

# Stays to Litigation Pending Third-Party IPR and CBM Review

BY GREGORY LANTIER AND ROBERT ARCAMONA.<sup>1</sup>

One of Congress's goals in enacting the America Invents Act ("AIA") was to reduce the high cost of litigation involving patents that are invalid. In furtherance of this goal, Congress established *inter partes* review ("IPR") and covered business method patent review ("CBM review") to provide an alternative to district court litigation. The AIA's text and legislative history reflects an expectation in Congress that, under appropriate circumstances, concurrently pending district court litigation will be stayed while IPR or CBM review is performed by the Patent Trial and Appeal Board (the "Board").<sup>2</sup>

The AIA also establishes estoppel rules that prevent a petitioner before the Board from litigating certain invalidity arguments in subsequent court proceedings. Following a final written decision in an IPR, the petitioner and any "real party in interest" or "privity of the petitioner" are estopped from asserting "any ground that the petitioner raised or reasonably could have raised" in the IPR. 35 U.S.C. § 315(e)(2). The same estoppel applies in the CBM context, although it is limited to just "any ground that the petitioner raised" in the CBM review. See Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284, § 18(a)(1)(D) ("AIA"). Of course, the AIA's estoppel rules do not apply to other parties.

When a patent holder sues numerous defendants, some defendants may file for IPR or CBM review, while others choose not to do so. The trial court is frequently then asked to stay all litigation until the Board's review is complete. When determining whether to grant a stay pending the resolution of an IPR proceeding, courts analyze three factors: (1) whether a stay will simplify the issues in the case, (2) whether discovery is complete and a trial date has been set, and (3) whether a stay would unduly prejudice or present a tactical disadvantage to the nonmovant.<sup>3</sup> Additionally, for CBM review, Section 18 of the AIA requires the court to consider whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court. AIA § 18(b)(1).

Although these factors do not expressly include whether the party seeking a stay

filed a petition for IPR or CBM review, some courts have given that fact weight when deciding a motion to stay litigation. Where a motion for stay is based upon a third party's IPR or CBM review petition—and therefore the defendant will not be subject to the AIA's estoppel provisions—courts have split on whether some form of court-dictated estoppel should be imposed as a condition of granting stay. This article briefly describes three approaches courts have adopted on this issue.

## 1) STAY WITHOUT ESTOPPEL

A number of courts have stayed litigation pending a third-party IPR or CBM review, finding that the absence of estoppel does not undercut the factors that courts weigh in evaluating the stay request. See *Evolutionary Intelligence, LLC v. LivingSocial, Inc.*, 2014 WL 213179, at \*3 (N.D. Cal. Jan. 17, 2014). These courts recognize that a stay has the potential to simplify litigation even without statutory estoppel, because a Board decision "will become part of the intrinsic records of the patents, and will therefore, simplify the issues to be decided by [the] Court." *Intellectual Ventures I LLC v. PNC Fin. Servs. Grp., Inc.*, 2014 WL 3942277, at \*2 (W.D. Pa. Aug. 12, 2014). They reason that a stay will simplify the issues at trial notwithstanding the lack of estoppel because a Board decision affirming the validity of a patent "is strong evidence that the court must consider in assessing whether the party asserting invalidity has met its burden of clear and convincing evidence." *Evolutionary Intelligence, LLC v. Facebook, Inc.*, 2014 WL 261837 (N.D. Cal. Jan. 23, 2014) (internal quotation omitted); see *Datatreasury Corp. v. Fiserv, Inc.*, 2:13-cv-00431, Dkt. 616 at \*8 (E.D. Tex. Aug. 14, 2014) (granting stay, stating that "Defendants appear to concede that they have not stipulated to be bound by the results of all the other party's petitions [for PTO review of asserted patents]"); *e-Watch, Inc. v. ACTi Corp.*, 2013 WL 6334372, at \*7 (W.D. Tex. Aug. 9, 2013) (granting stay without imposing any estoppel on defendant where third party filed for IPR).

## 2) STAYS CONDITIONED ON FULL ESTOPPEL

On the other end of the spectrum are courts that have found the presence or absence of estoppel dispositive in evaluating a stay request. These courts generally analyze the issue as part of the first factor that courts consider in determining whether to grant a stay—whether a stay will simplify the issues at a subsequent trial. See *PersonalWeb Tech., LLC v. Facebook, Inc.*, 2014 WL 116340, at \*5 (N.D. Cal. Jan. 13, 2014) ("the benefits of a stay are also contingent upon the application of IPR's estoppel effect."). One judge sitting in the Northern District of California, for example, concluded that "[o]ne of the reasons IPR proceedings typically simplify the case is that IPR petitioners are subject to statutory estoppel provisions preventing them from relitigating invalidity arguments that were raised or could have been raised in the IPR." *Evolutionary Intelligence, LLC v. Sprint Nextel Corp.*, 2014 WL 819277, at \*5 (N.D. Cal. Feb. 28, 2014).

Accordingly, some courts have conditioned a stay on a defendant stipulating to be bound by the AIA's estoppel rules. See *e-Watch, Inc. v. FLIR Sys., Inc.*, 2013 WL 8695916 (S.D. Tex. Aug. 8, 2013) (conditioning stay on defendant being estopped as the petitioner for IPR would be estopped); *Am. Vehicular Sciences, LLC v. Toyota Motor Corp.*, No. 6:12-cv-404, Dkt. 221 at \*3 (E.D. Tex. Feb. 19, 2014) (denying stay as to nonmovant-defendants that "did not stipulate to estoppel"); *Locata LBS, LLC v. Yellowpages.com, LLC*, No. 13-cv-07664, Dkt. No. 102, at \*7 (C.D. Cal. July 11, 2014) (granting a stay "conditioned on a stipulation by [defendants] to the estoppel language proposed by Plaintiff," which mirrored the AIA's estoppel provision). These courts are particularly concerned with prohibiting defendants from relying on a third-party IPR or CBM review to invalidate a patent, and if that approach does not succeed, raising the same, new, or modified invalidity arguments in subsequent litigation. Absent such an agreed estoppel, some precedents conclude, "the expected efficiencies [of a stay] would be eviscerated." *Personalweb Tech., LLC v. Google Inc.*, 2014 WL 4100743, at \*5 (N.D. Cal. Aug. 20, 2014).

But such reasoning has been criticized by other courts as understating the potential ramifications of an IPR or CBM review even in the absence of estoppel. For example, in *Intellectual Ventures v. Huntington Bancshares, Inc.*, Judge Frost of

the Southern District of Ohio dismissed the plaintiff's argument that a stay "should be conditioned on [the Defendant] being subject to the same estoppel as the petitioners" because a stay would not simplify the issues at a trial that followed the Board proceeding absent such estoppel. 2014 WL 2589420, at \*4 (S.D. Ohio June 10, 2014). The court concluded that "[t]he fact that Defendants are not statutorily estopped from raising the same arguments as the petitioners does not change the fact that the Court would have the benefit of the Board's expertise in rejecting those same arguments." *Id.* at \*5. In response to plaintiff's argument that it would be "unfair for Defendants to obtain the benefit of IPR proceedings without being bound by the arguments raised therein," the court stated that "it would be more unfair to condition a stay on Defendants' being bound by arguments raised in a proceeding over which they have no control." *Id.* It then stayed the litigation pending "further action from the [Board]" without requiring defendants to agree to any form of estoppel. *Id.* at \*5.

### 3) STAYS CONDITIONED ON PARTIAL ESTOPPEL

A third set of courts have sought a middle ground—conditioning a stay of litigation on a defendant agreeing to some form of estoppel, but stopping short of the estoppel imposed on unsuccessful petitions in IPR or CBM review. In one case, defendants obtained a stay pending IPR where they stipulated not to raise in litigation "invalidity arguments considered in the IPR proceeding that lead to a final, non-appealable judgment." *AIP Acquisition*

*LLC v. Level 3 Commcn's, Inc.*, Case No. 1:12-cv-00617, ECF Dkt. No. 63, at \*5 (D. Del. Jan. 9, 2014).

In another such case, *Pi-Net International, Inc. v. Focus Business Bank*, the Northern District of California originally required the defendants to agree to the AIA's full estoppel provisions before granting a stay. 2013 WL 4475940 (N.D. Cal. Aug. 16, 2013). On reconsideration, however, the court conditioned a stay on the defendants being "estopped from raising any invalidity reference, or combination of references, that was already presented to the PTO in [the petitioner's] IPR petitions, including those for which the PTO declined to institute review." *Pi-Net Int'l, Inc. v. Focus Bus. Bank*, 2013 WL 5513333, at \*2 (N.D. Cal. Oct. 3, 2013). The court reconsidered its earlier position after being informed that the defendants had no occasion to see the third-party IPR and did not have "any input on the arguments that [the petitioner] presented to the PTO." *Id.* That same court in *Evolutionary Intelligence v. Sprint* conditioned a stay on a slightly different form of limited estoppel, requiring the defendant to agree "to be estopped only from asserting any invalidity contention that was actually raised and finally adjudicated in the IPR proceedings." 2014 WL 819277, at \*6 (N.D. Cal. Feb. 28, 2014). Thus, although some courts have found limited estoppel appealing, they have not settled on precisely what form of limited estoppel to require.<sup>4</sup>

### CONCLUSION

Although many courts have found the lack of statutory estoppel to be only a minor

consideration in weighing the benefits of a stay pending resolution of an IPR or CBM review, some district courts have placed near-dispositive weight on that fact. The absence of Federal Circuit precedent directly on this issue requires parties to pay particular attention to a district court's (or presiding judge's) prior precedent and prepare to file or respond to motions to stay accordingly. **IPR**

### ENDNOTES

1. Gregory Lantier is an Intellectual Property Litigation partner at WilmerHale and a graduate of Harvard law school. Robert Arcamona is an associate at Wilmerhale and a graduate of The George Washington University law School.
2. *See, e.g.*, 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer) (stating that, where CBM review is pending concurrently with district court litigation, there is "a very heavy thumb on the scale in favor of [a] stay" being granted, and that "it is nearly impossible to imagine a scenario in which a district court would not issue a stay.").
3. *See, e.g., Bonutti Skeletal Innovations, L.L.C. v. Zimmer Holdings, Inc.*, 2014 WL 1369721, at \*2 (D. Del. Apr. 7, 2014).
4. One court has criticized such approaches. In *Personal Audio v. Togi Entertainment*, the defendants agreed that if the court granted a stay to litigation "they will not contest the validity of any claim determined by the [Board] to be patentable on any ground for which the inter partes review proceeding was instituted." Case No. 2:13-cv-00013, Dkt. No. 235, at \*2 (E.D. Tex., Aug. 1, 2014.). The Eastern District of Texas rejected that form of limited estoppel, calling it "a far cry from the true estoppel that would normally arise from an IPR proceeding, and is essentially illusory given that Defendants retain the right to assert invalidity challenges in this proceeding in an otherwise unlimited fashion, including challenging validity with references that the [Board] considered—but rejected—as a basis for instituting inter partes review." *Id.*