

## Hold Off on That merger! - A change in 315(b) Law

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### I. Introduction

This article provides context for, and an explanation of, the decision in *Power Integrations, Inc. v. Semiconductor Components Industries, LLC*, 2018-1607 (Fed. Cir. 6/13/2019).

On June 13, 2019, I broadcast an email with subject line "Hold Off on That merger! - A change in 315(b) Law." The body of that email stated "Today, in *Power Integrations, Inc. v. Semiconductor Components Industries, LLC*, 2018-1607 (Fed. Cir. 6/13/2019), the Federal Circuit held that 315(b) "requires consideration of privity and RPI relationships arising after filing but before institution." So a privity or RPI change after filing of an IPR may be fatal to the IPR. This is a major change in 315(b) law." In response to private requests, I then broadcast a more comprehensive explanation of the relevant law. Shortly thereafter, a US practitioner asked if I could post my more comprehensive explanation so that she could share it outside the email list services.

### II. Explanation of the *Power Integrations* Decision

The following paragraphs are touched up versions of my 6/13/2019 comprehensive explanation of the *Power Integrations* decision.

A list member emailed me "Hi Rick, Can you also give a brief explanation to non-US practitioners?" So there are a fair number of non US practitioners on the list. So I am very involved in the law relating to PTAB proceedings, and this case related to PTAB proceedings. So here is an explanation for non US practitioners. With a fair amount of background for context. I quote few sources; this is my view on the background with some characterization. It is however, not a "brief" explanation.

The USPTO's patent board, the "PTAB" handles administrative litigation proceedings called Inter Partes Reviews (IPRs, and similar proceedings, called PGRs, and CBMs). These proceedings are initiated by anyone wanting to cancel claims in a patent. A person files an IPR petition with the PTAB (and pays a hefty fee) that explains in detail why those claims are unpatentable as either anticipated or obvious based upon patents and printed publications. Within 6 months of the petition filing, the PTAB will decide whether to institute a trial for patentability of the claims of the patent identified in the petition, or not institute the trial for patentability. This kind of proceeding, IPR proceedings, arose as part of the America Invents Act (AIA), which was enacted in 2011, and these proceedings came into existence in September 2012. So they are relatively new. And they came with a couple of details and limitations to IPRs, relevant to explaining the significance of today's *Power Integrations* decision.

Anyway, a couple years after these IPR proceedings came into existence, we started to get decisions from the Federal Circuit (the Court of Appeals for the Federal Circuit, which hears all appeals from patent trials in the United States) on appeals from PTAB final decisions on these new IPR proceedings. Unfortunately, one of the first Federal Circuit decisions concluded that the US Courts could not judicially review IPR institution decisions in any respect. That was unfortunate because it delayed legal certainty. I say delayed, because in January 2018, the Federal Circuit reconsidered whether they could review aspects of PTAB institution decisions that had to do with the statutory framework (as opposed to the decision on the merits of the prior art and claims), and specifically they reconsidered whether they could review institution decisions that construed the statutory provision providing a deadline for a petitioner to file an IPR petition. ([See "Precedential Patent Case Decisions During January 2018" Rick Neifeld, and my discussion therein of the WiFi decision.](#))

So I need to explain this statutory provision providing a deadline for a petitioner to file an IPR petition. You see, part of the intent of the AIA law change back in 2011, was to give a defendant to a patent infringement law suit a binary choice where to challenge the validity of the patent; either in the court in which that defendant was sued, or by way of a PTAB IPR petition. One goal of the AIA was to incentivize the defendant to file an IPR petition promptly enough so it would be decided before the corresponding patent infringement litigation decided patent validity issues, and thereby have the IPR proceeding moot the patent validity issues in the patent infringement litigation. Another goal of the AIA was to reduce litigation costs, by favoring the (presumably lower cost) PTAB IPR petition proceeding over a (presumably more expensive) district court infringement proceeding. It was widely believed that trying patentability of patent claims in a PTAB proceeding would cost a lot less than doing so in the district court infringement proceeding.

One of the things Congress had to consider in forcing this binary decision of IPR proceeding of district court validity challenge, was the possibility of multiple patent infringers unfairly ganging up on a patent owner, for example a set of infringers serially in time filing IPR petitions, and filing the IPR petitions long after the filing of the patent infringement law suit was filed. So Congress built in a bar to late filed IPR petitions, synchronized to the time a defendant was first sued by the patent owner. Congress chose the time period as one year. So Congress included in the AIA a section (35 USC 315(b)) a bar the PTAB instituting a trial in case a petition is filed by the defendant more than one year after that defendant was sued. So far, so good. Congress nailed down the time period that a single defendant or a bunch of defendants that were sued for patent infringement at the same time, had to file an IPR petition, after being sued. But that did not address the issue of IPR petitions possibly being filed by parties that were not a named defendant to the patent infringement suit, but otherwise were on the side of the defendant, like upstream and downstream suppliers of the infringer, indemnitors of the infringer, those planning to purchase the infringers business, and those somehow contractually bound in a manner that would suffer if the patent were

successfully enforced against the defendant. That is, an entity otherwise related to the defendant and an entity that did not like the existence of the patent. So Congress broadened this 1 year time bar to also bar any "real party in interest" (RPI) to the petition, and to any "privy" of the petitioner. Legal certainty for the meanings of RPI and "privy" were also delayed by the Federal Circuit's early, and now defunct, conclusion that they could not review an aspect of the PTAB's IPR institution decisions. However, in late 2018, the Federal Circuit indicated that privy and RPI extended to a much broader class of entities than the PTAB had understood. ([See "Precedential Patent Case Decisions During July 2018" Rick Neifeld, and my discussion therein of the Applications in Internet Time, LLC v. RPX Corporation decision](#)). But questions still remained, such as which entities this time bar might apply. In that regard, the decision today in *Power Integrations, Inc. v. Semiconductor Components Industries, LLC*, 2018-1607 (Fed. Cir. 6/13/2019) continues a trend of pro-patentee decisions from the Federal Circuit in the last couple of years. It deals with a situation in which one big company, Fairchild, gobbled up another big company Semiconductor Components Industries, LLC. Semiconductor Components Industries, LLC was doing business as "ON Semiconductor", and the Federal Circuit referred to it as "ON", so I do, too, below. Back in 2009 the patent owner, Power Integrations, had sued Fairchild for infringing a patent. IPRs became available in 2012, which was more than a year after Fairchild had been sued, so the 315(b) time bar applied to Fairchild; Fairchild was barred from filing an IPR petition. The *Power Integrations v. Fairchild* case had damage awards (in sequential trials; the case bounced back and forth between the Federal Circuit and the trial court for years) in excess of \$100 million, was pending in 2018, and may still be pending (the current status of the case is unclear from the Federal Circuit's decision). One important legal point, though, is that Fairchild was barred from challenging the patent via IPR because of the 315(b) time bar.

In November, 2015, ON entered into an agreement with Fairchild, to merge with Fairchild. Subsequent to the agreement, but before closing the merger, ON filed an IPR petition against the patent involved in the *Power Integrations v. Fairchild* litigation. The merger closed 9/19/2016. The PTAB decided to institute on ON's IPR petition 9/23/2016. So ON filed the petition after it planned to merge with Fairchild, but before the merger completed, and the merger completed and ON was part of Fairchild before the PTAB issued an institution decision, deciding to institute the IPR trial. Once ON decided to merge with Fairchild, ON had an incentive to help Fairchild kill the patent.

So now with that background, a legal question was whether ON's IPR petition was barred because Fairchild was barred by 315(b) from filing an IPR petition, on the theory that Fairchild was an RPI or privy of ON for this particular IPR petition. Previously, the PTAB had concluded that the time for determining whether a party was an RPI or privy was the date on which the petition was filed. ON's petition was filed while ON was still a separate legal entity from Fairchild. The PTAB had concluded that was the end of the story. The PTAB concluded that ON's petition was not barred because, at the time ON filed the IPR petition,

Fairchild was neither an RPI nor a privy of ON, and therefore no 315(b) time bar existed to ON's filing of the petition. So the PTAB instituted review of the patent and found the claims unpatentable. (Keep in mind this was after Power Integrations had sued Fairchild and been awarded more than \$100 million in damages, so this damages award was at risk of disappearing.) It was on these facts that Power Integrations appealed to the Federal Circuit, hoping that the Federal Circuit would buy their arguments that the IPR petition was barred by 315(b). One of Power Integrations' argument was that the time for making a privy or RPI determination for an IPR petition, was not when the IPR petition was filed, but when the PTAB determined whether to institute the IPR trial (recall that is about 6 months after the petition is filed). And that Federal Circuit bought that argument! The Federal Circuit held that the RPI and privy relationships arising any time prior to when the PTAB renders its decision whether to institute trial on an IPR petition need to be considered in a 315(b) determination. As I noted below, the Federal Circuit held (in today's *Power Integrations* decision) that 315(b) "requires consideration of privy and RPI relationships arising after filing but before institution."

So, in this case, Fairchild's consummation of its merger with ON, on a date prior to when PTAB issued their institution decision on the IPR petition, resulted in the 315(b) time bar against Fairchild, applying to the IPR petition originally filed by ON. So, the PTAB's ultimate decision on ON's IPR petition, which was that the claims were unpatentable, goes away as a matter of law (the Federal Circuit ordered the PTAB to vacate its decisions). Since the Federal Circuit reversed the PTAB's decision canceling the claims of Power Integrations patent, the district court's most recent damages award in favor of Power Integrations and against Fairchild remains valid and collectible (although that status of the district court case is unclear from the Federal Circuit decision).

### **III. Summary and Conclusion for Mergers**

In summary, it appears that this change in the timing of determination of RPI and privy in IPR proceedings, resulted in an over \$100 million dollar impact in this one case. If Fairchild had deferred the merger another 4 days, the outcome might have been different; the Federal Circuit might not have found a 315(b) bar to the IPR petition, and the big damages award might have evaporated. So, companies similarly situated to Fairchild should understand the 315(b) issues of timing and scope of RPI and privy, amongst other factors, when considering merger with any company that has filed or might file IPR petitions relating to patent infringements.