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The authors review the effect of a non-practicing entity being the patent owner in a district court's determination of whether to grant a litigation stay when the alleged infringer petitions the PTO to review the patent under the AIA-enabled post-grant procedures.

How to Stay Patent Troll Litigation in Favor of IPR and CBM Proceedings at the Patent and Trademark Office



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The America Invents Act of 2011¹ established several new proceedings at the Patent and Trademark Office—including inter partes review and the transitional program for covered business method

¹ Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

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patents²—that can be used as defensive measures against non-practicing entities. A non-practicing entity (NPE), more commonly known as a “patent troll,” is a patent owner that makes money not by practicing the patented technology, but instead by pressuring others (targets) to license its patents, and, if the targets do not relent, by suing them for patent infringement in district court.

Inter partes review (IPR) and the transition program for covered business method patents (CBM review) are two AIA proceedings that can be used by a target to invalidate patents belonging to NPEs once they have been sued. Compared with squaring off against an NPE in district court, IPR and CBM proceedings at the PTO may offer the target practical advantages in terms of speed and cost: the proceedings typically must be concluded within a year, and procedural limits on discovery and motion practice in such proceedings may help contain fees and expenses. Those practical advantages, however, may be lost if the target cannot successfully stay district court litigation while the IPR or CBM proceedings are pending at the PTO. In that instance, the unfortunate target will be stuck with the burden of fighting the NPE in two forums.

How can a litigation stay be obtained against an NPE? As is apparent from both pre- and post-AIA case law, courts generally look to three factors when ruling on a motion to stay. First, the court looks to whether granting the stay will simplify the issues for trial.³ Second, the court looks to the stage and history of the liti-

² *Office Patent Trial Practice Guide*, 77 Fed. Reg. 48756, 48756 (Aug. 14, 2012).

gation.⁴ Third, the court looks to whether a stay would cause the nonmoving party to suffer undue prejudice from any delay, or allow the moving party to gain a clear tactical advantage.⁵

Interestingly, for CBM review, the AIA does not leave the decision to stay litigation within the sole control of the case law, but instead expressly sets forth the factors that courts must consider in deciding a motion to stay.⁶ Those statutory factors include the three case law factors discussed above, with the addition of a fourth: “whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.”⁷

As part of the undue prejudice factor to be considered in granting a litigation stay, courts often undertake a quasi-economic approach to analyzing prejudice and examine the relationship between the parties, and, in particular, whether the litigants are “direct competitors” in the relevant market. If the parties are not direct competitors, there is a reduced chance that either party will suffer undue prejudice from a stay of litigation in the form of irreparable economic harm, such as the loss of market share or goodwill due to patent infringement.⁸ And several decisions have held that that when a party—such as an NPE—does not market a patented product but instead merely licenses the patented technology, the licensor may not be unduly prejudiced, as monetary damages equivalent to a license will provide adequate redress for any alleged infringement.⁹

Thus, the undue prejudice factor may weigh significantly against an NPE’s attempts to resist a motion to stay litigation by an NPE’s targets. For example, in *Princeton Digital Image Corp. v. Konami Digital Entm’t Inc.*,¹⁰ the U.S. District Court for the District of Delaware found that because one party was an NPE and therefore not a direct competitor of the target seeking the stay, there was no undue prejudice to the NPE that would result from granting the stay.¹¹ In *Softview LLC v. Apple Inc.*, the District of Delaware ruled that “given that Softview is a non-practicing entity and not seeking

injunctive relief, the limited delay . . . resulting from the Court’s order should not severely prejudice Softview.”¹² And in *Evolutionary Intelligence LLC v. Yelp Inc.*,¹³ the Northern District of California held that a “licensing entity” could not suffer harm in the marketplace from the grant of a litigation stay because it did not have a presence in the marketplace to begin with.

Although the specific language varies from decision to decision, a general trend has begun to emerge from this case law: District courts often find that, because NPEs do not directly compete against their targets in the relevant market, they are unlikely to suffer any undue prejudice, at least in the form of irreparable economic harm, from the grant of a litigation stay. While courts sometimes gloss over the NPE status of the nonmoving party in deciding to grant or deny litigation stays, this tends to occur when other, more easily considered factors weigh in favor of a stay. For example, in *B.E. Tech., LLC v. Amazon Digital Servs., Inc.*,¹⁴ the Western District of Tennessee acknowledged Amazon’s argument in favor of a stay based on the fact that B.E. Technology is an NPE, but the court did not examine this factor in further detail because B.E. had consented to the stay.

Compared with the situation for IPRs involving an NPE, only two motions to stay pending CBM review involving an NPE have been filed. In *Landmark Tech., LLC v. iRobot Corp.*,¹⁵ iRobot moved to stay litigation after filing a petition for CBM review, but before the PTO agreed to institute CBM review proceedings. In arguing the undue prejudice factor, iRobot alleged that Landmark would not suffer undue prejudice because of Landmark’s NPE status.¹⁶ In granting a short stay pending the PTO’s decision on whether CBM review would proceed, the Eastern District of Texas largely ignored the undue prejudice argument. Instead, the court focused on the stage-of-litigation and issue-simplification factors, noting that “the parties and the Court will have a definitive answer from the PTO whether it will grant CBM Review four months prior to the scheduled *Markman* hearing,” and requesting a status report from iRobot on “how completion of the Review will simplify the issues before the Court.”¹⁷ In this particular instance, the stage-of-litigation and issue-simplification factors trumped NPE status as the most important considerations weighing in favor of a stay.

In *Unwired Planet LLC v. Google Inc.*,¹⁸ the District of Nevada heard motions to stay pending simultaneous CBM review and IPR proceedings against Unwired Planet’s asserted patents. In granting the stay, the court noted that there was no dispute that Unwired Planet did not practice the patents at issue, and that Unwired and Google did not directly compete against each other, which lessened the risk of undue prejudice to Unwired

³ See, e.g., *Evolutionary Intelligence, LLC v. Livingsocial, Inc.*, No. 13-04205-WHO (N.D. Cal. Jan. 27, 2014), ECF No. 90, p. 2.

⁴ *Id.*

⁵ *Id.*

⁶ See, e.g., *Landmark Tech., LLC v. iRobot Corp.*, No. 13-411-JDL (E.D. Tex. Jan. 24, 2014), ECF No. 47; AIA § 18.

⁷ AIA § 18(b)(1).

⁸ See, e.g., *Evolutionary Intelligence, LLC v. Livingsocial, Inc.*, ECF No. 90, p. 5: “As Evolutionary Intelligence and LivingSocial are not competitors, staying this case will not cause Evolutionary Intelligence harm in the marketplace that cannot be compensated and, consequently, the cancellation, narrowing, or clarification of patent claims that will result from the inter partes review outweigh the purported prejudice to Evolutionary Intelligence.”

⁹ See, e.g., *Evolutionary Intelligence v. Facebook*, No. 13-4202 SI, 2014 BL 18116 (N.D. Cal., Jan. 23, 2014), ECF No. 148, p. 6: “[P]laintiff itself is a mere licensor of the patents and does not practice the claimed inventions. ‘[C]ourts have consistently found that a patent licensor cannot be prejudiced by a stay because monetary damages provide adequate redress for infringement.’” (quoting *Pragmatus AV LLC v. Facebook, Inc.*, No. 11-CV-02168-EJD (N.D. Cal. Oct. 11, 2011), ECF No. 56, p. 6).

¹⁰ *Princeton Digital Image Corp. v. Konami Digital Entm’t Inc.*, No. 12-1461-LPS-CJB (D. Del. Jan. 15, 2014), ECF No. 70, p. 13.

¹¹ *Id.*

¹² *Softview LLC v. Apple Inc.*, No. 12-989-LPS (D. Del. Sept. 4, 2013), ECF 1105, p. 3.

¹³ *Evolutionary Intelligence LLC v. Yelp Inc.*, No. 13-03587-DMR (N.D. Cal. Dec. 18, 2013), ECF No. 108, p. 12.

¹⁴ *B. E. Tech., LLC v. Amazon Digital Servs., Inc.*, No. 12-02767-JPM-tmp (W.D. Tenn. Dec. 6, 2013), ECF No. 71, p. 11.

¹⁵ *Landmark Tech., LLC v. iRobot Corp.*, No. 13-411-JDL (E.D. Tex. Jan. 24, 2014), ECF No. 47.

¹⁶ *Id.* at p. 7.

¹⁷ *Id.*

¹⁸ *Unwired Planet LLC v. Google Inc.*, No. 12-00504-MMD-VPC (D. Nev. Jan 27, 2014), ECF No.233.

Planet.¹⁹ The court also noted in passing that the factors to be considered in granting a stay pending IPR were nearly identical to the AIA's statutory factors for deciding a motion to stay pending CBM review.²⁰

Since the AIA took effect in 2011, several parties have moved to stay litigation pending the outcome of invalidity proceedings at the PTO such as IPR or CBM review. Roughly 60 percent of those motions have been granted.²¹ In motions where an NPE was the nonmoving party, there are some data to suggest that the non-

movant's NPE status may increase the grant rate: roughly 70 percent of motions to stay pending invalidity PTO proceedings against NPEs have been granted.²²

In view of these trends, it appears that most courts will continue to consider the nonmovant's NPE status as an important factor weighing in favor of granting litigation stays. And through such stays, the time and cost advantages of post-AIA proceedings to an NPE's targets can be maximized.

¹⁹ *Id.* at p. 11.

²⁰ *Id.* at p. 12.

²¹ Statistics from Bloomberg Law.

²² Based on an analysis of 20 cases from Bloomberg Law, searching for motions to stay pending IPR, CBM and PGR and searching for the text "non practicing entity," "patent assertion entity," "patent holding company" and "licensing entity."