent system that provides strong legal protections for meritorious patents while
3 ensuring that weak patents cannot be exploited in litigation to inhibit innovation.

4 **Inter Partes Review**

5 29. The U.S. patent laws have long provided both administrative and judicial paths for
6 challenging the validity of patent claims after a patent has been issued. By 2011, however, Congress
7 rightly perceived a “growing sense that questionable patents [we]re too easily obtained” and “too
8 difficult to challenge” through existing procedures. H.R. Rep. No. 98, at 39-40, 112th Cong., 1st
9 Sess. (2011) (“House Report”). Congress responded by creating IPR in the AIA to strengthen the
10 patent system. Pub. L. No. 112-29, § 6(a), 125 Stat. 284, 299 (2011).

11 30. As a centerpiece of the AIA, IPR provides “an administrative process in which a
12 patent challenger may ask the [PTO] to reconsider the validity of earlier granted patent claims.”
13 *Thryv*, 140 S. Ct. at 1370; *see* 35 U.S.C. § 311 *et seq.* Congress intended IPR to provide an improved
14 alternative to litigation over the validity of previously granted patents by “establish[ing] a more
15 efficient and streamlined patent system that will improve patent quality and limit unnecessary and
16 counterproductive litigation costs.” House Report at 39-40.

17 31. Several features of IPR make it advantageous compared to litigation for determining
18 whether an issued patent's claims are patentable. IPR is conducted by the expert patent judges of the
19 Patent Trial and Appeal Board (“Board”), who are appointed by the Secretary of Commerce and must
20 be “persons of competent legal knowledge and scientific ability.” 35 U.S.C. § 6(a), (c). In contrast,
21 patent validity disputes in court are resolved by lay jurors who need not have—and often lack—any
22 specialized technical experience relevant to the patent claims at issue. Moreover, unlike jury trials,
23 which typically end in general verdicts, IPR ends with the Board's “final written decision,” *id.*
24 § 318(a), which enables more informed appellate review. And while bad patents can be held
25 unpatentable in IPR by a preponderance of the evidence, *id.* § 316(e), those same patents will survive
26 litigation unless the challenger proves invalidity by clear and convincing evidence, *see Microsoft*
27 *Corp. v. i4i Ltd. P'ship*, 564 U.S. 91 (2011).

1 32. IPR is also more streamlined and efficient than litigation. An IPR petitioner may
2 challenge a claim’s patentability only on limited grounds. 35 U.S.C. § 311(b). The scope of
3 discovery in IPR proceedings is more limited than in civil litigation. *See id.* § 316(a)(5); 37 C.F.R.
4 § 42.51. The AIA also limits how long the Director may take to decide whether to institute IPR, 35
5 U.S.C. § 314(b), and, if IPR is instituted, how long the Board may take to issue its final decision on
6 patentability, *id.* § 316(a)(11). As a result, the life-span of an IPR from the filing of a petition to a
7 final written decision is typically only 18 months. *See id.* § 316(a)(11); 37 C.F.R. § 42.107.

8 **The Availability Of IPR In Parallel With Infringement Actions**

9 33. Given its purpose to provide an efficient alternative to litigation, Congress expected
10 that IPR would often proceed in parallel with litigation in which the validity of the same patent
11 claims is at issue—particularly in cases where a defendant accused of patent infringement in a lawsuit
12 seeks to challenge the asserted patent claims through IPR. Several provisions of the AIA reflect that
13 expectation and govern the interaction between IPR and litigation.

14 34. The AIA permits a party accused of infringement to file a petition for IPR with regard
15 to the same patent claims that are being asserted in the pending infringement suit, so long as the
16 petition is filed within “1 year after the date on which the petitioner ... is served with a complaint
17 alleging infringement of the patent.” 35 U.S.C. § 315(b). And although the AIA forecloses IPR if
18 the petitioner has previously “filed a civil action challenging the validity of a claim of the patent,” *id.*
19 § 315(a)(1), it expressly permits a petitioner to assert invalidity arguments in a counterclaim in
20 litigation without forgoing IPR, *id.* § 315(a)(3).

21 35. The AIA also removed statutory provisions that previously restricted the PTO’s
22 review of patent claims that had been the subject of a challenge to the patent’s validity in district
23 court. Before the creation of IPR, parties could challenge issued patents pursuant to an administrative
24 procedure known as inter partes reexamination, but no such review could be maintained if a court
25 entered “a final decision” concluding that the petitioner “ha[d] not sustained its burden of proving the
26 invalidity” of the patent. 35 U.S.C. § 317(b) (2006). The AIA eliminated that rule and imposed no
27 similar limitation on IPR, which replaced inter partes reexamination.

1 36. Apart from the one-year deadline in § 315(b), and the prohibition in § 315(a)(1) on
2 filing an IPR petition after filing a suit challenging patent validity, no provision in the AIA expressly
3 requires or even permits the Director (or the Board as his delegee) to deny IPR petitions based on
4 pending litigation involving the same patent claims.

5 The *NHK* And *Fintiv* Decisions

6 37. The AIA specifies several requirements that must be met for the Director of the PTO
7 to grant a petition for, or “institute,” IPR, and enumerates discretionary grounds on which the
8 Director may decline to institute IPR even if those preconditions are met. *E.g.*, 35 U.S.C.
9 §§ 311(c)(1)-(2), 312(a)(1)-(5), 315(a)(1)-(2). For example, the Director “may not” institute IPR
10 “unless” he determines, based on the IPR petition, that “there is a reasonable likelihood that the
11 petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” *Id.*
12 § 314(a). And the Director “may take into account whether, and reject the petition or request
13 because, the same or substantially the same prior art or arguments previously were presented to the
14 [Patent] Office.” *Id.* § 325(d).

15 38. The Director has delegated to the Board the authority to decide whether to institute
16 IPR. 37 C.F.R. § 42.4(a); *see id.* §§ 42.2, 42.108.

17 39. In two recent decisions, the Board articulated an additional standard, found nowhere in
18 the AIA, under which the Board may decline to institute IPR based on the pendency of litigation over
19 the validity of the same patent claims—even if the petition was timely filed within the one-year
20 deadline set by 35 U.S.C. § 315(b).

21 40. In *NHK Spring Co. v. Intri-Plex Technologies, Inc.*, the Board declared that “the
22 advanced state of [a parallel] district court proceeding ... weighs in favor of denying the [IPR]
23 Petition under § 314(a).” No. IPR2018-00752, Paper 8, at 20 (P.T.A.B. Sept. 12, 2018) (attached
24 hereto as Ex. A; also available at 2018 WL 4373643).

25 41. The Board explained in *NHK* that because a pending infringement lawsuit involving
26 “the same prior art and arguments” as the IPR petition was “nearing its final stages,” with trial “set to
27 begin” about six months before the IPR would end, IPR “would not be consistent with an objective of
28

1 the AIA ... to provide an effective and efficient alternative to district court litigation.” *NHK*, Paper 8
2 at 20 (internal quotation marks omitted).

3 42. In *Apple Inc. v. Fintiv, Inc.*, the Board elaborated on *NHK*, explaining how it would
4 consider the pendency of a parallel infringement lawsuit when deciding whether to institute IPR. No.
5 IPR2020-00019, Paper 11 (P.T.A.B. Mar. 20, 2020) (attached hereto as Ex. B; also available at 2020
6 WL 2126495). The Board declared it would “weigh[]” various “non-dispositive factors” to decide
7 whether to institute IPR when parallel litigation is pending “as part of a balanced assessment of all
8 relevant circumstances of the case, including the merits,” to promote “system efficiency, fairness, and
9 patent quality.” *Id.* at 5 (internal quotation marks omitted).

10 43. Accordingly, the Board enumerated six such “factors,” none of which appears in the
11 AIA:

- 12 1. whether the court granted a stay or evidence exists that one may be
13 granted if [an IPR] proceeding is instituted;
- 14 2. proximity of the court’s trial date to the Board’s projected statutory
15 deadline for a final written decision;
- 16 3. investment in the parallel proceeding by the court and the parties;
- 17 4. overlap between issues raised in the petition and in the parallel
18 proceeding;
- 19 5. whether the petitioner and the defendant in the parallel proceeding are
20 the same party; and
- 21 6. other circumstances that impact the Board’s exercise of discretion,
22 including the merits.

23 *Fintiv*, Paper 11 at 5-6.

24 44. Although the Board offered general guidance on how it might apply some of these
25 factors, the *Fintiv* decision did not clearly “instruct [the Board] how to weigh the factors.” *Cisco*
26 *Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, No. IPR2020-00122, 2020 WL 2511246, at *5 (P.T.A.B.
27 May 15, 2020) (Crumbley, APJ, dissenting).

Designation Of The Board’s Decisions As Precedential

45. “[B]y default,” the Board’s decisions in IPR proceedings have no precedential force in future cases. Patent Trial and Appeal Board, Standard Operating Procedure 2 (Rev. 10) (“SOP-2”), at 3, 8-9 (Sept. 20, 2018).

46. The PTO, however, has established a procedure for designating select Board decisions as “precedential.” SOP-2 at 1-2, 8-12. Decisions designated as precedential are “binding” on the Board “in subsequent matters involving similar factors or issues.” SOP-2 at 11.

47. Under this procedure, the Director decides whether to designate a Board decision as precedential. SOP-2 at 11.

48. Although members of the public (in addition to members of the Board) may nominate a Board decision for designation as precedential, SOP-2 at 9, the designation procedure otherwise does not allow for public notice of, or any opportunity for public comment on, whether a Board decision should be designated as precedential. SOP-2 at 8-11.

49. The Director designated *NHK* as precedential on May 7, 2019.

50. The Director designated *Fintiv* as precedential on May 5, 2020.

51. By designating these decisions as precedential, the Director propounded a rule (the “*NHK-Fintiv* rule”) that the Board is legally bound to apply in all its institution decisions.

52. The Director adopted the *NHK-Fintiv* rule without notice-and-comment rulemaking.

53. Having been established as a binding rule through the designation of the *NHK* and *Fintiv* decisions as precedential, the *NHK-Fintiv* rule constitutes final agency action.

The Board’s Application Of The *NHK-Fintiv* Rule

54. The Board has applied the *NHK-Fintiv* rule to deny institution of numerous IPR proceedings, including many petitions brought by Plaintiffs.

55. Following *NHK*, the Board relied on that decision to deny several IPR petitions. *See Magellan Midstream Partners L.P. v. Sunoco Partners Marketing & Terminals L.P.*, No. IPR2019-01445, 2020 WL 373335 (P.T.A.B. Jan. 22, 2020); *Next Caller Inc. v. TRUSTID, Inc.*, No. IPR2019-

1 00962, 2019 WL 5232627 (P.T.A.B. Oct. 16, 2019); *Next Caller Inc. v. TRUSTID, Inc.*, No.
2 IPR2019-00961, 2019 WL 5232627 (P.T.A.B. Oct. 16, 2019).

3 56. The Board applied *NHK* to deny two IPR petitions timely filed by Plaintiff Edwards
4 based upon the “advanced stage” of the litigation. *Edwards Lifesciences Corp. v. Evalve, Inc.*, No.
5 IPR2019-01479, 2020 WL 927867 (P.T.A.B. Feb. 26, 2020); *Edwards Lifesciences Corp. v. Evalve,*
6 *Inc.*, No. IPR2019-01546, 2020 WL 1486766 (P.T.A.B. Mar. 19, 2020). The Board relied on the trial
7 date, substantial overlap with arguments in the district court litigation, a view that the district court had
8 “already resolved” critical issues presented in the IPR petitions, and a perception that the parties and
9 the district court had already invested “substantial time and energy” in the district court litigation.
10 Edwards had timely filed both IPR petitions approximately six months after being served with an
11 infringement complaint. The Board, however, denied the petitions under *NHK* in part because the
12 district court’s scheduling order set the trial date to occur before a final written decision would issue,
13 and the Board speculated that the court intended to preserve the trial date. Two weeks later, the district
14 court vacated the trial date and eventually reset it for three months later, before vacating it once again.

15 57. In another example, on March 27, 2020, the Board denied institution in *Google LLC v.*
16 *Uniloc 2017, LLC*, No. IPR2020-00115, 2020 WL 1523248 (Mar. 27, 2020). Although Google
17 timely filed the IPR petition in that proceeding less than nine months after being served with a related
18 infringement complaint, the Board denied the petition under *NHK* based on the trial date set in the
19 district court’s scheduling order. *Id.* at *1, *4. Google requested rehearing, but its request was
20 denied. Soon thereafter, the district court action was ordered to be transferred, and the trial date was
21 vacated. *Uniloc 2017, LLC v. Google LLC*, No. 18-cv-00504, 2020 WL 3064460, at *6 (E.D. Tex.
22 June 8, 2020).

23 58. On the same day that *Fintiv* was designated as precedential, the Board applied the
24 *NHK-Fintiv* rule to deny Intel’s IPR petition in *Intel Corp. v. VLSI Technology LLC*, No. IPR2020-
25 00106, 2020 WL 2201828 (P.T.A.B. May 5, 2020). The petition had been timely filed, but the Board
26 concluded that the “advanced stage” of related district court litigation, overlap in the issues, and the
27 timing of trial—which was scheduled to begin approximately seven months before IPR would have
28

1 ended, but which was subsequently rescheduled—meant that IPR would have been “an inefficient use
2 of Board, party, and judicial resources.” *Id.* at *6.

3 59. Eight days later, the Board applied the *NHK-Fintiv* rule to deny Apple’s IPR petition
4 in *Fintiv*. *Apple Inc. v. Fintiv, Inc.*, No. IPR2020-00019, 2020 WL 2486683, at *3-4, *7 (P.T.A.B.
5 May 13, 2020) (Paper 15). In *Fintiv*, Apple had filed an IPR petition challenging the patentability of
6 certain patent claims that had been asserted against Apple in a patent infringement suit. Apple timely
7 filed the IPR petition less than ten months after the infringement suit began. After Apple filed its IPR
8 petition, the district court in the infringement lawsuit held a *Markman* hearing (to consider evidence
9 relevant to the interpretation of the patent claims) and then set a trial date, which it later rescheduled.
10 *Id.* at *3-4, *7. In declining to institute IPR, the Board explained that

11 the District Court case is ongoing, trial is scheduled to begin two months before
12 we would reach a final decision in this proceeding, the District Court has
13 expended effort resolving substantive issues in the case, the identical claims are
14 challenged based on the same prior art in both the Petition and in the District
15 Court, and the defendant in District Court and the Petitioner here are the same
16 party.

15 *Id.* at *7.

16 60. The Board subsequently applied the *NHK-Fintiv* rule to deny IPR petitions filed five
17 months after service of the complaint in the pending infringement action in *Cisco Systems, Inc. v.*
18 *Ramot at Tel Aviv University Ltd.* No. IPR2020-00122, 2020 WL 2511246 (P.T.A.B. May 15, 2020);
19 No. IPR2020-00123, 2020 WL 2511247 (P.T.A.B. May 15, 2020). Based on the scheduled trial date
20 in pending infringement litigation, overlap in substantive issues, and the absence of a stay in the
21 district court, the Board assumed that proceeding with IPR would “duplicate effort” in the litigation,
22 *Ramot*, No. IPR2020-00122, 2020 WL 2511246, at *4—even though the district court had denied a
23 stay “without prejudice” in light of its “established practice” to entertain stay requests only *after* the
24 Board institutes IPR, *id.* at *3—and denied Cisco’s IPR petitions to avoid “an inefficient use of
25 Board, party, and judicial resources,” *id.* at *5; *see also Ramot*, No. IPR2020-00123, 2020 WL
26 2511247, at *5.

1 61. Indeed, since the *NHK* and *Fintiv* decisions' designation as precedential, the Board has
2 applied the *NHK-Fintiv* rule to deny IPR petitions filed by Plaintiffs and others on numerous
3 occasions. *See, e.g., Apple Inc. v. Maxell, Ltd.*, No. IPR2020-00407, 2020 WL 4680039 (P.T.A.B.
4 Aug. 11, 2020); *Apple Inc. v. Maxell, Ltd.*, No. IPR2020-00408, 2020 WL 4680042 (P.T.A.B. Aug.
5 11, 2020); *Apple Inc. v. Maxell, Ltd.*, No. IPR2020-00409, 2020 WL 4680047 (P.T.A.B. Aug. 11,
6 2020); *Apple Inc. v. Maxell, Ltd.*, No. IPR2020-00203, 2020 WL 3662522 (P.T.A.B. July 6, 2020);
7 *Cisco Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, No. IPR2020-00484, 2020 WL 4820592 (P.T.A.B.
8 Aug. 18, 2020); *Cisco Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, No. IPR2020-00122, 2020 WL
9 2511246 (P.T.A.B. May 15, 2020); *Cisco Sys., Inc. v. Ramot at Tel Aviv Univ. Ltd.*, No. IPR2020-
10 00123, 2020 WL 2511247 (P.T.A.B. May 15, 2020); *Ethicon, Inc. v. Bd. of Regents, Univ. of Tex.*
11 *Sys.*, No. IPR2019-00406, 2020 WL 3088846 (P.T.A.B. June 10, 2020); *Google LLC v. Uniloc 2017,*
12 *LLC*, No. IPR2020-00115, 2020 WL 1523248 (P.T.A.B. Mar. 27, 2020); *Intel Corp. v. VLSI Tech.*
13 *LLC*, No. IPR2020-00498, 2020 WL 4820595 (P.T.A.B. Aug. 19, 2020); *Intel Corp. v. VLSI Tech.*
14 *LLC*, No. IPR2020-00526, 2020 WL 4820610 (P.T.A.B. Aug. 18, 2020); *Intel Corp. v. VLSI Tech.*
15 *LLC*, No. IPR2020-00527, 2020 WL 4820610 (P.T.A.B. Aug. 18, 2020); *Intel Corp. v. VLSI Tech.*
16 *LLC*, No. IPR2020-00141, 2020 WL 3033208 (P.T.A.B. June 4, 2020); *Intel Corp. v. VLSI Tech.*
17 *LLC*, No. IPR2020-00142, 2020 WL 3033209 (P.T.A.B. June 4, 2020); *Intel Corp. v. VLSI Tech.*
18 *LLC*, No. IPR2020-00158, 2020 WL 2563448 (P.T.A.B. May 20, 2020); *Intel Corp. v. VLSI Tech.*
19 *LLC*, No. IPR2020-00112, 2020 WL 2544910 (P.T.A.B. May 19, 2020); *Intel Corp. v. VLSI Tech.*
20 *LLC*, No. IPR2020-00113, 2020 WL 2544912 (P.T.A.B. May 19, 2020); *Intel Corp. v. VLSI Tech.*
21 *LLC*, No. IPR2020-00114, 2020 WL 2544917 (P.T.A.B. May 19, 2020).

22 62. Plaintiffs are currently awaiting institution decisions on IPR petitions that relate to
23 pending infringement litigation, in which the Board will be bound to apply the *NHK-Fintiv* rule to
24 decide whether to institute IPR. Additionally, Plaintiffs regularly file IPR petitions and expect that
25 the Board will apply the *NHK-Fintiv* rule to decide whether to grant their future petitions when
26 parallel litigation is pending. The Board is likely to deny at least some of Plaintiffs' pending or
27 future IPR petitions under the *NHK-Fintiv* rule based on the pendency of litigation.

1 63. Plaintiffs will continue to be injured in future IPRs because the rule forces petitioners
2 to file IPR petitions at earlier stages of litigation when there is less certainty over the patent claims at
3 issue and their scope. It also forces Plaintiffs to dedicate valuable petition space to the anticipated
4 denial arguments under the *NHK-Fintiv* rule when such space is extremely limited. A favorable
5 decision prohibiting the PTO from denying IPR petitions based on the *NHK-Fintiv* factors would
6 eliminate the need to rush to file IPRs well before the one-year bar date and would eliminate the need
7 to brief the issue in the petition.

8 64. Moreover, even where the Board has decided to institute IPR under the *NHK-Fintiv*
9 rule, its decisions have been inconsistent and unpredictable, making it difficult for Plaintiffs to
10 anticipate how the Board will weigh and apply each factor.

11 **The *NHK-Fintiv* Rule Exceeds The Director’s Authority And Violates The AIA**

12 65. Nothing in the AIA authorizes the Director to deny IPR petitions based on perceived
13 overlap with pending infringement litigation involving the same patent claims. To the contrary, the
14 text and structure of the AIA make clear that IPR can and should proceed even where related
15 litigation is pending.

16 66. Most notably, the AIA permits IPR if the petition is filed within “1 year after the date
17 on which the petitioner ... is served with a complaint alleging infringement of the patent.” 35 U.S.C.
18 § 315(b). Congress thus explicitly determined that, so long as the IPR petition is filed within a year
19 after a lawsuit against the petitioner starts, IPR is appropriate.

20 67. Congress’s decision to allow IPR where a parallel infringement lawsuit has been
21 pending for less than one year reflects its considered policy judgment. In enacting the AIA, Congress
22 was aware that IPR and litigation concerning the same patent claim would often proceed in parallel,
23 and it carefully calibrated § 315(b)’s one-year limit to ensure that IPR is not used for purposes of
24 delay while also giving infringement defendants an adequate opportunity to investigate the claims
25 asserted against them in litigation. Similarly, while Congress prohibited IPR where a petitioner had
26 previously filed its own action challenging patent validity, *see* 35 U.S.C. § 315(a)(1), Congress

1 expressly declined to extend that prohibition to petitions where the petitioner challenged the patent’s
2 validity through a counterclaim, *see id.* § 315(a)(3).

3 68. By authorizing the Board to deny institution of IPR based on the pendency of a
4 parallel proceeding, the *NHK-Fintiv* rule overrides the congressional judgments embodied in
5 §§ 315(a) and (b).

6 69. The *NHK-Fintiv* rule also undermines the purpose of IPR as a streamlined and
7 specialized alternative to litigation over patent validity. Congress sought in the AIA to encourage
8 defendants accused of patent infringement in litigation to assert their potentially meritorious
9 challenges to patentability in an IPR petition—thereby *inviting* overlap between IPR and litigation in
10 which the petitioner would assert those same challenges as defenses against an infringement claim.
11 Yet the *NHK-Fintiv* rule threatens to make IPR unavailable in precisely the circumstances where
12 Congress intended it to operate, defeating IPR’s role as a more efficient mechanism for clearing away
13 invalid patents and ultimately weakening the patent system.

14 70. Where Congress wanted to give the Director discretion to deny IPR based on parallel
15 proceedings, it knew how to say so explicitly. For example, as noted, the AIA provides that if the
16 *IPR petitioner* has previously filed suit challenging the validity of a patent claim, IPR may not be
17 instituted at all—regardless of how much time has passed between the suit and the IPR petition. 35
18 U.S.C. § 315(a)(1). Similarly, Congress expressly granted the Director discretion to decide how to
19 manage IPR when there is a parallel proceeding *before the PTO*, including by terminating the IPR
20 proceeding, *id.* § 315(d), and by “reject[ing] the petition or request because[] the same or
21 substantially the same prior art or arguments previously were presented to the [Patent] Office,” *id.*
22 § 325(d). But Congress nowhere authorized denial of a timely IPR petition based on overlap with
23 parallel litigation brought by the patent owner. To the contrary, Congress expressly provided that a
24 petitioner’s counterclaim challenging the validity of a patent claim would not bar IPR. *Id.*
25 § 315(a)(3).

26 71. Although the statute accords the Director some discretion in the context of evaluating
27 the merits of IPR petitions or promulgating rules governing IPR institution, that discretion is limited.

1 See 35 U.S.C. §§ 314(a), 316(b). It certainly is not unbounded and cannot be exercised in a manner
2 that is contrary to the statute's text, structure, and purpose.

3 **The NHK-Fintiv Rule Is Arbitrary And Capricious**

4 72. The Board's application of the *NHK-Fintiv* rule has already led to unjustifiable and
5 unpredictable disparities among similarly situated IPR petitioners, reflecting the uncertainty and
6 malleability of the rule's factors.

7 73. The *NHK-Fintiv* rule requires the Board to make institution decisions based on its
8 speculation about the likely course of parallel litigation, producing irrational and inconsistent
9 outcomes. For example, if no stay has been entered in the district court, the Board must guess
10 whether "one may be granted" if IPR is instituted. *Fintiv*, Paper 11 at 6.

11 74. The Board inconsistently applies the second factor, which concerns the proximity of a
12 district court trial date to the Board's projected statutory deadline for a final written decision. For
13 example, after denying Apple's petition in *Fintiv* (where trial was scheduled to begin only two
14 months before the Board would have been required to issue a final written decision in an IPR), the
15 Board *instituted* IPR in other cases where the scheduled trial dates fell much earlier relative to the
16 IPR decision deadline. See, e.g., *Apple Inc. v. Maxell, Ltd.*, No. IPR2020-00204, 2020 WL 3401274,
17 at *6 (P.T.A.B. June 19, 2020) (trial scheduled for nine months before Board's decision deadline);
18 *Apple Inc. v. SEVEN Networks, LLC*, No. IPR2020-00156, 2020 WL 3249313, at *4 (P.T.A.B. June
19 15, 2020) (trial scheduled for 7.5 months before Board's decision deadline). In another case, the
20 Board declined to institute IPR based on the expected time of trial, even though the trial date had
21 been continued indefinitely. *Ethicon, Inc. v. Bd. of Regents, Univ. of Tex. Sys.*, No. IPR2019-00406,
22 2020 WL 3088846 (P.T.A.B. June 10, 2020).

23 75. The date of trial is an inherently unpredictable factor, given the frequency with which
24 trial dates are rescheduled. The Board even had to grant rehearing of one non-institution decision
25 after the district court rescheduled the trial date following the Board's decision. *Sand Revolution II,*
26 *LLC v. Continental Intermodal Group – Trucking LLC*, No. IPR2019-01393, 2020 WL 581790
27 (P.T.A.B. June 16, 2020). Rehearing is not an option in most cases, however, because IPR

1 petitioners are allowed only 30 days to seek it, 37 C.F.R. § 42.71(d)(2), and a district court might
2 reschedule trial long after that period has passed. That is precisely what occurred in *Uniloc 2017*,
3 where the Board denied Google’s IPR petition based on a trial date that was subsequently vacated—
4 too late for Google to obtain rehearing of the Board’s denial of the IPR petition. *See* 2020 WL
5 3064460, at *6.

6 76. Similarly, the Board has sometimes concluded that overlap in issues favored
7 institution, while in other cases, the Board has treated overlap as disfavoring institution. For
8 example, in one case, the Board stated that overlap favored institution when the Board thought trial
9 was relatively distant, but in another case decided that overlap disfavored institution when the Board
10 thought trial was near. *Compare Medtronic, Inc., & Medtronic Vascular, Inc. v. Teleflex Innovations*
11 *S.à.r.l.*, No. IPR2020-00135, 2020 WL 3053201 (P.T.A.B. June 8, 2020), *with Cisco Sys., Inc. v.*
12 *Ramot at Tel Aviv Univ. Ltd.*, No. IPR2020-00122, 2020 WL 2511246 (P.T.A.B. May 15, 2020). As
13 a result, some petitioners will succeed in obtaining review of claims that overlap with those in the
14 parallel litigation while others will not, all based on trial schedules that are inherently uncertain and
15 subject to speculative forecasting by the Board.

16 77. The *NHK-Fintiv* rule thus promotes uncertainty and unpredictability—not
17 administrative efficiency—in the IPR process. The rule also forces infringement defendants to file
18 IPR petitions earlier in litigation, when there is less clarity regarding the patent claims at issue and
19 their scope—further undermining an efficient IPR process.

20 78. Any inefficiency that might result from overlap between litigation and IPR
21 proceedings would be better addressed by a stay of the litigation pending the outcome of the IPR.
22 *See, e.g., Bell N. Res., LLC v. Coolpad Techs., Inc.*, No. 18-cv-1783-CAB-BLM, ECF No. 148 (S.D.
23 Cal. Feb. 18, 2020) (after previously denying stay without prejudice while IPR petition was pending,
24 granting stay of litigation after Board decided to institute IPR). Unlike denial of IPR, a stay of the
25 litigation does not risk irreversibly depriving the petitioner of Congress’s preferred forum for
26 resolving an unpatentability dispute.

1 79. The Board’s attempt to justify the *NHK-Fintiv* rule on the ground that it avoids
 2 “duplicative costs” by denying IPR when “the court and the parties have invested” substantially in the
 3 lawsuit, *Fintiv*, Paper 11 at 9, makes no sense. By focusing on the past investment that has been
 4 made in the litigation already, the Board’s explanation is irrational and rests on the fallacy of sunk
 5 costs—*i.e.*, “the equivalent of throwing good money after bad, both for the court and for the parties.”
 6 *Stryker Spine v. Spine Grp. of Wis., LLC*, 320 F. Supp. 3d 985, 991 (E.D. Wis. 2018). To the extent
 7 that promoting efficiency is relevant to the institution decision at all, the analysis should instead
 8 compare the *future* investment needed to complete the lawsuit to the *future* investment needed to
 9 conduct IPR—a comparison that will usually favor IPR.

10 **The *NHK-Fintiv* Rule Is Procedurally Invalid**

11 80. The *NHK-Fintiv* rule is a substantive rule that alters the rights and interests of IPR
 12 petitioners by permitting the Board to deny institution of IPR based on parallel litigation. In adopting
 13 such a rule, the Director was required by both the APA and the AIA to act through notice-and-
 14 comment rulemaking. *See* 5 U.S.C. § 553(b), (c); 35 U.S.C. §§ 2(b)(2), 316(a).

15 81. The Director, however, adopted the *NHK-Fintiv* rule without notice-and-comment
 16 rulemaking, instead propounding it as a binding rule by designating the *NHK* and *Fintiv* decisions as
 17 precedential through a unilateral, internal process that involved no opportunity for public comment
 18 and no consideration by the Director of any public input.

19 **COUNT 1**

20 **(Final Agency Action In Violation Of 5 U.S.C. § 706(2)(C))**

21 82. Under the APA, the Court “shall ... hold unlawful and set aside” final agency action
 22 found to be “in excess of statutory jurisdiction, authority, or limitations, or short of statutory right.” 5
 23 U.S.C. § 706(2)(C).

24 83. The *NHK-Fintiv* rule is final agency action “in excess of statutory jurisdiction,
 25 authority, or limitations, or short of statutory right” because it violates the AIA and the Director
 26 exceeded his statutory authority in adopting it.

1 differently and depriving some patent infringement defendants of a speedy, efficient, and specialized
2 forum for invalidating the patent at issue.

3 91. The *NHK-Fintiv* rule is also arbitrary, capricious, and an abuse of discretion because it
4 will not achieve its stated purpose of promoting administrative efficiency, and the Board’s contrary
5 explanations are unreasoned and not rationally connected to the facts.

6 **COUNT 3**

7 **(Final Agency Action In Violation Of 5 U.S.C. § 706(2)(D))**

8 92. Under the APA, the Court “shall ... hold unlawful and set aside” final agency action
9 that is undertaken “without observance of procedure required by law.” 5 U.S.C. § 706(2)(D).

10 93. The *NHK-Fintiv* rule is final agency action undertaken “without observance of
11 procedure required by law.”

12 94. Even if the *NHK-Fintiv* rule were not contrary to law, the Director could not adopt
13 such a rule without notice-and-comment rulemaking. *See* 5 U.S.C. § 553; 35 U.S.C. §§ 2(b)(2),
14 316(a).

15 95. The Director propounded the *NHK-Fintiv* rule as a binding substantive rule without
16 notice and comment in violation of the APA.

17 **RELIEF REQUESTED**

18 WHEREFORE, Plaintiffs respectfully request that the Court enter judgment in their favor
19 and:

- 20 1. Declare that the *NHK-Fintiv* rule is unlawful;
- 21 2. Set aside the *NHK-Fintiv* rule;
- 22 3. Permanently enjoin Defendant, and his officers, agents, employees, assigns, and all
23 persons acting in concert or participating with him, from relying on the *NHK-Fintiv* rule or the non-
24 statutory factors it incorporates to deny institution of IPR;
- 25 4. Award Plaintiffs their costs and attorney’s fees and expenses as allowed by law; and
- 26 5. Provide such other and further relief as the Court deems appropriate.
- 27
- 28

1 DATED: November 9, 2020

Respectfully submitted,

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3 By: /s/ Daniel T. Shvodian

By: /s/ Mark D. Selwyn

4 DANIEL T. SHVODIAN (CA SBN 184576)
5 DShvodian@perkinscoie.com
6 PERKINS COIE LLP
7 3150 Porter Drive
8 Palo Alto, CA 94304-1212
9 Telephone: (650) 838-4300
10 Facsimile: (650) 737-5461

MARK D. SELWYN (CA SBN 244180)
mark.selwyn@wilmerhale.com
WILMER CUTLER PICKERING
HALE AND DORR LLP
2600 El Camino Real, Suite 400
Palo Alto, California 94306
Telephone: (650) 858-6000
Facsimile: (650) 858-6100

11 THERESA NGUYEN (CA SBN 284581)
12 RNguyen@perkinscoie.com
13 PERKINS COIE LLP
14 1201 Third Avenue, Suite 4900
15 Seattle, WA 98101-3099
16 Telephone: (206) 359-6068
17 Facsimile: (206) 359-9000

CATHERINE M.A. CARROLL (*pro hac vice*)
DAVID M. LEHN (*pro hac vice*)
REBECCA LEE (*pro hac vice*)
catherine.carroll@wilmerhale.com
david.lehn@wilmerhale.com
rebecca.lee@wilmerhale.com
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Avenue NW
Washington, DC 20006
Telephone: (202) 663-6000
Facsimile: (202) 663-6363

18 ANDREW T. DUFRESNE (*pro hac vice*)
19 ADufresne@perkinscoie.com
20 PERKINS COIE LLP
21 33 East Main Street, Suite 201
22 Madison, WI 53703-3095
23 Telephone: (608) 663-7492
24 Facsimile: (608) 663-7499

ALYSON ZUREICK (*pro hac vice*)
alyson.zureick@wilmerhale.com
WILMER CUTLER PICKERING
HALE AND DORR LLP
7 World Trade Center
250 Greenwich Street
New York, NY 10007
Telephone: (212) 230-8800
Facsimile: (212) 230-8888

Attorneys for Plaintiff Google LLC

25 By: /s/ John B. Sganga
26 JOHN B. SGANGA (CA SBN 116211)
27 CHRISTY G. LEA (CA SBN 212060)
28 John.sganga@knobbe.com
Christy.lea@knobbe.com
KNOBBE MARTENS OLSON & BEAR LLP
2040 Main St. 14th Floor
Irvine, CA 92614
Telephone: (949) 760-0404
Facsimile: (949) 760-9502

Attorneys for Plaintiffs Apple Inc., Cisco Systems, Inc., and Intel Corporation

Attorneys for Plaintiffs Edwards Lifesciences Corporation and Edwards Lifesciences LLC

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ATTORNEY ATTESTATION

I, Mark D. Selwyn, am the ECF User whose ID and password are being used to file this document. In compliance with N.D. Cal. Civil L.R. 5- 1(i)(3), I hereby attest that concurrence in the filing of the document has been obtained from each of the other signatories.

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Mark D. Selwyn