

# Automatic Stay of Litigation Pending Inter Partes Review?: A Simple Proposal for Solving the Patent Troll Riddle

## A Simple Proposal for Solving the Patent Troll Riddle

By Eric W. Schweibenz, Robert C. Mattson, and Lisa M. Mandrusiak

Eric W. Schweibenz is a partner at Oblon, Spivak, McClelland, Maier & Neustadt, L.L.P. in Alexandria, Virginia. He specializes in patent litigation and is cochair of the ITC practice group. He can be reached at [ESchweibenz@oblon.com](mailto:ESchweibenz@oblon.com). Robert C. Mattson heads the firm's litigation department. He specializes in parallel litigation and inter partes review strategies. He can be reached at [RMattson@oblon.com](mailto:RMattson@oblon.com). Lisa M. Mandrusiak is an associate in the firm's litigation group, specializing in district court litigation and adversarial proceedings at the USPTO. She can be reached at [LMandrusiak@oblon.com](mailto:LMandrusiak@oblon.com).

The Leahy-Smith America Invents Act (AIA) introduced inter partes review (IPR) procedures as an alternative way to challenge a patent's validity.<sup>1</sup> IPRs were designed to be quicker, more efficient, and less expensive than the previous inter partes reexamination (IPX) procedure and district court litigation, and thus are a particularly attractive tool to use against nonpracticing entities (NPEs) or so-called patent trolls. Although similar in some ways, IPR proceedings involve some interference or litigation-like aspects unavailable in IPX proceedings, including limited discovery and an oral hearing.

The advantages of challenging a patent in an IPR proceeding rather than in district court litigation are apparent. For example, the Patent Trial and Appeal Board (PTAB) uses the "broadest reasonable interpretation" standard for claim construction of non-expired patents, theoretically resulting in at least as broad a construction as applied by a district court. Relatedly, there is a lower burden to prove unpatentability—the preponderance of the evidence standard—in comparison to the clear and convincing evidence standard used to demonstrate invalidity in district court litigation. Collec-

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tively, the broader claim construction and the lower standard of proof mean that most patent claims should be easier, faster, and cheaper to eliminate in an IPR than in litigation. In addition, the PTAB judges possess legal experience and technical degrees relevant to the technology under review, in comparison to the vast majority of district court judges and juries who lack scientific or technical training. Furthermore, with a statutorily mandated resolution time of 12 months after initiation (with a six-month extension possible for good cause), IPRs are designed to proceed much more predictably and rapidly than district court litigation, resulting in significantly lower overall costs to both parties.

However, many of the advantages associated with IPRs are diminished if district court proceedings occur concurrently. Notably, the AIA includes a limited automatic stay provision. A declaratory judgment action will be automatically stayed if filed by a petitioner after filing for an IPR, unless the patent owner moves the court to lift the stay or files an action or counterclaim for infringement, or the petitioner moves to dismiss the declaratory judgment action.<sup>2</sup> Although the parties involved in cases other than those where the automatic stay is granted may move for a stay of the litigation,<sup>3</sup> the results have been mixed (discussed in more detail below).<sup>4</sup> Therefore, we propose a simple amendment to existing law such that if an accused infringer moves for a stay of litigation based on the filing of an IPR petition directed toward the asserted patent(s), the stay is automatically granted. The origins of this proposal, the numerous advantages, and the potential criticisms are discussed below.

### **Brief Summary of IPR Procedure**

A detailed discussion of IPR procedure is beyond the scope of this article, but many excellent resources explaining the process exist.<sup>5</sup> In short, any person who is not the patent owner may file a petition to institute an IPR of an issued patent on the grounds of anticipation or obviousness based on paper prior art (i.e., patents and printed publications). The PTAB reviews the petition (and patent owner's preliminary response, if any) and determines whether or not to institute an IPR trial. Trial is authorized if there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the challenged claims.

### **Staying District Court Litigation in View of IPR Proceedings**

In many instances, IPR challenges are filed after district court litigation is instigated.<sup>6</sup> The accused party will often move for a stay of litigation while the PTAB conducts the IPR of the asserted patent. Staying the litigation allows the tech-savvy PTAB an opportunity to review the patent while the parties conserve financial resources that

would otherwise be spent on litigation. On the other hand, NPEs generally prefer (and even utilize) the high cost of discovery—the majority of which is typically borne disproportionately by the accused infringer—as a tool to drive potential settlement.

District courts primarily use a three-factor balancing test when determining whether to grant a motion to stay, and have regularly applied this analysis when the basis of the stay is a co-pending IPR.<sup>7</sup> The three factors typically considered are: (1) the stage of the litigation, (2) whether a stay will simplify the issues in the case, and (3) whether a stay will create undue prejudice to the nonmoving party or a clear tactical advantage to the moving party.<sup>8</sup> Congress codified this three-factor test and added a fourth factor, considering “whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court”<sup>9</sup> in authorizing a stay with respect to covered business method patent reviews (CBMs). However, consideration of stays based on concurrent IPRs generally remains focused on the three-factor test.

Recent statistical analyses of district court decisions granting and denying stays of litigation in view of pending IPR proceedings suggest results have been mixed, and depend on timing of both the IPR and the litigation. Parties filed motions to stay *before* the PTAB issued a decision on whether to institute trial in 85 percent of the motions examined, and approximately two-thirds of these motions were granted.<sup>10</sup> In the remaining motions that were denied, courts often noted that they were unable to determine whether the stay would be likely to simplify issues (as the IPR could potentially not be instituted), or that litigation was at an advanced stage where a stay was inappropriate (as claim construction was over or imminent).<sup>11</sup> In general, motions to stay filed after the PTAB instituted trial have a greater likelihood of being granted, suggesting that timing is a critical factor for many district courts.<sup>12</sup> However, overall, it appears that only 60–70 percent of stays are granted.<sup>13</sup> In other words, in a significant number of cases, parties are required to go forward with proceedings in both venues. We believe that this fact alone suggests the value of an automatic stay provision.

### **Fast Track Rules May Benefit NPEs by Leading to Fewer Stays**

The number of stays granted may go down even more in view of accelerated rules for patent cases recently adopted by the U.S. District Court for the Eastern District of Texas. Chief Judge Leonard Davis recently issued an order creating a “Track B” for patent litigation, which may be chosen by the litigants by agreement, or ordered by the court.<sup>14</sup> Track B is designed to reduce costs by accelerating particular events, lim-

iting some filings and discovery practices, and requiring additional information to be shared by mandatory disclosure at an early date. Notably, several of the requirements in the order reflect proposals currently under consideration in Congress.<sup>15</sup>

Despite its ostensible advantages, Track B may also inadvertently benefit NPEs. By way of example, Track B is designed to target smaller damages cases, which could include NPEs seeking settlements of \$1 million or less. By seeking out the faster Track B docket, the NPE will likely decrease the chances that the defendant(s) will be granted a stay upon filing an IPR, as the “stage of the litigation” factor will be significantly different under Track B by the time the PTAB decides to institute an IPR proceeding. Indeed, since the Track B rules have been implemented, the Eastern District of Texas has denied motions for stays of litigation based on concurrent CBM proceedings, likely a harbinger of future decisions based on IPRs. This new fact, particularly in light of the popularity of the Eastern District of Texas for NPE patent litigation, provides an additional reason supporting an automatic stay provision applicable to concurrent IPR and litigation proceedings.

### **Our Proposed Amendment**

We suggest amending title 28 of the United States Code (Judiciary and Judicial Procedure) to include the following provision:

Stay.—In a civil action involving parties that are also parties to a proceeding before the United States Patent and Trademark Office under 35 U.S.C. § 311, at the request of the petitioner in the proceeding before the Patent and Trademark Office, the district court shall stay, until the determination of the Patent and Trademark Office becomes final, proceedings in the civil action with respect to any claim that involves the same patent(s) and claimed invention(s) involved in the proceeding before the Patent and Trademark Office, but only if such request is made within—

- (1) 30 days after the proceeding is initiated before the United States Patent and Trademark Office by Petition, or
- (2) 30 days after the district court action is filed, -  
whichever is later. -

In an NPE scenario, this amendment would allow defendants in the NPE-initiated district court litigation to *automatically* stay the litigation while attacking the NPE’s patents via IPR, directly in line with the stated goals of the AIA.<sup>16</sup>

Our proposed statutory language is simple and very similar to the automatic stay provision (28 U.S.C. § 1659(a)) currently in place for simultaneous proceedings at the International Trade Commission (ITC), which provides:

(a) Stay.—In a civil action involving parties that are also parties to a proceeding before the United States International Trade Commission under section 337 of the Tariff Act of 1930, at the request of a party to the civil action that is also a respondent in the proceeding before the Commission, the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission, but only if such request is made within—

- (1) 30 days after the party is named as a respondent in the proceeding before the Commission, or
- (2) 30 days after the district court action is filed, -  
whichever is later. -

The automatic stay provision at the ITC also requires a respondent to show that the claims in the district court action involve the same issues before the ITC. This similarity of issues requirement has been interpreted by some district courts to require that the patents asserted in both forums be identical.<sup>17</sup> For clarity, the proposed IPR automatic stay provision states explicitly that “any claim that involves the same patent(s) and claimed invention(s)” can be subject to the automatic stay.

### **Advantages of an Automatic Stay for Litigation Based on a Concurrent IPR**

The advantages of the automatic stay provision for IPRs are readily apparent. The primary beneficiaries would be defendants in NPE litigation, as they would be afforded an opportunity to challenge (and thus eliminate) the NPE’s patents asserted in the litigation in a cost-efficient and timely manner. For example, the median cost of an IPX in 2013, from filing the request through appeal to the Federal Circuit, was approximately \$250,000,<sup>18</sup> and the costs for an IPR should be similar. In contrast, the median cost of a district court litigation of a patent infringement suit can range up to \$6,000,000.<sup>19</sup> In view of these significant cost differentials, the savings resulting from a 30-month stay (i.e., the life of the IPR, including appeal) are potentially enormous. Our proposed amendment is thus in direct agreement with the statutory and judicial measures taken (and currently being proposed) to curb wasteful NPE litigation.

Moreover, adding an automatic stay provision based on IPRs that can be invoked even after the litigation is underway (but within 30 days of the petition being filed) prevents a district court from denying a stay based on the stage of the litigation even in jurisdictions that use a “fast track” for patent cases, such as the Eastern District of Texas. In addition, the proposed automatic stay based on IPRs provides a less drastic solution than some of the potential alternatives currently pending before the U.S. Congress.<sup>20</sup>

Even in non-NPE scenarios, both parties should welcome the opportunity to stay high litigation costs while the PTAB evaluates the patents in connection with a related IPR proceeding. Should any asserted claims of the subject patents survive IPR, the litigation would likely proceed in a simpler manner, with some validity, discovery, and claim construction issues already resolved. Furthermore, statistics show that a significant number of motions to stay litigation based on IPR are unopposed or stipulated motions, suggesting that many parties would be amenable to an automatic stay provision.<sup>21</sup>

The proposed automatic stay provision would also be more successful than the statutory authorization of a stay currently in place for CBMs. Although Congress intended this language to place “a very heavy thumb on the scale in favor of the stay [being granted]”<sup>22</sup> and stated that “it is congressional intent that a stay should only be denied in extremely rare circumstances,”<sup>23</sup> only 75 percent of stays of litigation are granted based on concurrent CBMs.<sup>24</sup>

### **Potential Criticisms of an Automatic Stay for Litigation Based on a Concurrent IPR**

The same rationale is generally applicable to our proposed automatic stay based on IPRs. Specifically, because a stay based on a co-pending IPR would be issued before the district court issued a final judgment, it would not implicate case law prohibiting Congress from revising, modifying, or reopening a final judgment. Similarly, because every PTAB decision is appealable to the Federal Circuit, the stay would not ultimately prevent the judiciary from deciding the stayed case. Because the stay does not mandate a dismissal or deciding the case in a particular way, it would not be considered an impermissible “rule of decision.” Furthermore, PTAB decisions have no res judicata effect on the district court, as the subject matter could be relitigated once the stay is lifted. This is particularly true in light of the different standards for claim construction and invalidity employed by the PTAB and the district courts. However, we note that finally cancelled claims cannot be relitigated in district court. As such, the

stay potentially prevents the patent owner from having invalidity determined by a judge or jury. Regardless, on balance, it appears that the proposed automatic stay based on IPRs does not raise significant separation of powers issues. This conclusion is consistent with the legislative history of the AIA, where potential constitutional concerns were raised with respect to Section 18 (the stay provision related to CBMs) but deemed inconsequential.<sup>54</sup> Furthermore, because the AIA in general (and IPRs in particular) was designed to create a more rapid, less expensive alternative to district court litigation, the PTAB can be considered to adjudicate purely federal statutory rights, much like the ITC.

The legislative history underlying 28 U.S.C. § 1659 also generally supports adopting a similar provision with respect to IPRs. Specifically, the legislative history indicates that § 1659 was included to “address the possibility that infringement proceedings may be brought against imported goods in two forums at the same time”; in such instances, the district court would frequently stay its proceedings “with respect to any claim that involves the same issues as those pending before the Commission.”<sup>55</sup> This is precisely the current situation with district courts facing concurrently pending IPRs—district courts are frequently staying their proceedings with respect to validity issues of patents challenged in IPRs pending before the PTAB. As such, Congress’s rationale should extend to this situation as well, because the automatic stay provision for IPRs addresses the scenario where validity proceedings are brought against the same patent(s) in two forums at the same time, akin to the infringement situation addressed by 28 U.S.C. § 1659.

### **Conclusion**

Many of the advantages associated with initiating IPR proceedings are diminished if district court proceedings occur concurrently, as often occurs when the patent holder is an NPE. The AIA’s current limited automatic stay provision and unpredictable results from motions to stay filed at district courts illustrate the need for statutory reform. As such, we propose an amendment similar to the automatic stay provision used at the ITC, allowing a petitioner in an IPR who is also a party to a district court application to file for an automatic stay of the district court litigation within the specified timeframe. The potential advantages of this provision, particularly with respect to NPE scenarios, appear to strongly outweigh any potential criticisms. The amendment also helps implement the goals of the AIA with respect to IPRs—providing a meaningful alternative to challenge a patent’s validity that is quicker, more efficient, and less expensive than district court litigation. n

**Endnotes**

1. Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified at 35 U.S.C. §§ 311 *et seq.*).
2. 35 U.S.C. § 315(a)(2).
3. Although former 35 U.S.C. § 318 no longer exists, parties still move district courts for stays in the same manner.
4. *See, e.g.*, Robert Arcamona & David Cavanaugh, *Stays to Litigation Pending IPR and CBM Review: Statistics, Trends, and Key Issues*, INTELL. PROP. TODAY, Mar. 2014, at 9 (reviewing dispositive orders on contested motions to stay litigation pending IPR and covered business method patent review as of January 31, 2014); Robert A. Kalinsky & Linhda Nguyen, *Obtaining Your Stay during Inter Partes Review*, LEXOLOGY (Sept. 18, 2013), <http://www.lexology.com/library/detail.aspx?g=fc6627c9-8ba3-4707-8322-11df1861083d>.
5. *See, e.g.*, POST-GRANT PROCEEDINGS BEFORE THE PATENT AND TRIAL APPEAL BOARD (Stephen G. Kunin et al. eds., 2012).
6. Kalinsky & Nguyen, *supra* note 4, at 1.
7. *Id.* at 4 (noting courts used the three-factor analysis in 46 percent of the cases where stays were granted).
8. For a recent, detailed application of the three-factor test, see *TAS Energy, Inc. v. San Diego Gas & Elec. Co.*, No. 12-2777, 2014 U.S. Dist. LEXIS 26107, at \*8–18 (S.D. Cal. Feb. 26, 2014). *See also* *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, No. 12-21, 2012 U.S. Dist. LEXIS 186322, at \*3–4 (C.D. Cal. Dec. 19, 2012) (holding there was no reason that the three-factor test previously used for analyzing motions to stay related to IPX proceedings cannot be used with IPRs).
9. AIA § 18(b)(1).
10. Kalinsky & Nguyen, *supra* note 4, at 3.
11. *Id.* at 5.
12. *Id.* at 6.
13. Arcamona & Cavanaugh, *supra* note 4, at 9 (stating that as of January 31, 2014, only 60 percent of stays were granted or granted-in-part in dispositive orders, but note this number is an average of stays based on both IPRs and CBMs).
14. General Order 14-03, *General Order Regarding Track B Initial Patent Case Management Order* (E.D. Tex. Feb. 25, 2014).
15. *See* Innovation Act, H.R. 3309, 113th Cong. (2013) (calling upon the Judicial Conference of the United States to develop rules and procedures to address the asymmetries in discovery burdens and costs in civil actions relating to patents).



16. Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48,680 (Aug. 14, 2012) (“The purpose of the AIA . . . is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”).

17. See Eric Schweibenz & Robert Cabral, *Did You Know . . . Respondents Can Stay Parallel District Court Actions under 28 U.S.C. § 1659?*, ITC 337 LAW BLOG (Feb. 23, 2010), <http://www.itcblog.com/20100223/did-you-know%e2%80%a6respondents-can-stay-parallel-district-court-actions-under-28-u-s-c-%c2%a7-1659/>.

18. AM. INTELLECTUAL PROP. LAW ASS’N (AIPLA), 2013 REPORT OF THE ECONOMIC SURVEY 36 (2013).

19. *Id.* at 34 (noting that the cost varies based on the type of infringement suit—e.g., traditional versus abbreviated new drug application (ANDA) litigation—and the amount of money at risk).

20. The currently pending Innovation Act, generally directed at curbing abusive patent litigation, adopts a modified English rule for patent suits, requiring the losing party to pay the winning party’s attorney fees. See H.R. 3309, 113th Cong. (2013) (amending 35 U.S.C. § 285). The Innovation Act was passed by the House of Representatives on December 5, 2013. The Senate’s similar Patent Litigation Integrity Act also includes a provision awarding reasonable attorney fees and other expenses to a prevailing party. See S. 1612, 113th Cong. (2013) (amending 35 U.S.C. § 285).

21. See Kalinsky & Nguyen, *supra* note 4, at 7 (noting that 57 percent of motions made after and 27 percent of motions made before institution of IPR were unopposed or stipulated).

22. 157 CONG. REC. S1053 (daily ed. Mar. 1, 2011).

23. 157 CONG. REC. S1363 (daily ed. Mar. 8, 2011).

24. Arcamona & Cavanaugh, *supra* note 4, at 9.

25. Eric Schweibenz, *U.S. District Judge in Texas Doubts Constitutionality of Automatic Stay Provision Set Forth in 28 U.S.C. § 1659*, OBLON SPIVAK (Feb. 21, 2012), <http://www.oblon.com/us-district-court-judge-texas-doubts-constitutionality-automatic-stay-provision-set-forth-28-usc-%C2%A7-1>.

26. Order, *Freescale Semiconductor, Inc. v. Zoran Corp.*, No. A-11-CA-472-LY, slip op. at 2 (W.D. Tex. Aug. 24, 2011).

27. See Joshua A. Baskin, *The Constitutionality of the Automatic Stay Provision in 28 U.S.C. § 1659*, 337 REPORTER (ITC Trial Lawyers Ass’n, Washington, D.C.), 2012, at 42.

28. *Id.* at 46.

29. *Id.*

30. *Id.* at 47.

31. *Id.* at 48

32. *Id.*

33. *Id.* at 48–52.

34. 157 CONG. REC. E1191 (daily ed. June 23, 2011) (statement of Hon. Allen B. West); *see also* 157 CONG. REC. S5376 (daily ed. Sept. 7, 2011) (letter from Michael W. McConnell).

35. H.R. REP. NO. 103-826(I), at 141 (1994), *reprinted in* 1994 U.S.C.C.A.N. 3773, 3913.