

Federal Circuit Says District Courts Should Freely Grant Stays When CBM Proceeding Instituted

November 25, 2014 | Alert | By Anthony Zappin

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On November 20, 2014, the Federal Circuit issued its decision in *Versata Software, Inc. v. Callidus Software, Inc.* reversing the district court's denial of a motion to stay pending a Covered Business Method ("CBM") review of the patents asserted by Versata in the action. The Court's decision signaled that district courts should freely grant stays in pending CBM reviews instituted by the Patent Trial and Appeal Board ("PTAB"). More importantly, the Court ruled that stays can be warranted even when a CBM proceeding does not address all asserted patents, claims or invalidity defenses in a district court action. The Federal Circuit's decision may be influential to district courts' rulings on motions to stay in other post-issuance proceedings, such as *Inter Partes Review* ("IPR").

By way of background, the appeal was taken from a July 19, 2012 action in which Versata sued Callidus in the District of Delaware alleging infringement of three patents related to the "management and tracking of sales information by a financial services company." Callidus filed a motion to dismiss based on the pleadings as well as a motion to transfer to the Northern District of California. Both motions were denied by the district court. Callidus subsequently answered Versata's complaint and filed counterclaims asserting its own patent. Callidus also filed a set of CBM petitions which challenged all of the claims of one of Versata's asserted patents, but only selected claims from the other two patents Versata asserted. When the PTAB instituted CBM review as to Callidus's first set of petitions, the district court stayed the proceedings with respect to the one patent in which Callidus challenged all claims of the patent, but denied the stay with respect to the other two patents. As the Federal Circuit noted, the district court improperly seemed to "create[] a categorical rule that if any asserted claims are not also challenged in the CBM proceeding," a stay is disfavored. Callidus filed an interlocutory appeal pursuant to Section 18(b)(2) of the America Invents Act ("AIA") seeking to overturn the district court's denial of a stay as to the other two patents. Also, while the appeal was pending, a second set of CBM petitions were filed by Callidus as to the remaining claims on the patents not stayed by the district court, which were instituted by the PTAB.

In making its decision, the Court analyzed Section 18(b) of the AIA, which outlines four factors a district court must consider in staying a civil action pending CBM review. Specifically, a court must look at:

- whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;
- whether discovery is complete and whether a trial date has been set;
- whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage of the moving party; and
- whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

In assessing these factors, the district court had acknowledged "the presence of Congress' thumb on the scale of justice," but still concluded that a complete stay would "not simplify or reduce the burdens of litigation." The Federal Circuit disagreed with the district court's analysis and noted that a categorical rule requiring all claims be subject to CBM before granting a stay is inappropriate, citing its recent *VirtualAgility, Inc. v. Salesforce.com, Inc.* opinion in which it stayed the case even though two prior art references were not asserted in the CBM review. The Court specifically noted that "[s]tays can be warranted even when a CBM proceeding does not address all asserted patents, claims, or invalidity defenses," and that "there can still be simplification of issues when only some, but not all, of the claims asserted in litigation are challenged in a CBM review."

In looking to the second factor, the Court stated that the district court erred by "fail[ing] to analyze how much more remains to be done in the litigation before reaching the trial date." It held that "generally the time of *filing* the motion [to stay] will be the relevant stage at which to measure this factor." However, the Court noted that lower courts "are not obligated to ignore advances in the litigation that occur as of the

date that the PTAB grant[s] CBM review." After the filing of Callidus' motion to stay, the parties began to engage in discovery. However, the Federal Circuit still believed that the second factor weighed strongly in favor of granting a stay as the case was still in the stage of fact discovery.

With respect to the third factor, the Federal Circuit disagreed with the district court that Callidus was using the "stay card" as a sword and a shield. The district court had ruled that since Callidus was asserting its own patent that Versata would be at risk and Callidus would have an unfair advantage in the litigation if the case were stayed as to Versata's asserted patents. However, the Federal Circuit responded by pointing out that Callidus intended to stay the entire case, which weighed in favor of granting its motion to stay.

Finally, as to the fourth factor, the district court ruled that Callidus had increased the burden of the litigation by filing preliminary motions. The Federal Circuit concluded, however, that "the district court clearly erred in evaluating the burden-of-litigation exclusively through this backward-looking lens. The correct test is one that focuses prospectively on the impact of the stay on the litigation, not on the past actions of the parties." It noted that when framed appropriately, a stay will indeed reduce the future burdens of litigation.

Ultimately the Court found that, weighed together, all the factors outlined in Section 18(b) of the AIA favored a stay. As a result, this case may have implications for district court stays in other post-issuance proceedings, such as IPRs. On one hand, the IPR section of the AIA does not articulate factors for the district court to consider in granting a motion to stay during an IPR. It also contains a less deferential standard of review for the appellate court in reviewing a district court's decision whether to grant or deny a party's motion to stay. On the other hand, the factors considered for a stay in a CBM are common to those considered by a district court for an IPR, and lower courts will likely look to this case and the Federal Circuit's *VirtualAgility* case for guidance. Thus, even if it will be more difficult for the Federal Circuit to reverse and remand a denial of a stay in the IPR context, the application of the factors outlined in this case and *VirtualAgility* may be influential on district courts considering whether to grant or deny a party's motion to stay where an IPR is pending.

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