

The Interface Between District Court Litigation and Contested Office Proceedings under the AIA: Motions to Stay

What is the standard for deciding a motion to stay in view of a contested office proceeding?

Courts typically consider: (1) whether a stay will unduly prejudice or present a clear tactical disadvantage to the nonmoving party; (2) whether a stay will simplify the issues at trial; and (3) the stage of the litigation, such as whether discovery is complete and whether a trial date has been set.

UNDUE PREJUDICE CONSIDERATIONS

Are the new contested Office proceedings designed to be faster than prior reexaminations?

Yes. By statute, a final determination in a PGR, CBM or IPR proceeding must be issued not later than one year from the date of institution of the proceeding. That deadline may be extended up to six months for good cause and may be adjusted if multiple proceedings are joined together, but the Office has stated that extensions of the one-year period are anticipated to be rare. IPRex and XPRex, on the other hand, typically take about 36 months to get to a Board decision. The main reason for the difference in timing is that PGR, CBM and IPR proceedings are “adjudicative” proceedings - they start and finish at the Patent Trial and Appeal Board (“PTAB”). This eliminates the two-step process of prior reexaminations - first before the Central Reexamination Unit (“CRU”), then before the Board on appeal.

It is important to note, however, that the one-year period for PGR, CBM or IPR proceedings is measured from institution, not filing. After the filing of a Petition for PGR, CBM or IPR, the patent owner is afforded three months to file a Preliminary Response. The Office then has three months to decide whether to institute the proceeding. Accordingly, it could be six months before the proceeding is instituted.

Does the AIA require that contested Office proceedings be instituted only during the early stages of a parallel litigation?

No. While petitions for IPR must be filed within one year of service of an infringement complaint and PGR can only be filed during the first nine months after issuance, there are a number of scenarios where contested Office proceedings may be instituted at a later stage of the litigation. First, CBM proceedings (if available) can be requested at any time, even on the eve of trial. Second, there is a mandatory nine month waiting period from issuance before an IPR can be filed (even if PGR is not available for such patent). Accordingly, where patent infringement is asserted in district court immediately upon issuance, a decision by the Office on whether to institute an IPR proceeding may not issue until fifteen months into such lawsuit. Third, where there are multiple lawsuits on the same patent (as the joinder rules now require), filed and served at different times, IPR may still be available to defendants in a later filed lawsuit. If an IPR is filed by one of these later defendants, the defendants in the earlier actions may seek a stay based on the later defendant’s filing. The defendants in the earlier actions could also file a motion for joinder in the IPR proceeding within one month of the filing of the IPR petition by another.

SIMPLIFICATION OF ISSUES

Will all issues of patentability be resolved at the PTAB? What invalidity issues will be left for the district court?

In many cases, if there is a stay of the district court action and the Office proceeding is allowed to go forward, invalidity issues at the district court are likely to be either eliminated or greatly simplified. While statistics are not yet available for the new contested proceedings, the results may be similar to those for *inter partes* reexaminations. According to Office statistics, in 42% of the completed *inter partes* reexaminations in which a reexamination certificate issued, all claims were cancelled. For these cases, trial on the issue of validity at the district court is no longer required. In 47% of the completed *inter partes* reexaminations, at least some claims were amended. That means no past damages, which could certainly reduce discovery and trial costs. It might also create a clear non-infringement case. Only 11% of all completed *inter partes* reexaminations ended with all claims confirmed. But even if all claims are confirmed, the record created during the contested Office proceeding, including positions taken on claim construction and the teachings of the prior art, is likely to simplify issues for the district court action. In addition, estoppels in PGR, CBM and IPR apply upon the final written decision of the board (12 to 18 months from institution of the proceeding).

However, the extent of the simplification of issues will depend on the defenses and counterclaims raised in the litigation as compared to the specific grounds cited in the petition for PGR, CBM or IPR filed with the Office. IPR is limited to 102 and 103 issues only, based on patents and printed publications. If the accused infringer has also pled invalidity defenses under 101 and 112, or has defenses based on prior use or prior sale, or inequitable conduct, these issues will not be involved in the IPR proceeding and will remain for the Court to decide (assuming the accused infringer is not successful at the Office). While CBM and PGR have a broader scope, and broader estoppels, the question for these proceedings will be whether all of the claims-in-suit are also involved in the CBM or PGR proceeding. If only certain claims are before the Office, trial may still be required. The estoppels are not likely to apply to claims that are not part of the contested Office proceeding, even if the art and arguments are the same. Also, estoppels in CBM apply only to what was raised during the CBM proceeding (estoppels in PGR and IPR apply to what was raised and what reasonably could have raised).

Is the PTAB better equipped to handle patentability/validity issues than the district court?

The Board is likely better qualified than judges or juries to deal with technical and legal issues surrounding patentability. The Office is the expert agency. PGR, CBM and IPR proceedings will be heard by a panel of three Administrative Patent Judges ("APJs"). These APJs typically have technical and law degrees, and many had legal careers prior to joining the Board, many focused on patent prosecution and patent litigation. In addition, there is no presumption of validity at the Office. In district court, invalidity must be proven by "clear and convincing evidence." During proceedings before the Office, the Office follows a lower "preponderance of the evidence" standard for patentability.

However, while the APJs may be better qualified to handle patentability/validity issues, there are a number of significant limitations placed on the Office and the parties in contested Office proceedings. First, Office proceedings will have limited discovery as compared to district court litigation. It is likely that the Board will essentially limit discovery to certain required initial disclosures and depositions of affiants and declarants. While additional discovery may be available, the Board is not likely to grant it. This may be more of an issue in CBM and PGR proceedings, where the issues are not limited to patents and printed publications. But it could also be important where secondary consideration have been raised to rebut a finding of obviousness. Second, while PGR, CBM and IPR proceedings will culminate in an oral hearing before three APJs, given the substantial time pressures the APJs will be under to resolve PGR, CBM and IPR proceedings, it seems unlikely that the PTAB will be able to allow lengthy hearings. For similar reasons, current interference practice before the Board relies heavily on the paper record and each party is typically allotted no more than 20-30 minutes for presentation and questioning related to its entire case. Also, the Office has indicated that it does not anticipate permitting live testimony at the oral hearing. Unlike in district court, the APJs will not be able to look the witnesses and experts in the eye to assess their credibility.

Are the standards for institution of the new contested Office proceedings higher than under the old reexamination standards?

Yes. IPR has a reasonable likelihood of prevailing (RLP) standard. This is higher than the substantial new question (SNQ) standard used in *ex parte* reexamination, but is the same standard that has been used since September 16, 2011 in *inter partes* reexamination. PGR and CBM have an even higher standard. The petitioner must demonstrate that it is "more likely than not that at least 1 of the claims challenged in the petition is unpatentable" (the MLTN standard). The office has indicated that the RLP standard "allows for the exercise of discretion but encompasses a 50/50 chance," whereas the MLTN standard "requires greater than a 50% chance of prevailing." (April 6, 2012, Chief Judge James Donald Smith posted this comment on the Office's AIA Blog)

At least one court has commented recently that the RLP standard, as compared to the prior SNQ standard, favors a motion to stay. On March 20, 2012, Judge Tucker in the Central District of California granted a motion to stay pending an *inter partes* reexamination in *Inogen, Inc. v. Inova Labs, Inc.* (No. 11-1692), concluding that,

Congress apparently intended to partially shift the merits determination earlier, to the petition stage of reexamination, likely resulting in a decrease in petitions granted, but an increase in amended or cancelled claims after a request has been granted.

However, the statistics thus far do not show a significant drop in the grant of *inter partes* reexamination by the Office. Under the SNQ standard, the PTO statistics indicated that 95% of all *inter partes* requests were granted. During the first three quarters of FY 2012, during which time the RLP standard was used for *inter partes* reexaminations, 255 requests were granted, 29 denied (that is 90%). No statistics are yet available for the new MLTN standard, but one can expect the acceptance rate will continue to be high. In addition, petitions for PGR, CBM and IPR are reviewed on a claim by claim and ground by ground basis. So the higher standards may not result in denial of the proceedings entirely. Rather, a proceeding may go forward on only certain claims or grounds. If litigation is stayed even in this case, no benefit will be gained by the higher standard.

STAGE OF LITIGATION

How can the parties improve their case as to the third element - the stage of litigation?

Accused infringers should act quickly in filing their petition at the Office and in seeking a stay. Even if the stay is not granted, filing the contested Office proceeding early gives an accused infringer the additional benefit of putting the patent owner on the record in the contested proceeding on claim construction and the prior art, likely in advance of a *Markman* hearing in the litigation. There is one wrinkle here, though. If a PGR is already pending, an accused infringer will have to wait for the PGR proceeding to conclude before it can file a petition for IPR. This could prejudice an accused infringer's ability to request an early stay. On the other hand, the pending PGR itself could be grounds for a stay, even if the accused infringer did not file it.

Similarly, the patent owner should actively move the litigation forward. The patentee should serve their complaint early and be careful about agreeing to additional time for the accused infringer to answer. The patentee should have a draft protective order ready to go and conduct the Rule 26(f) conference with opposing counsel as soon as possible, so discovery can be served. For newly-issued first-to-invent patents, the patent owner should sue early, especially where the accused infringer is forced to wait for the nine-month window to expire before IPR is available. For PGR-eligible patents, the patent owner will have to balance early filing (during the first nine months) against the possibility that the service of a Complaint might encourage the filing of a PGR.

CBM PROVISIONS

Does the AIA require a mandatory stay in CBM proceedings?

No. It does not require a mandatory stay, but the legislative history suggests that Congress intended for stays to be granted in most, if not all, cases. Section 18 of the America Invents Act spells out a four factor test for district courts to consider when deciding motions to stay in favor of a CBM proceeding. In addition to the three factors outlined above, Section 18 also requires consideration of “whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.” According to the legislative history, the four-factor test was taken from an unpublished 2006 patent case from the District of Colorado, *Broadcast Innovation L.L.C. v. Charter Communications* (No. 03-2223), 2006 WL 1897165 (D. Colo. July 11, 2006). In that case, trial was three months away when the defendant filed a request for reexamination and asked for a stay. The reexamination request was granted before the court decided the stay motion. The court reviewed all four statutory factors. The court downplayed the timing factor. It pointed out that discovery was not yet completed, that there were “voluminous” summary judgment motions served by each side, and that the pre-trial order had not yet been prepared. The court also downplayed the prejudice to the other party (here the plaintiff), as only money damages were sought. In the end, judicial economy was really the winning factor.

While the statute does not require a mandatory stay, it would not be a surprising outcome if many judges felt compelled to issue a stay in view of the explicit statutory provisions in Section 18. At the same time, however, there may be good reasons to continue a district court action full speed until the Board issues its final decision, especially in fast track courts. In any event, under Section 18, either party may take an immediate interlocutory appeal from a district court’s stay decision to the Federal Circuit. The Federal Circuit is required to take the appeal, and may review the issue *de novo*. The AIA indicates that this procedure is designed “to ensure consistent application of established precedent.”

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