

Dealing with the aftermath

The USPTO is attempting to quell criticism over the NHK-Fintiv rule.
Alex Yap and Jean Nguyen review

In its precedential order in *Apple Inc v Fintiv, Inc*, the US Patent Trial and Appeal Board (PTAB) clarified its approach to whether to deny institution of a post-grant proceeding under 35 USC section 314 based on a co-pending district court proceeding. The March 2020 *Fintiv* order was controversial and provoked a spirited response from stakeholders. This included a federal lawsuit in August 2020 by several of Silicon Valley's heavy hitters, who alleged that the so-called "NHK-Fintiv rule"¹ is "procedurally invalid". The US Patent and Trademark Office (USPTO) requested comments on the *NHK-Fintiv* rule and designated two NHK-Fintiv related decisions precedential.

The *Fintiv* order and its aftermath

The PTAB has discretion under section 314(a) to deny institution of post-grant proceedings. In a May 2019 precedential decision, *NHK Spring Co v Intri-Plex Technologies, Inc*, the PTAB held that the scheduling of the trial in a parallel co-pending district court proceeding before the PTAB's expected final written decision favoured denying institution. The PTAB expanded upon *NHK* in its precedential *Fintiv* order in March 2020, listing six factors (the NHK-Fintiv rule) for assessing whether to exercise discretion to deny institution.

Discretionary denials rose by 60% year-over-year in 2020. Overall, 20% of denials were on procedural grounds, compared to 12.5% in 2019. Of the 228 non-merit denials, 62% were related to the NHK-Fintiv rule.

Block use of the NHK-Fintiv rule

The rise in discretionary denials triggered much commentary about the NHK-Fintiv rule and sparked the *Fintiv* lawsuit.

On 31 August 2020, four major technology companies filed the *Fintiv* lawsuit in the Northern District of California to enjoin the USPTO's use of the NHK-Fintiv rule. The plaintiffs argued that the NHK-Fintiv "factors [] appear nowhere in the AIA" and are "arbitrary and capricious because [they]

lead to speculative, unpredictable, and unfair outcomes."

The USPTO's recent actions

Subsequent USPTO actions appear to respond to the plaintiffs' arguments in the *Fintiv* lawsuit and related criticisms. For example, one month after the filing of the *Fintiv* lawsuit, the USPTO created a new online form that allows stakeholders to nominate a particular PTAB decision for precedential designation. Less than four weeks later, the USPTO solicited comments on its discretionary denials, including the NHK-Fintiv rule. The commentary period was shorter than usual, lasting only one month and ending shortly before the USPTO moved to dismiss the *Fintiv* lawsuit.

On 23 November 2020, the USPTO moved to dismiss the *Fintiv* lawsuit, asserting that the plaintiffs lacked standing. The USPTO argued that the plaintiffs' claims are not justiciable because:

- The Administrative Procedure Act (APA) provides no cause of action.
- The APA bars courts from reviewing decisions committed to the USPTO's discretion; and
- The only type of actions subject to review under the APA are substantive rules, which the NHK-Fintiv rule is not.

The USPTO also argued that the *NHK-Fintiv* rule reasonably balances policy interests and could not have been adopted through notice-and-comment rulemaking, as it is not a substantive rule. Although alleging that "there is no requirement for the director to... issue[] a request for comments seeking the public's view on, among other things, the appropriate factors to consider for discretionary denials of *inter partes* review," the USPTO nevertheless noted that it had already done so.

The PTAB then designated two NHK-Fintiv related decisions (*Snap* and *Sotera*) precedential in December 2020. In *Snap*, the USPTO held that a stay of litigation weighs strongly against denying institution. In *Sotera*, the PTAB held that petitioner's stipulation not to pursue any

grounds raised or that reasonably could have been raised in the *inter partes* review also weighs strongly against denial. These two decisions merely reiterate guidance from the precedential *Fintiv* order and subsequent PTAB decisions applying the NHK-Fintiv rule. The PTAB could have designated some of its earlier decisions with similar holdings precedential, but did not. For example, in *Shenzhen Carku Technology v Noco Co*, the PTAB stated that district court stays "strongly urge against" denial. And in its widely-cited *Sand Revolution II* decision, the PTAB held that a stipulation not to pursue the same grounds in the district court litigation weighs against denial.

Summary

The USPTO's recent actions have little practical impact and appear to be attempts to calm the public uproar and mitigate complaints over the NHK-Fintiv rule. PTAB watchers wonder whether the installation of a new USPTO director leads to a recalibration of the agency's discretionary denial powers.

Footnote

1. The PTAB has invoked the so-called NHK-Fintiv rule that originates from two precedential PTAB decisions, *NHK Spring Co v Intri-Plex Techs, Inc* and *Apple Inc v Fintiv, Inc*.

Authors



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