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No assumptions

The US ruling in *VirtualAgility* does not mean that your client will automatically receive a stay pending a post grant proceeding. Francisco A Villegas & Joyce E Kung, Cohen & Gresser LLP explain why.

The Federal Circuit's recent 2-1 decision in *VirtualAgility Inc. v Salesforce.com, Inc. et al.*[1] reversed a district court judge's denial of a motion to stay a case pending post-grant review under the Transitional Program for Covered Business Method Patents (CBM review). This decision surprised many because, on an initial reading, it suggests that the majority embraced the oft-cited view of Senator Charles Schumer[2] and "effectively creates a rule that stays of district court litigation pending CBM review must always be granted."[3] However, it is unlikely that this case stands for the "eliminat[ion of] judicial discretion to proceed with pending litigation," as feared by the dissent.[4] Instead, this case merely reinforces established jurisprudence concerning stays pending US Patent and Trademark Office (USPTO) or Patent Trial and Appeal Board (PTAB) review in this esoteric but important area of patent litigation.

Factors

To better understand the impact of the *VirtualAgility* case, a good starting point is the factors associated with a stay of patent litigation. In the context of an *inter partes* review (IPR), there are generally three: (1) whether a stay will simplify issues for trial, (2) stage of the proceedings, and (3) whether a stay would cause undue prejudice to the non-moving party.[5] For stays pending CBM review, Section 18(b)(1) of the America Invents Act adds a fourth (4): "whether a stay . . . will reduce the burden on the Court and the parties."[6]

Simplification, burden

The Federal Circuit's analysis of factors (1) and (4) illustrates the steady and consistent nature of the *VirtualAgility* decision.

Résumés

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Stay motions generally present a battle concerning the likelihood that patent claims will survive a USPTO or PTAB review process, with patentees focusing on the thoroughness of prosecution and alleged infringers citing statistical evidence suggesting cancellation. The district court analysis in *VirtualAgility* illustrates such a battle. It detailed the patent's extensive prosecution history and contrasted the claims of the asserted patent with those of a previous CBM case.[7] Based on that analysis, the district court concluded that the PTAB was unlikely to cancel all of the claims, despite the PTAB's determination that all claims were "more likely than not patent-ineligible . . . and invalid . . . ."[8]

The Federal Circuit disagreed, and instead focused its analysis on the factual record as opposed to speculation on what could happen before the PTAB. It rejected the district court's finding as "an improper collateral attack on the PTAB's decision to institute CBM review" and made clear that the time for any review of the PTAB's decision to institute a CBM proceeding was upon appeal of the PTAB's final written decision.[9]

The timing of a stay motion is also important. The Federal Circuit suggested that there was nothing wrong with filing a stay before a proceeding is instituted.[10] However, a party moving before the PTAB decides whether to grant a petition may have tepid results.[11]

Stage of proceedings

VirtualAgility presented no surprising analysis concerning the evaluation of factor (2) – stage of court proceedings. In fact, the analysis was straightforward. When the stay motion was filed, discovery had not begun. When the CBM was instituted, the discovery cut-off was months away and claim construction had not started. Unsurprisingly, the district and appeals court both found this factor to favor a stay.

In contrast, it is the district courts that have taken less traveled legal paths. In *Softview LLC v Apple Inc.*,[12] the district court denied a stay pending reexamination at an early stage in the case, but granted a later stay pending IPR where the case had substantially progressed through fact discovery and *Markman*. That result initially appears counterintuitive, except that the *Softview* court reasoned that the IPR would be faster than reexamination and, moreover, helpful before "launching the parties into the expense of expert discovery."[13]

Meanwhile, the court in *IP Co., LLC v Tropos Networks, Inc.*,[14] determined that a case was still in the early stages of litigation and "well-positioned for a stay," despite having been initiated eight years prior and stayed once already pending an earlier *ex parte* reexamination.

Undue prejudice

The Federal Circuit's analysis of factor (3), undue prejudice, again is grounded on facts. Two aspects of the decision are worth considering in some detail.

First is the majority's analysis on a party's failure to seek a preliminary injunction. Both the lower and appeals court acknowledged that parties may forego a preliminary injunction for many reasons, and the district court was sympathetic to the expense and uncertainty of the process. But according to the majority, "the fact that it was not worth the expense to ask for this remedy contradicts [patentee's] assertion that it needs injunctive relief as soon as possible."[15] Coupled with waiting "nearly a year" to file suit against defendants after the patent issued, the majority found these facts weighed against undue prejudice.[16]

Second, the lower court had found *VirtualAgility* could be unduly prejudiced by the heightened possibility of witness loss because of the "advanced age" of several witnesses.[17] The majority retorted, "[VirtualAgility] asserts that one potentially relevant witness is 'over 60' and three others are 'over 70.' Since when did 60 become so old?"[18] Without further evidence such as illness, age was insufficient to demonstrate a risk of undue prejudice. Further, the majority acknowledged the ability of district courts to authorize depositions to preserve testimony when necessary, even during a stay.[19]

VirtualAgility does not, however, appear to disregard the issue of evidence loss. Again, different facts can lead to different results. The *Softview* case is instructive. There, the court denied a first stay request early in the case, finding that evidentiary staleness resulting from a stay could potentially provide defendant-movant with a tactical advantage. The court granted a second stay request later in the case when fact discovery was complete, which "somewhat mitigat[ed] the risk of evidentiary staleness."[20] Also tipping the balance toward a stay, according to the court, was that the non-movant was a non-practicing entity and not seeking injunctive relief.[21]

Courts do not always tip against a non-practicing entity. In a different action before the same court, the patentee's status as a non-practicing entity helped establish the potential for undue prejudice. In *Walker Digital LLC v Google, Inc.*,[22] the court acknowledged that the parties were not competitors. However, the court recognized that "the longer Google is allowed to engage in allegedly infringing activity, the lower the value of the patents becomes as licensing assets."[23] The impending expiration of the patents in 2016 and "any delay in determining their validity significantly prejudices Walker's ability to license the patents."[24]

Other district courts have evaluated a variety of prejudicial factors. For example, at least one court acknowledged that the existence of prior unsuccessful IPR petitions with similar claims tends toward unfair prejudice.[25] Another pointed to a plaintiff's own delay in identifying asserted claims, measuring the supposed delay in movant's filing an IPR not from the start of litigation, but from the time the asserted claims were asserted.[26] Lastly, one court previewed the theme of *VirtualAgility* when it acknowledged that specific allegations supported by evidence establish a greater possibility of prejudice than mere conclusory statements about market share and business loss.[27]

Conclusion

VirtualAgility likely did not change the landscape of stay motions, but it does serve to remind litigants of the need to argue pertinent facts instead of relying upon speculative outcomes.

1 Case No. 2014-1232, --F. 3d --, 2014 WL 3360806 (Fed. Cir. July 10, 2014). VirtualAgility petitioned for en banc review on August 25, 2014 (D.I. 61).

2 157 Cong. Rec. S1364 (daily ed. March 8, 2011) ("[I]t is expected that, if a proceeding against a business method patent is instituted, the district court would institute a stay of litigation unless there were an extraordinary and extremely rare set of circumstances not contemplated in any of the existing case law related to stays pending reexamination.").

3 *VirtualAgility,* 2014 WL 3360806, at *18 (Newman, J., dissenting).

4 *Id.*

5 *See, e.g., Baseball Quick, LLC v MLB Advanced Media L.P. et al.,* Case 1:11-cv-01735-KBF, 2013 WL 5597185, at *1 (S.D.N.Y. Oct. 9, 2013); *Brixham Solutions Ltd v Juniper Networks, Inc.,* Case 3:13-cv-00616-JCS2014 WL 1677991, at *1 (N.D. Cal. Apr. 28, 2014); *Macrosolve, Inc. v Antenna Software, Inc., et al.,* Case 6:11-cv-00287-MHS-KNM, 2013 WL 7760889, at *1 (E.D. Tex. Aug. 30, 2013); *Softview LLC v Apple Inc. et al.,* Case 1:10-cv-00389-LPS, 2013 WL 4757831, at *1 (D. Del. September 4, 2013).

6 Section 18(b)(2) further provides that parties may request immediate interlocutory appeal from the lower court's decision.

7 *VirtualAgility, Inc. v Salesforce.com, Inc. et al.,* Case 2:13-cv-00011-JRG, 2014 WL 94371, at *2-5 (E.D. Tex. January 9, 2014).

8 *VirtualAgility,* 2014 WL 3360806, at *1.

9 *Id.* at *5.

10 *Id.* at *7-8.

11 *Id.* at *7 ("While a motion to stay could be granted even before the PTAB rules on a post-grant review petition, . . . the case for a stay is stronger after post-grant review has been instituted."); *but see Virginia Innovation Sciences, Inc. v Samsung Elecs. Co., Ltd.,* 983 F. Supp. 2d 713, 760 (E.D. Va. 2014) (chastising the "glaring omission" of failing to notify the court of the IPR petition as soon as it was filed).

12 2013 WL 4757831 (D. Del. September 4, 2013).

13 *Id.* at *2.

14 Case 1:06-cv-00585-CC, D.I. 188, at slip op. 4 (N.D. Ga. Mar. 5, 2014) (no "significant discovery" and no claim construction hearing or trial date set, although *Markman* briefing was complete, and defendant had filed a summary judgment motion for invalidity).

15 *VirtualAgility,* 2014 WL 3360806, at *10.

16 *Id.*

17 "[W]hen a case is stayed, witnesses may become unavailable, their memories may fade, and evidence may be lost while the PTO proceedings take place." *VirtualAgility, Inc,.* 2014 WL 94371, at *7 (E.D. Tex. January 9, 2014) (internal quotation omitted).

18 *VirtualAgility,* 2014 WL 3360806, at *10.

19 *Id.* (citing Fed. R. Civ. P. 27).

20 *Softview,* 2013 WL 4757831, at *1.

21 *Id.; see also Xlidev, Inc. v Boku, Inc.,* Case No. 13cv2793 DMS (NLS), 2014 WL 3353256, at *2 (S.D. Cal. July 1, 2014) (undue prejudice factor weighing in favor of a stay where NPE plaintiff did not seek a preliminary injunction and where there was no evidence of how monetization makes it competitive to defendants).

22 2014 WL 2880474, at *1 (D. Del. June 24, 2014).

23 *Id.*

24 *Id.*

25 *CTP Innovations, LLC v V.G. Reed and Sons, Inc.,* Civil Action No. 3:14-CV-00364-H, D.I. 11, slip op. at 2 (W.D. Ky. July 18, 2014).

26 *Destination Maternity Corp. v Target Corp.,* Civil Action No. 12-5680, --F.3d.--, 2014 WL 1202941, at *3-4 (E.D. Pa. March 24, 2014).

27 *Nippon Steel & Sumito Metal Corp. v POSCO and POSCO America Corp.,* Civil Action No. 12-2429 (DMC), 2013 WL 1867042, at *9 (D.N.J. May 2, 2013) (acknowledging the larger context of pending multinational litigations and existing relationship, recognizing that "the reality . . . is that this is litigation armageddon" and "a stay will not simplify or advance resolution of this feud.").