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Federal Circuit Patent Bulletin: *VirtualAgility Inc. v. Salesforce.com, Inc.*

July 10, 2014

"[D]istrict courts have no role in reviewing the PTAB's determinations regarding the patentability of claims that are subject to CBM proceedings."

On July 10, 2014, in *VirtualAgility Inc. v. Salesforce.com, Inc.*, the Court of Appeals for the Federal Circuit (Newman, Moore,* Chen) reversed the district court's denial of defendants' motion for a stay of the district court proceedings pending Transitional Program for Covered Business Method Patents (CBM) review. Following VirtualAgility's (VA) suit alleging that the defendants infringed U.S. Patent No. 8,095,413, which related to a collaborative management system, Salesforce petitioned the Patent Trial and Appeal Board (PTAB) seeking post-grant review under the CBM program. The Federal Circuit stated:

[AIA § 18(b)(2)] instructs the district court to consider the following four factors when deciding whether to grant a stay: (A) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial; (B) whether discovery is complete and whether a trial date has been set; (C) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and (D) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court. . . .

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The district court erred as a matter of law to the extent that it decided to "review" the PTAB's determination that the claims of the '413 patent are more likely than not invalid in the posture of a ruling on amotion to stay. Under the statutory scheme, district courts have no role in reviewing the PTAB's determinations regarding the patentability of claims that are subject to CBM proceedings. Indeed, a challenge to the PTAB's "more likely than not" determination at this stage amounts to an improper collateral attack on the PTAB's decision to institute CBM review, and allowing it would create serious practical problems. As a preliminary matter, Congress made post-grant review more difficult to obtain than reexamination by raising the standard from "a substantial new question of patentability" to "more likely than not . . . unpatentable. Congress clearly did not intend district courts to hold mini-trials reviewing the PTAB's decision on the merits of the CBM review. To do so would overwhelm and dramatically expand the nature of the stay determination. If the district court were required to "review" the merits of the PTAB's decision to institute a CBM proceeding as part of its stay determination, it would undermine the purpose of the stay. When the stay decision is then appealed to this court, we would be required to likewise review the PTAB's decision to institute a CBM proceeding. This is clearly not how or when Congress intended review of the PTAB's CBM determinations to take place. The stay determination is not the time or the place to review the PTAB's decisions to institute a CBM proceeding. . . .

We find it significant that the PTAB granted CBM review on all asserted claims of the sole asserted patent. . . . In this case, the PTAB expressly determined that all of the claims are more likely than not unpatentable. This CBM review could dispose of the entire litigation: the ultimate simplification of issues. This weighs heavily in favor of granting the stay. We reach this conclusion without needing to consider the fact that VA moved in the CBM proceeding to amend claims of the '413 patent. This fact, if considered, could only weigh further in favor of granting the stay so as to avoid unnecessary claim construction of what could potentially be a moving target in terms of claim language. [W]here CBM review has been granted on all claims of the only patent at issue, the simplification factor weighs heavily in favor of the stay. If Salesforce is successful, and the PTAB has concluded that it "more likely than not" will be, then there would be no need for the district court to consider the other two prior art references. This would not just reduce the burden of litigation on the parties and the court—it would entirely eliminate it.

[I]t was not error for the district court to wait until the PTAB made its decision to institute CBM review before it ruled on the motion. Indeed, while some district courts ruled on motions to stay before the PTAB granted the petition for post-grant review, others have waited until post-grant review was instituted, and still others denied as premature the motion to stay without prejudice to refiling after institution of post-grant review. We express no opinion on which is the better practice. While a motion to stay could be granted even before the PTAB rules on a post-grant review petition, no doubt the case for a stay is stronger after post-grant review has been instituted. [A] district court is not obligated to "freeze" its proceedings between the date that the motion to stay is filed and the date that the PTAB decides on the CBM petition. Of course, the court should make every effort to expeditiously resolve the stay motion after the PTAB has made its CBM review determination. To do

otherwise would undermine the intent of Congress to allow for stays to prevent unnecessary duplication of proceedings. As for the proper time to measure the stage of litigation, [g]enerally, the time of the motion is the relevant time to measure the stage of litigation. . . .

[T]he district court clearly erred in finding that the undue prejudice factor weighed heavily against a stay. At best, this factor weighs slightly against a stay. [T]here is no evidence in this record that the two companies ever competed for the same customer or contract. We acknowledge, however, that direct evidence of such competition is not required to establish that VA and Salesforce are competitors, especially at such an early stage of the proceedings. We do credit the district court's finding that loss of market share and consumer goodwill is high in the growing market of cloud-computing. . . .

[T]he district court did not find that a stay would give Defendants a clear tactical advantage, and we agree. There is no evidence that Defendants possessed a "dilatory motive," which would have pointed against a stay. In fact, Salesforce filed its CBM petition less than four months after VA instituted this infringement action and moved to stay the district court proceedings almost immediately after filing the petition. . . . In some circumstances, a defendant's decision to save key pieces of prior art for district court litigation in case its CBM challenge fails would weigh against a stay. Even though the "splitting" of prior art is allowed by statute in the sense that litigation estoppel does not attach to art that could have been, but was not, raised in CBM review, such behavior can still give the movant a clear tactical advantage within the meaning of § 18.8 This record does not establish such a clear tactical advantage given the uncontradicted evidence that, at the time Salesforce filed its CBM petition, it did not have the evidence necessary to include the Oracle Projects and Tecskor prior art. Given these unusual circumstances, we conclude that there is no clear tactical advantage to Defendants of granting the stay. . . .