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Impact of **America Invents Act** on Litigation Stays Pending USPTO Proceedings

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Prior to the AIA, parties could address the validity of a patent in the U.S. Patent and Trademark Office (USPTO) by initiating an inter partes (IPX) or ex parte re-examination (EPX). If the subject patent was also at issue in a civil litigation, a party could seek to avoid parallel proceedings by requesting a stay of the litigation pending the outcome of the USPTO proceeding. A three-factor test emerged for granting a stay pending either proceeding. The AIA, however, replaced IPX and introduced three new mechanisms for challenging patent validity. This article examines the impact the AIA will have on litigation stays pending USPTO proceedings.

USPTO Proceedings

Both IPX and EPX proceedings may address only limited invalidity arguments (anticipation and obviousness) based on prior art patents and publications and both require a “*substantial new question of patentability*.”¹ If the challenged claims are deemed valid in IPX, the requesting party is estopped from asserting the same invalidity arguments

in any civil action.² According to the USPTO website, the average pendency of IPX and EPX are 36.1 months and 25.4 months, respectively.

The AIA expanded a patent challenger’s options by creating inter partes review (IPR), post grant review (PGR), and a transitional program for covered business method patents (CBM). IPR replaces IPX and similarly addresses only limited invalidity arguments and provides estoppel provisions, but an IPR petition must be filed *after* the later of nine months from patent grant or the termination of PGR (discussed below) and must demonstrate a *reasonable likelihood* that the petitioner will prevail on at least one claim.³ Despite the original nine-month requirement, an IPR may now be filed at any time for patents filed before March 16, 2013 (i.e., “first to invent” patents).⁴

PGR is an inter partes proceeding that may address invalidity arguments on *any* grounds under 35 U.S.C. §282. However, a PGR petition must be filed *within* the first nine months after the subject patent is granted (or reissued if the claims are broadened) and must show that it is *more likely than not* that at least one claim is unpatentable, or that the petition raises a novel or unsettled legal question important to other patents or patent applications.⁵ PGR is only available against patents filed on or after March

16, 2013 (i.e., “first to file” patents).⁶

CBM is an inter partes proceeding similar to PGR, without the nine-month restriction, but only applies to certain types of business method patents.⁷ This program became available on Sept. 16, 2012, but will sunset on Sept. 16, 2020.⁸

Significantly, the three new proceedings must be completed within one year, or 18 months for good cause.⁹

Reasons to Seek/Oppose a Stay

A party may have several reasons for seeking a litigation stay pending a USPTO proceeding, including a USPTO review of critical prior art, potential resolution of discovery issues, potential dismissal of the civil action if the patent is found invalid, increased potential for settlement, cultivation of an admissible USPTO proceeding record, and reduction of issues and costs.¹⁰

On the other hand, a party may oppose a stay to avoid prejudice. Prejudice could result if a stay causes the case to grow stale leading to dim memories and missing witnesses. Further, lengthy litigation stays may impose upon a patent owner in Hatch-Waxman litigation the burden of having to seek injunctive relief. In Hatch-Waxman litigation, where a generic pharmaceutical company seeks to market a generic form of a patented drug, FDA approval of the generic drug is stayed 30 months while the patent owner and generic

company litigate a patent infringement action.¹¹ Often, resolution of the infringement action occurs before the FDA stay expires, but if the litigation continues past the expiration of the FDA 30-month stay due to a litigation stay pending a USPTO proceeding, the patent owner must seek a preliminary injunction to prevent the launch of the generic drug.

Factors for Granting a Stay

Prior to the AIA, 35 U.S.C. §318 provided that a patent owner (but not a third party) may obtain a litigation stay pending a USPTO proceeding unless the court determines that “a stay would not serve the interest of justice.” Courts also have inherent authority to stay litigation.¹² The AIA has since amended 35 U.S.C. §318, making its former provisions applicable only to requests for IPX filed prior to Sept. 16, 2012, and provides no provisions regarding stays of infringement actions pending IPR or PGR. As such, the pre-AIA case law regarding a district court’s inherent authority to grant a stay pending IPX and EPX appears, post-AIA, to remain applicable to stays pending IPR and PGR.

Three key factors have emerged in a court’s determination to grant a stay pending an IPX or EPX proceeding: (1) whether a stay would unduly prejudice or present a clear tactical disadvantage to non-moving party; (2) whether a stay would simplify the issues in question; and (3) whether discovery is complete and a trial date has been set.¹³ Several courts have already analyzed these factors when deciding to grant a stay pending an IPR.¹⁴

Prejudice. A stay clearly delays the progress of a litigation, but courts often observe that a delay alone is not unduly prejudicial. In *Lavagear v. Okamoto USA*, the court found this factor favored a stay in part because the plaintiff could not articulate specifically how it was prejudiced by a delay more than any other plaintiff.¹⁵

Also, the plaintiff’s own acts during the course of the litigation (e.g., delay in asserting patent rights) undercut its argument that the defendant was seeking an unfair tactical advantage.¹⁶

A direct competitor may incur greater prejudice from a stay than a non-competitor. In *Wyeth v. Abbott Labs.*, the court refused to stay litigation, finding that the prejudice factor strongly weighed against a stay in part because the plaintiff had suffered significant decline in its share of the coronary stent market and would continue to lose sales and market share to a direct competitor.¹⁷ The same court, however, granted a stay a year later, stating that a stay would not unduly prejudice plaintiffs in part because “Plaintiffs [were] no longer competing in the stent business against Defendants.”¹⁸

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Issue Simplification. Estoppel provisions prevent a party from raising invalidity arguments in a civil litigation that were rejected by the USPTO. However, even in cases with additional defendants who were not parties to a USPTO proceeding, a court may find that the proceeding could still simplify issues. In *Neste Oil Oyj v. Dynamic Fuels*, the court found that this factor favored a stay despite some defendants not being parties to an IPX because there was “reason to believe that the [USPTO’s] reexamination will result in the cancellation of *at least some* of the claims.”¹⁹

The higher standards for granting petitions for IPR (compared to IPX) may result in a higher likelihood of issues being simplified because petitioners must present a stronger invalidity case

than under previous standards.²⁰

Beyond the potential cancellation of claims, and in the case of EPX (which lacks estoppel effects), courts may consider the value of USPTO expertise and how it would affect the court’s analysis of the subject patent.²¹

Stage of Litigation. A case in its early stages would tend to favor a stay—for example, when only document discovery has been undertaken.²² On the other hand, the fact that a case is well-developed and has been pending for several years may weigh against a stay.²³

Other considerations, however, may outweigh this factor altogether in favor of a stay, including “the complexity of the suit, the value of USPTO expertise, simplification of the issues, lack of hardship to the nonmovant, or the overall burden of [duplicative] litigation on the parties and on the court.”²⁴

Litigation Burden. In the case of CBM, the AIA introduced a fourth factor: “[W]hether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.”²⁵ Unlike the previously discussed proceedings, the AIA explicitly provides a four-factor test for granting a stay pending CBM wherein the first three factors are substantively the same as the factors discussed above. This fourth factor was added to place “a very heavy thumb on the scale in favor of a stay being granted.”²⁶ According to the legislative record, the purpose of doing so was to counter the low grant rates of stays in certain jurisdictions and to allow the USPTO to handle the review of what the drafters considered questionable patents.²⁷

In *Market-Alerts v. Bloomberg Finance*, the plaintiff argued that a stay would lead to increased litigation burdens because defendants in two related cases (before the same court) did not seek a stay. The court, however, stated it had inherent authority to stay the related cases and noted that the fourth factor was included in the statute, “in part, to ease the movant’s task of dem-

onstrating the need for a stay.”²⁸

AIA Impacts

Prejudice. A shortened period to conduct a USPTO proceeding established by the AIA may favor a stay. As stated above, the average pendency of an IPX was 36.1 months, while new USPTO proceedings must conclude in one year (or 18 months for good cause) and last at most two years from filing the petition.²⁹ Courts appear to discount prejudice resulting from the shortened delay. “[T]he other factors weigh heavily in favor of granting a stay, and the delay caused by the new IPR procedure is significantly less than the delay caused by the old procedure.”³⁰

However, it is unclear if certain jurisdictions will register any difference in delay after appeals are considered. As Judge Stanley R. Chesler of the District Court of New Jersey has noted, “as night follows day,” unfavorable results in the USPTO are appealed.³¹ Thus, although post-AIA proceedings are directly appealed to the Federal Circuit,³² inclusion of time for appeal may increase the risk of prejudice and thus diminish the prospect of a stay.

Issue Simplification. As stated above, the AIA changed the threshold standard for granting petitions for the new USPTO proceedings, which may also favor a stay in situations where the stay is requested *before* the petition is granted. After acknowledging the increased likelihood of issue simplification due to the higher standards, one court noted: “On the other hand, if the USPTO rejects the [IPR] requests, the stay will be relatively short.”³³

Litigation Burden. Will the codified fourth factor encourage the grant of stays as the drafters intended? In the legislative history of the AIA, Sen. Charles E. Schumer credited the four-factor test to *Broadcast Innovation v. Charter Communications*.³⁴ In *Broadcast Innovation*, however, the court noted that while the fourth factor required examination of “the ‘burden of litigation on the parties and on the court’...most courts merge this

inquiry with the ‘simplification of issues’ factor.”³⁵ Although this factor may be new to some courts, it appears conceivable that other courts have assessed, and will assess, the burdens on litigation while reviewing the three traditional factors. Therefore, it is unclear whether this factor will actually have an impact on grants of stays pending CBM when compared to stays pending IPR.

On the other hand, this factor—which has roots in case law—could become more prominent in motions related to stays pending non-CBM proceedings.³⁶

Practice Tips

A party seeking a stay should emphasize the shortened AIA statutory period of USPTO proceedings, the heightened AIA standards (i.e., either issues will likely be simplified or the petition will be denied), to the extent possible, the hallmarks of the early stages of litigation (e.g., no discovery requests served, no depositions taken), and the litigation burden whether or not a CBM is pending.

A party opposing a stay should emphasize the length of the appeal process, identify the *particular* harm the party will suffer due to a stay (e.g., loss of evidence, expiration of regulatory stays), emphasize that issues will not be significantly simplified, and, to the extent possible, emphasize the hallmarks of a well-developed litigation proceeding (e.g., substantial discovery has occurred, the case has been pending for years). If applicable, a party opposing may wish to frame the movant’s actions as seeking a tactical advantage, as long as the opposing party has not acted in a way that will undercut its position.

Conclusion

In the post-AIA era, parties seeking or opposing litigation stays pending USPTO proceedings should recognize certain differences created by the AIA, including a change in the threshold showing for petitions, the time allotted to complete proceedings, and a consideration of the

burdens of litigation, but otherwise may continue to draw from the deep well of case law regarding stays pending pre-AIA USPTO proceedings.

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1. 35 U.S.C. §311 et seq. (pre-AIA) (emphasis added); §301 et seq.
 2. See 35 U.S.C. §315(c) (pre-AIA).
 3. See 35 U.S.C. §311 et seq.
 4. See 78 Fed. Reg. 17871-17873 (March 25, 2013).
 5. 35 U.S.C. §321 et seq.
 6. See AIA §3(n)(1).
 7. See AIA §18(a) et seq.
 8. See AIA §18(a)(3)(A).
 9. See 35 U.S.C. §§316(a)(11), 326(a)(11).
 10. See, e.g., *Synchronoss Techs. v. Asurion Mobile*, 2013 WL 1192266, *4 (D.N.J. March 22, 2013).
 11. See 21 U.S.C. §355(j)(5)(B)(iii).
 12. *Landis v. N. Am. Co.*, 299 U.S. 248, 254 (1936).
 13. See, e.g., *Synchronoss Techs.*, 2013 WL 1192266 (granting stay pending IPX); *Prestige Jewelry Int'l v. BK Jewellery*, 2012 WL 2899077 (S.D.N.Y. July 16, 2012) (denying stay pending EPX).
 14. See, e.g., *Star Envirotech v. Redline Detection*, 2013 WL 1716068 (C.D.Cal. April 3, 2013) (granting stay pending IPR).
 15. 2013 WL 145765, *1 (E.D.N.Y. Jan. 14, 2013).
 16. *Id.* at 3-4.
 17. 2011 WL 380902, *2 (D.N.J. Feb. 2, 2011).
 18. 09-cv-4850, Slip Op. at 2 (D.N.J. Feb. 6, 2012).
 19. 2013 WL 424754, *5 (D.Del. Jan. 31, 2013) (emphasis added).
 20. See *Star Envirotech*, 2013 WL 1716068 at *2.
 21. See, e.g., *Prestige Jewelry*, 2012 WL 2899077 at *2 (finding USPTO expertise irrelevant to “ordinary observer” test for determining validity of design patent).
 22. See *Spread Spectrum Screening v. Eastman Kodak*, 277 F.R.D. 84, 89 (W.D.N.Y. 2011).
 23. See *Xerox v. 3Com*, 69 F. Supp. 2d 404, 407 (W.D.N.Y. 1999).
 24. *Ricoh v. Aeroflex*, 2006 WL 3708069, *6 (N.D.Cal. Dec. 14, 2006).
 25. AIA §18(b)(1).
 26. 157 Cong. Rec. S1363 (March 8, 2011).
 27. *Id.* at S1363-S1364.
 28. 2013 WL 4439793, **2, 7 (D. Del. Feb. 5, 2013).
 29. See 37 C.F.R. §41.107; 35 U.S.C. §324(c).
 30. *Semiconductor Energy Lab. v. Chimee Innovolux*, 2012 WL 7170593, *3 (C.D. Cal. Dec. 19, 2012).
 31. *Digital Tech. Licensing v. Sprint Nextel*, 07-cv-05432, Hearing Transcript at 25 (D.N.J. Feb. 4, 2011).
 32. See 35 U.S.C. §319.
 33. *Star Envirotech*, 2013 WL 1716068 at *2.
 34. 157 Cong. Rec. S1364.
 35. 2006 WL 1897165 at *4, n.6 (D. Colo. July 11, 2006).
 36. See, e.g., *Capriola v. LaRose Indus.*, 12-cv-2346, Slip Op. at 3 (M.D. Fl. March 11, 2013).