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PATENTS

This is the third installment in a series reflecting on the anniversary of post-grant opposition proceedings conducted by the Patent Trial and Appeal Board. This piece looks at the interaction between the PTAB proceedings and patent infringement litigation in federal district courts.

*Lead Report/Patents***America Invents Act Post-Grant Oppositions After Two Years: Relationship Between PTAB Actions and Litigation in Federal Courts**

To mark the two-year anniversary of post-grant opposition proceedings conducted by the Patent Trial and Appeal Board, we have previously reported on overall views of this feature of the America Invents Act, as well as the end-to-end handling of PTAB petitions.¹

We now turn to the relationship between PTAB actions and litigation in federal courts, covering four topics: 1) district courts' propensities for granting stays of concurrent litigation; 2) the board's acknowledgment of the finality of a court decision, and vice versa; 3) the Federal Circuit's first rulings on appeals of PTAB decisions; and 4) the estoppel effects of a board decision under the AIA.

Stays in District Court.

The vast majority of post-grant oppositions have been filed by parties appearing in federal court as alleged patent infringers, whether as defendant in an infringement case or plaintiff in a declaratory judgment action charged as an infringer in a counterclaim.

The alleged infringer more likely than not will file a motion for a stay of the district court action, with different expectations depending on whether the PTAB chal-

lenge is an inter partes review (IPR) or covered business method (CBM) petition.

Section 18(b) of the AIA sets out a four-factor analysis for whether to grant a stay pending resolution of a CBM review, with Congress's thumb pressed heavily on the side of granting a stay. The Federal Circuit indicated as much on July 10,² with a dissent accusing the court of establishing a "rule" in favor of stays.

But stays in IPR-related cases are more difficult to predict. An IPR petition has to be filed within one year of the commencement of the litigation, and one factor is how far along the district court case has proceeded.

"Obtaining a litigation stay pending a PTAB proceeding is far from a sure thing," Eleanor M. Yost of Goodwin Procter LLP, Washington, told Bloomberg BNA. "In some courts that have fast moving dockets, it can even be an uphill battle."

"Running out the one-year clock on the time to file an IPR and then turning around and asking for a stay is a

² *VirtualAgility Inc. v. Salesforce.com, Inc.*, 2014 BL 191228, 111 U.S.P.Q.2d 1763 (Fed. Cir. July 10, 2014), and *Benefit Funding Sys. LLC v. Advance Am. Cash Advance Ctrs. Inc.*, 2014-1122, 2014 BL 266984 (Fed. Cir. Sept. 25, 2014). An upcoming Bloomberg BNA Insight by attorneys at Finnegan, Henderson, Farabow, Garrett & Dunner LLP in Washington will discuss these cases in more detail.

¹ See *Benefit or Death Squad?* and *A Case End-to-End: What Wins? What Loses?*.

risky strategy—and may just result in a fight on two fronts,” she said.

“Obtaining a litigation stay pending a PTAB proceeding is far from a sure thing. In some courts that have fast moving dockets, it can even be an uphill battle.”

ELEANOR M. YOST, GOODWIN PROCTER LLP

“Many judges will be reluctant to grant a stay if they have already invested a substantial amount of time and energy on a case and are nearly a year out from the filing of the complaint,” according to Gerald J. Flattmann of Paul Hastings LLP, New York.

His colleague, Naveen Modi, insisted, “Timing is a big factor. The quicker a defendant moves for a stay, the higher the chances are of a stay.”

Grant Ford of Sughrue Mion PLLC, Washington, agreed about the timing but said, “The likelihood of having a stay granted pending outcome of AIA proceedings is highly fact-specific and may be variable based upon venue and individual judges.”

David L. Cavanaugh of Wilmer Cutler Pickering Hale and Dorr LLP, Washington, said that his firm has tracked stay motions in over 200 cases and seen a grant rate of over 50 percent.

“The district courts with the most stays are the Northern District of California and Delaware; the district with the most stays denied is the Eastern District of Texas,” he said.

Judges’ primary rationale for granting a stay “is the potential narrowing of issues in an IPR proceeding,” Cavanaugh added.

But, he also said, “Some judges have identified the status of competitors as a reason to deny a stay and others have granted a stay when the parties are not direct competitors in the marketplace.”

Flattmann said that there is a “trend” toward more stay grants, but he identified another reason why courts have denied stays.

“Specifically in the Hatch-Waxman context, a judge may be reluctant to grant a stay if it appears that the generic [drug company] is gaming the system, e.g., by waiting until a year of litigation and discovery have gone by and then filing an IPR to run another year or more off of the automatic 30-month stay of approval,” Flattmann said.

“Courts are not likely to look kindly on such an approach.”

Jon E. Wright of Sterne, Kessler, Goldstein & Fox PLLC, Washington, noted a good reason why patent owners, and possibly some alleged infringers, would fight a stay.

“One impact a stay decision can have on PTAB strategy is that the parties may lose a robust parallel vehicle for discovery.”

JON E. WRIGHT, STERNE, KESSLER, GOLDSTEIN & FOX PLLC

“One impact a stay decision can have on PTAB strategy is that the parties may lose a robust parallel vehicle for discovery,” he said.

“PTAB discovery is severely limited. So a district court stay could have a negative impact on a party that may have succeeded in obtaining discovery in the parallel enforcement action, such as a patent owner seeking discovery of copying by the accused infringer,” he said.

A last factor a district court may consider is the stage of review at the PTAB—whether the board has already instituted trial yet or not. But Ford said, “we’ve succeeded in obtaining conditional stays prior to receiving institution decisions.”

And Cavanaugh was firmer in saying that the PTAB stage does not appear to be a factor in district court judges’ decisions.

Finality of PTAB or Court Decisions.

Another issue of concern generally to stakeholders appears to be less important in the AIA-procedure context: parallel proceedings at the board and in court that prolong decision making and have inconsistent rules for issue preclusion.

Issues that have come up so far are the PTAB continuing its trial on a patent challenge despite a district court decision, settlement and patent expiration,³ and the Federal Circuit denying a stay of a patent infringement award despite a PTAB ruling against the patent owner.⁴

Wright saw a likelihood of more conflicts with concurrent proceedings and stressed the importance of putting every effort into the PTAB proceeding.

“As a practical matter, there are few ways to impact the timing of a final board decision, or any Federal Circuit appeal that follows,” he said. “So stay or no stay, the need to succeed in front of the PTAB is now paramount given the level of deference its decisions are accorded on appeal.”

But the bigger concern might have been an expansion of the result in *Fresenius v. Baxter*,⁵ where litigation was arguably prolonged for years to allow a reexamination to invalidate the patent.

“The *Fresenius v. Baxter* timing of a final decision was, in part, due to the extended length of time associated with PTO determinations in reexaminations,” WilmerHale’s Cavanaugh said. “The AIA addressed the

³ *Interthinx, Inc. v. CoreLogic Solutions, LLC*, No. CBM2012-00007 (P.T.A.B., Jan. 30, 2014).

⁴ *Versata Computer Indus. Solutions, Inc. v. SAP AG*, 564 Fed. Appx. 600, 2014 BL 170171 (Fed. Cir. 2014).

⁵ *Fresenius USA Inc. v. Baxter Int’l Inc.*, 721 F.3d 1330, 2013 BL 175930, 107 U.S.P.Q.2d 1365 (Fed. Cir. 2013), cert. denied May 19, 2014.

effect of a delay by setting some statutory time frames for filing an IPR (one year from service of complaint) and the issuance of a final written decision by the PTO (one year from the decision on institution). Thus, some aspects of the timing of concurrent proceedings in *Fresenius* may be more relevant to a concurrent inter partes reexamination and less so for IPRs.”

“It’s all about being flexible, staying informed and moving quickly.”

DAVID L. CAVANAUGH, WILMER CUTLER PICKERING HALE AND DORR LLP

Nevertheless, Cavanaugh identified strategic issues that parties should attend to when there is concurrent litigation and board proceedings.

“For example, parties will have to determine what claim construction positions should be advanced in each forum and how to address the board’s construction in claim construction in the district court,” he said.

“Additionally, the timing of a final written decision could be late in the district court’s trial calendar and both parties will have to incorporate new information and circumstance to the district court strategy right up to trial,” Cavanaugh said.

“It’s all about being flexible, staying informed and moving quickly,” he said.

Appeal of PTAB’s Decisions.

And any concerns for finality have to consider that the final word on much of how the PTAB is conducting its trials still rests with the Federal Circuit—if not the Supreme Court.

Some provisions of the AIA were arguably ambiguous, and the PTAB in essence took the first pass at interpreting those provisions. To date, the Federal Circuit has dismissed all attempts to challenge the PTAB’s decisions whether or not to institute trial, whether appealed by the alleged infringer whose petition was denied (80 PTD, 4/25/14) or by the patent owner who has to face a PTAB trial (87 PTD, 5/6/14).

Substantive questions, with potentially far greater impact, are now before the appeals court.

“Just as the board has seen an influx of filing for these proceedings, we anticipate that the Federal Circuit will see a substantial increase in appeals from the PTO as a result of the AIA,” WilmerHale’s Cavanaugh said.

He looked at the first Federal Circuit decisions and said, “Through these statutory interpretation issues, we are seeing how the Federal Circuit analyzes the language and application of the AIA.”

One ripe area for review is claim construction, where stakeholders have already voiced strong objections to the PTAB’s decisions to review granted patents under the “broadest reasonable interpretation” (BRI) standard accorded new patent applications, rather than the Federal Circuit’s more narrow standard under *Phillips v. AWH Corp.*, 415 F.3d 1303, 75 U.S.P.Q.2d 1321 (Fed. Cir. 2005) (en banc).

Cavanaugh predicted that “the Federal Circuit will likely explore the contours between” the two approaches, with cases currently before the court present-

ing that question. However, again reviewing WilmerHale’s collected data, he said, “In the few cases which have progressed far enough to have relevant decisions, there was not a lot of difference between most constructions.”

He said that the board has acknowledged district courts’ constructions in some cases and, even though it uses a different standard, it “arrived at similar constructions.”

Flattmann of Paul Hastings anticipated a challenge to the PTAB’s obviousness rulings.

“I think that in several cases, perhaps even as a direct result of its technical acumen, the PTAB has shown a tendency to engage in hindsight analysis of obviousness questions,” he said. “We may see some pushback from the Federal Circuit on that front.”

Cavanaugh agreed. “The basic conditions of obviousness as applied by the board will be explored on appeal as well as how much deference a board determination of obviousness determination should receive.”

Sterne Kessler’s Wright was anticipating a CBM-related case to be equally important.

The case before the board was *SAP Am. Inc. v. Versata Dev. Grp. Inc.*,⁶ and it featured controversial rulings that Versata’s product pricing claims qualified as “covered business methods” and that the AIA allowed a challenge on the grounds of patent eligibility under 35 U.S.C. § 101.⁷

“We will soon see the *Versata v. SAP* oral arguments at the Federal Circuit, both the appeal from the Administrative Procedure Act action and the appeal of the final board decision in the CBM,” Wright said.⁸

“We might expect to see more deference to the PTAB from jurisdictions with less patent experience.”

GERALD J. FLATTMANN, PAUL HASTINGS LLP

“Perhaps the most well-known issue is the scope of appellate review available for the new AIA proceedings,” he said. “In particular, we will learn the degree to which a party can challenge the PTAB’s institution decision, and the degree to which a party can seek review under the APA for other aspects of the AIA proceedings.”

“Another very interesting issue in the *Versata v. SAP* case is whether Congress authorized Section 101 challenges in CBM proceedings,” Wright said. “Given the Supreme Court’s recent decision in *Alice v. CLS Bank*,⁹

⁶ No. CBM2012-00001.

⁷ See 107 U.S.P.Q.2d 1097 (P.T.A.B. June 11, 2013) for the board’s final written decision. That appeal is in Case No. 14-1194 at the Federal Circuit. Versata is also appealing, in No. 14-1145, the Eastern District of Virginia’s judgment that it lacked jurisdiction over Versata’s complaint. *Versata Dev. Corp. v. Rea*, 959 F. Supp. 2d 912 (E.D. Va. 2013).

⁸ Oral argument in the case was originally scheduled for Oct. 8, but it was postponed without a reschedule decision yet.

⁹ *Alice Corp. Pty Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2014 BL 170103, 110 U.S.P.Q.2d 1976 (2014)(119 PTD, 6/20/14).

how the Federal Circuit rules on this issue could have a huge impact on CBM, and even some IPR proceedings.”

Estoppel Created by PTAB Decisions.

As to the estoppel effects of arguments made before the PTAB, again, there are differences between IPR and CBM proceedings. The former only allow prior art-related arguments and the latter allow a challenge to a patent on any patentability grounds.¹⁰

“This is complex because the answers and strategy are dependent both on the specific context of the case and the procedural status of the PTAB’s decision,” Paul Hastings’s Flattmann said.

¹⁰ See Estoppel as Applied to and from Patent Office Post-Grant Proceedings (159 PTD, 8/18/14), by Monica Grewal and Richard A. Crudo of Wilmer Cutler Pickering Hale & Dorr LLP, Boston; and Navigating the Minefield: Avoiding Estoppel in Preliminary Proceedings at the Patent Trial and Appeal Board (169 PTD, 9/2/14), by Grant Ford of Sughrue Mion PLLC, Washington.

“The district court is operating under a different set of standards than the PTAB and is not necessarily going to feel bound by its findings and decisions,” he said, and that should worry patent owners because “claims in the PTAB are more vulnerable to validity challenge because of the PTAB’s use of a different [BRI] claim construction methodology and a laxer standard for proving invalidity (‘preponderance of the evidence’ as opposed to ‘clear and convincing evidence’).”

“As a result, I don’t think the parties feel that the district court is necessarily going to follow the PTAB’s decision, particularly prior to an appeal decision,” Flattmann said.

Nevertheless, he added, “A PTAB decision is bound to drive settlement one way or another, just like any other major decision in a litigation. The answer may also depend on the sophistication and comfort level of the particular court and judge in patent matters. We might expect to see more deference to the PTAB from jurisdictions with less patent experience.”

BY TONY DUTRA