



## Intellectual Property ADVISORY ■

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### Stay Guidance Issued, Federal Circuit Opines on First Stay Denial in View of an Instituted Covered Business Method Review

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On July 10, 2014, the U.S. Court of Appeals for the Federal Circuit issued its first decision reversing a district court's denial of a motion to a stay as a result of an instituted Covered Business Method (CBM) review. The decision, *VirtualAgility Inc. v. Salesforce.com, Inc.*, slip op. 2014-1232 (Fed. Cir. July 10, 2014), indicates that the CBM institution decision is the most important factor in determining whether to stay district court litigation. Specifically, the Federal Circuit gave substantial weight to a CBM institution decision that determined that *all* of the asserted claims were more likely than not patent-ineligible under 35 U.S.C. § 101 *and* unpatentable under § 102.

Going forward, this decision signals that plaintiffs and defendants should focus their efforts on the preliminary stage of the CBM review. For defendants, this decision indicates that a CBM petition should address each of the asserted claims under multiple different grounds of ineligibility or unpatentability. As is discussed below, the speed of filing the CBM review and the motion to stay also benefits the defendants. Plaintiffs can likewise focus their efforts on the CBM preliminary response. Specifically, plaintiffs can attempt to reduce the number of claims or the number of different grounds at issue in the CBM review by rebutting the arguments made in the CBM petition. Ultimately, should the plaintiff be successful in removing at least one asserted claim from the CBM review, it appears the likelihood of a stay will be reduced. As is discussed below, evidence of direct competition and the filing of a preliminary injunction appear to benefit a plaintiff seeking denial of a motion to stay.

This decision also appears to extend beyond CBM reviews. Based on the similarity of the tests, the ruling likely also influences how district courts will treat motions to stay in view of a co-pending *inter partes* review (IPR). As a result, it is expected that in both CBM review and IPR, there will be a higher rate of stays in the upcoming months. As such, plaintiffs and defendants alike can benefit from the guideposts outlined by the Federal Circuit in *VirtualAgility*.

#### **The *VirtualAgility* Decision**

In *VirtualAgility*, Plaintiff *VirtualAgility Inc.* (*VirtualAgility*) sued multiple defendants alleging infringement of U.S. Patent No. 8,095,413 (the '413 Patent). On May 23, 2013, Defendant *Salesforce.com Inc.* (*Salesforce*) filed a petition with the Patent Office Patent Trial and Appeal Board (PTAB) requesting CBM review. The petition was granted-in-part. On May 29, 2013, a motion to stay the district court proceedings pursuant to American Invents Act (AIA) § 18(b) (1) was filed.

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In reviewing the appeal from the district court, the Federal Circuit weighed the following four factors enumerated in AIA § 18:

1. Whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial

In analyzing this first factor, a court is charged with weighing the likelihood of reduced issues in the litigation as a result of a CBM review. The Federal Circuit clarified that this first factor does not entitle the district court to review the PTAB findings to determine the likely outcome of the CBM review but instead instructed the district court to analyze whether any issues would remain in the case if any or all of the claims subject to CBM review were canceled.

Specifically, the Federal Circuit noted that the district court should have found it significant that the PTAB granted CBM review on all asserted claims of the sole asserted patent and should not have looked further into the institution decision. Indeed, the Federal Circuit determined that the strong likelihood of cancellation of all of the claims in the sole patent outweighed the remaining invalidity issues in the case not at issue in the CBM review.

Effectively, the parties can influence this first factor based on their actions in the preliminary phase of the CBM review. Defendants can increase the likelihood of stay by successfully challenging all asserted claims under multiple different grounds of rejection (*i.e.*, 35 U.S.C. §§ 101, 102, and 103). In response, plaintiffs can reduce the likelihood of stay by focusing its CBM preliminary response on certain vulnerable claims or grounds of rejection to reduce the likelihood that all asserted claims are each individually challenged under multiple different rejections. If the plaintiff can reduce the claims or grounds at issue in the CBM review, then issues relating to the following factors likely will carry more weight than they did in *VirtualAgility*.

2. Whether discovery is complete and whether a trial date has been set

The second factor relates to a determination of the procedural posture of the district court case. Historically, this factor generally favors granting a stay when the stay motion is filed early in the proceeding. In *VirtualAgility*, the CBM review petition was filed within four months of the defendant being served with a complaint for patent infringement. Immediately after filing the CBM petition, the defendant moved to stay the district court proceedings. At the time of the filing of the motion to stay, the parties had not yet filed their joint claim construction statement, the deadline to complete fact discovery was more than six months away and jury selection was at least a year away.

In its analysis, the Federal Circuit determined that it was not an error to delay a determination on the motion to stay until the PTAB rendered its CBM institution decision. However, given this delay of roughly six months, the Federal Circuit clarified that when CBM review is instituted, district courts should analyze the posture of case not as of the date of the CBM institution decision but instead so as of the date of filing of the motion to stay.

In light of the timing, defendants should now analyze each scheduling order to set a deadline for filing a CBM review and a motion to stay. By filing both early, defendants can increase the likelihood that the proceedings will be stayed. In response, plaintiffs should focus on expediting the schedule of the trial or selecting jurisdictions with faster moving dockets. If plaintiffs are unsuccessful in efforts to expedite, they should optimize the time between the filing of the CBM review and institution decision to at least maximize discovery, advance claim construction and pursue favorable dispute resolution.

3. Whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party

In *VirtualAgility*, the plaintiff argued that the defendant was a direct competitor and the plaintiff would be prejudiced by a loss of market share and customer goodwill should the defendant be able to stay the proceedings. Previously, a demonstration of potential loss of market share or customer goodwill would be a sufficient demonstration of prejudice to weigh strongly against a stay. However, the Federal Circuit clarified alleging direct competition was not sufficient and instead indicated that the plaintiff must show evidence of such competition relating to a particular consumer or contract. Without such evidence, the Federal Circuit determined little weight will be given to any argument that the parties were actual competitors.

The Federal Circuit also criticized the plaintiff for its delay in bringing suit after issuance of the patent and after learning of the alleged infringement and, when it did bring the suit, for not requesting a preliminary injunction. In its analysis, the court determined that had the plaintiff been sufficiently worried about ongoing prejudice, it would have taken such affirmative steps to limit its perceived risk to market share and/or customer goodwill. Based on these shortcomings, future plaintiffs must consider identifying evidence of direct competition. If such evidence cannot be located, plaintiffs will increase the likelihood of a motion to stay being denied by filing a lawsuit immediately after infringement is detected and by filing a preliminary injunction.

With the respect to the tactical advantage prong, the Federal Circuit highlighted the speed with which the defendant filed its CBM petition (*i.e.*, within four months of the infringement action) and its speed in filing the stay motion (*i.e.*, almost immediately after filing the petition) as indicating that defendant was not attempting to use the stay as a tactical advantage. The defendants were also able to demonstrate that they did not withhold prior art from the CBM review for use in the district court, because all other identified prior art was not known at the time of filing the CBM.

With respect to this third factor, defendants can reduce the likelihood of a district court finding that they are attempting to gain a tactical advantage by filing a CBM petition and moving for a stay early in the district court proceedings. Defendants can further strengthen their position by demonstrating that the early filed CBM review includes a substantial amount of the invalidity case. In response, plaintiffs can focus on parts of the invalidity case not included in the CBM review by addressing prior art or grounds of rejection that were withheld from the CBM review.

4. Whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court

In this case, the Federal Circuit determined that the same evidence from the first factor (*i.e.*, simplification of issues) related to the fourth factor. In particular, the Federal Circuit determined that the PTAB granting CBM review on all asserted claims of the sole asserted patent on two separate, alternative grounds, suggested that there was a high likelihood that all of the asserted claims would be patent ineligible or unpatentable. Again, this finding in the CBM review signaled to the Federal Circuit a strong likelihood that all claims would be cancelled, effectively ending the litigation and therefore reducing the burden.

The Federal Circuit did identify – and plaintiffs facing a potential stay should consider – other factors that may balance an otherwise strong showing by the defendant, such as the number of plaintiffs and defendants, the parties' and witnesses' places of residence, issues of convenience, the court's docket and, in particular, its potential familiarity with the patents at issue. While this factor will typically have a similar outcome as the first factor, the Federal Circuit clarified that this prong *does* require its own analysis, leaving plaintiffs with another avenue to challenge the stay even when all asserted claims are at issue in the CBM review.

## Extension to IPR Proceedings

The four-factor test outlined above and enumerated in AIA § 18 is quite similar to the judicially created test that is used in determining whether to stay a district court proceeding in view of an IPR. A three-step test that is commonly used by district courts includes:

1. The stage of the litigation
2. Whether a stay will simplify and streamline the issues that may be presented in subsequent litigation
3. Whether a stay would cause undue prejudice or a clear tactical disadvantage to the nonmoving party<sup>1</sup>

As is readily apparent, these three steps generally are similar to the first three steps described above and enumerated in AIA § 18. As such, while *VirtualAgility* has yet to be used in a district court decision with respect to a stay of an IPR, the guidelines outlined above, with respect to at least the first three factors, should be a significant set of guideposts for future decisions. Thus, plaintiffs and defendants can both benefit from the recommendations highlighted throughout this paper when considering motions to stay in IPR proceedings.

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<sup>1</sup> See, e.g., *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, 2012 WL 7170593, at \*1 (C.D. Cal. Dec. 19, 2012).

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