A Key Question On Appeals Of Stays Pending CBM Review

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This is the final article in WilmerHale's series of six Expert Analysis articles discussing relevant post-grant issues. Previous articles included, "Lessons From Inter Partes Review Denials," "When Inter Partes Review Meets Hatch-Waxman Patents," "Claim Constructions In PTAB Vs. District Court," "Tips For Dealing With Competing IPR And ITC Deadlines" and the most recent, "Inter Partes Review And A Soon-To-Expire Patent."

Section 18(b)(1) of the America Invents Act requires district courts to apply four factors when deciding motions to stay litigation pending covered business method review.[1] Litigants unhappy with a district court's application of those factors may take immediate interlocutory appeal to the Federal Circuit pursuant to AIA Section 18(b)(2). Below is a brief description of the Federal Circuit's Section 18(b) case law to date and one key question the Federal Circuit has not yet answered.

Federal Circuit Precedent

The Federal Circuit's first Section 18(b) decision came in July 2014 in Virtual Agility Inc. v. Salesforce.com Inc., 759 F.3d 1307 (Fed. Cir. 2014). There, the Eastern District of Texas denied a stay of litigation pending CBM review of every patent claim asserted in the case. Id. at 1309. The defendants appealed the court's denial.

The Federal Circuit reversed. Although the majority provided analysis as to all four Section 18(b)(1) factors, it offered particularly noteworthy points with respect to the first factor — whether a stay pending the CBM review would simplify any future trial. For instance, the majority stated that a stay is favored where the Patent Trial and Appeal Board institutes review of every patent claim in a litigation because the proceeding "could dispose of the entire litigation: the ultimate simplification of issues." Id. at 1314.

The second decision concerning Section 18(b) issued in September 2014 in Benefit Funding Systems v. Advance America Cash Advance Centers Inc., 767 F.3d 1383 (Fed. Cir. 2014). In that case, the Federal Circuit affirmed the District of Delaware's grant of a stay.

The appellant's argument "rest[ed] on the single premise that the PTAB is not authorized to conduct CBM review based on § 101 grounds," and thus the district court should not have issued a stay pending that proceeding. Id. at 1385. The panel found that argument to be a "collateral attack" on the CBM review proceeding itself, and stated that "[t]he stay determination is not the time or the place to review the PTAB's decisions to institute a CBM proceeding." Id. at 1386 (quoting Virtual Agility, 759 F.3d at 1313).

The most recent Federal Circuit decision came in November 2014 in Versata Software Inc. v. Callidus Software Inc. 771 F.3d 1368 (Fed. Cir. 2014).[2] The defendants moved that District of Delaware stay litigation in light of petitions for CBM review of Versata's asserted patents. While that motion was pending, the PTAB instituted CBM review on all three of Versata's patents, but not every asserted claim of those patents. Id. at 1370. The district court agreed to stay the litigation as to one Versata patent, but declined to stay the case as to the other two. Id. at 1370. Callidus appealed the court's decision to the Federal Circuit. During the appeal, Callidus successfully petitioned the PTAB to institute CBM review of every remaining claim of the two Versata patents not subject to a stay. Id. at 1370-71.

The Federal Circuit reversed the district court. With respect to the first Section 18(b)(1) factor, the Federal Circuit found that "a categorical rule" that stays should be disfavored "if any asserted claims are not also challenged in the CBM proceeding ... is inappropriate." Id. at 1371. It noted that a stay may be warranted even where "some, but not all, of the claims asserted in litigation are challenged in a CBM review." Id. at 1372. Notwithstanding this analysis, the panel took judicial notice that the PTAB instituted CBM review of the remaining claims in Versata's patents during the appeal. Id.

There are three Section 18(b) appeals currently pending before the Federal Circuit.[3] These cases are at various stages of the appeal process. First, the court heard oral arguments in Transunion Intelligence v. Search America, No. 14-1329 (Fed. Cir. Dec. 5, 2014) and a decision is forthcoming. Second, the Federal Circuit heard oral argument on Jan. 7, 2015, in Intellectual Ventures II LLC v. JPMorgan Chase & Co., No. 14-1724 (Fed. Cir. Nov. 5, 2014). And third, briefing is complete in Segin Systems Inc. v. Stewart Title Guaranty Co., No. 14-1786 (Fed. Cir. Sept. 25, 2014) and oral argument is scheduled for Feb. 4, 2015.

A Key Unanswered Question

The Federal Circuit's decisions have answered some questions embedded in Section 18(b), but more remain. Particularly perplexing is what standard of review the Federal Circuit must apply when a party appeals a district court's decision on a motion to stay litigation pending CBM review.

Section 18(b)(2) states that the Federal Circuit "shall review the district court's decision [on a motion to stay litigation pending CBM review] to ensure consistent application of established precedent, and such review may be de novo." AIA § 18(b)(2). But the statute itself does not explain what the phrase "may be de novo" means.

This language could be the result of congressional markups. Section 18(b) began as an amendment to the developing AIA and was drafted by former Sen. Jon Kyl and Sen. Chuck Schumer, D-N.Y.[4] The original language of the proposed amendment is not publicly available, but was circulated to members of the senate judiciary committee by early 2011; the senators discussed the proposal at the committee's Feb. 3, 2011, meeting. Senator Schumer noted during the meeting that some individuals had "raised concerns about how the amendment is drafted."[5] A few days after the committee's February meeting, Sen. Kyl stated that "[t]he appeal right has been modified to provide that such review 'may be de novo'." 157 Cong. Rec. S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

Even after the "may be de novo" language was inserted into the proposed amendment, Sen. Schumer stated that "[o]n appeal the Federal Circuit can and should review the district court's decision de novo." 157 Cong. Rec. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer). He continued:

> It is expected that the Federal Circuit will review the district court's decision regarding a stay de novo, unless there are unique circumstances militating against a de novo review, such as subsequent requests for an interlocutory appeal in the same case. A de novo review is central to the purpose of the interlocutory appeal provision in [Section 18(b)], which is to ensure consistent application of standards and precedents across the country and to avoid one particular court with a favorable bench becoming the preferred venue of business method patent plaintiffs.

Id. The Federal Circuit has not yet interpreted Section 18(b)(2), or analyzed its legislative history. In Virtual Agility, the court expressly said that "[n]othing in this opinion should be read as deciding the standard of review applicable to the ultimate stay decision or the individual factors" and "le[ft] it to a future case to resolve what Congress meant when it indicated that our 'review may be de novo.'" 759 F.3d at 1310. The court in Versata followed the approach taken in Virtual Agility, stating that the standard of review was not material to disposition of the appeal and passing over the question. 771 F.3d at 1371. And in Benefit Funding, the court simply reiterated Section 18(b)(2)'s standard without attempting to articulate the level of review it was applying. 767 F.3d at 1385.

The Federal Circuit acknowledged in Virtual Agility that the "may be de novo" standard represents a marked change from the "abuse of discretion standard" it applied traditionally when reviewing orders on motions to stay litigation pending pre-AIA U.S. Patent and Trademark Office proceedings. 759 F.3d at 1310. As some have argued, that change could reflect a congressional intent to alter the previously employed standard of review. See Segin Sys. Inc., No. 14-1786, Dkt. No. 14 at 15. Indeed, the only standard of review mentioned in Section 18 is "de novo" and Senator Schumer's statements to Congress may suggest a belief that plenary review is appropriate.

But de novo review might raise unique issues in a Section 18(b) appeal. The four-factor analysis of Section 18(b)(1) requires a district court to make a number of factual determinations and engage in case-specific analysis. Such determinations are oftentimes reviewed with deference to the trial judge. Moreover, some appellants have noted that Section 18 only states that the Federal Circuit's review "may be de novo," in contrast to the proceeding sentence, which states that the Federal Circuit "shall review the district court's decision to ensure consistent application of established precedent." AIA § 18(b)(2) (emphasis added); see Benefit Funding Sys., No. 2014-1122, Dkt. No. 25 at 18-20.

It is possible that Congress gave the Federal Circuit the "authority to conduct more searching review of decisions to stay pending CBM review," Benefit Funding Sys., 767 F.3d at 1385, without requiring the court to employ that standard in every case. However, such a reading would naturally raise questions as to when the Federal Circuit may choose to apply its de novo power. After all, the "may be de novo" standard is unique to patent law, the AIA, and the United States Code as a whole; it does not appear anywhere else.

The lack of case law interpreting Section 18(b)(2) presents challenges for practicing attorneys counseling their clients. Whether a district court's decision will be given deference may influence a client's decision to undergo the cost and risk of an appeal.

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[1] Those factors are whether: (1) a stay will simplify or streamline a trial; (2) discovery is complete or a trial date has been set; (3) a stay will unduly prejudice the nonmoving party or offer a clear tactical advantage to the moving party; and (4) a stay will reduce the burdens of litigation. AIA § 18(b)(1).

[2] The Federal Circuit issued its decision just one day after the parties jointly moved to terminate the case. The Federal Circuit has asked for briefing as to whether the opinion should be vacated in light of the parties' stipulation of dismissal. See Versata Software Inc. v. Callidus Software Inc., No. 14-1468 (Fed. Cir. Dec. 12, 2014). Versata contends that the opinion should be vacated. Id. at Dkt. No. 43. Callidus does not. Id. at Dkt. No. 44.

[3] A fourth appeal has been dismissed. See AutoAlert Inc. v. Dealersocket Inc., No. 14-1560 (Fed. Cir. Aug. 1, 2014) (appeal dismissed after district court reconsidered its earlier denial of a stay).

[4] Joe Matal, A Guide to the Legislative History of the America Invents Act: Part II of II, 22 Fed. Cir. B. J. 539, 628 (2013).

[5] See Executive Business Meeting: Before the S. Comm. on the Judiciary, 112th Cong. (2011) (statement of Senator Schumer), http://www.judiciary.senate.gov/hearings/watch?hearingid=453fcdb8-4040-f985-52cd-c67ccaf632b6, at 51:01 ("However, some people have raised concerns about how the amendment is drafted. We've made a number of changes to our amendment to accommodate these concerns and believe [that] what we've come up [with] is a fair way of addressing the issue.").