

## Federal Circuit Patent Bulletin: *Versata Software, Inc. v. Callidus Software, Inc.*

---

November 20, 2014

*“The correct test [for assessing the burden-of-litigation factor regarding the propriety of a district court stay pending USPTO covered business method review] is one that focuses prospectively on the impact of the stay on the litigation, not on the past actions of the parties.”*

On November 20, 2014, in *Versata Software, Inc. v. Callidus Software, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Chen,\* Mayer, Linn) reversed and remanded the district court’s denial of a stay pending U.S. Patent and Trademark Office (USPTO) covered business method review of U.S. Patents No. 7,904,326, No. 7,908,304, and No. 7,958,024, which related to the management and tracking of sales information by a financial services company. The Federal Circuit stated:

Section 18(b) identifies four factors that a district court should consider 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. . . . The district court considered each factor and concluded that “[d]espite the presence of Congress’ thumb on the scales of justice,” the balance of factors did not favor a stay. . . .

We agree with Callidus, on the facts here, that a stay will simplify the issues and streamline trial, and this factor weighs in favor of a stay. The district court seemingly created a categorical rule that if any asserted claims are not also challenged in the CBM proceeding, this factor disfavors a stay. . . . Stays can be warranted even when a CBM proceeding does not address all asserted patents, claims, or invalidity defenses. Certainly this simplification factor weighs more strongly in favor of a stay when all of the litigated claims are undergoing CBM review. But there can still be a simplification of the issues when only some, but not all, of the claims asserted in litigation are challenged in a CBM review. In a situation like this one, a proper simplification analysis would look to what would be resolved by CBM review versus what would

remain. We note, for example, that all of the independent claims of the '024 and '304 patents, as well as some dependent claims, are undergoing CBM review. That fact could be relevant to this analysis. The district court erred by not engaging in this inquiry.

We also take judicial notice of the fact that the PTAB has recently instituted CBM review on the remaining claims of the '024 and '304 patents based on the subsequent round of petitions filed by Callidus. Although appellate courts may consider only the record made before the district court, we may also consider, under Federal Rule of Evidence 201(b)(2), the fact that the PTAB has made a decision instituting CBM review. The review of every claim of each of Versata's asserted patents leaves little doubt that issues will be simplified. By granting CBM review, the PTAB has determined that every claim is more likely than not unpatentable under § 101. If the PTAB invalidates every claim, the CBM review would dispose of Versata's entire affirmative case.

The simplification factor would also favor Callidus more strongly had Callidus included other grounds for invalidity in its CBM petitions. [T]he statute explicitly allows petitioners, such as Callidus, to raise one invalidity defense without invoking estoppel as to other defenses that could have been raised. Balancing these interests, we conclude that district court clearly erred, and the first factor strongly favors a stay.

While not clearly stated, it appears that the district court believed that this factor weighed against a stay, or at best was a neutral factor. The district court acknowledged that "discovery is not complete," but pointed out that "the trial date that is scheduled is within months of when the PTAB is expected to issue its decision." First, the district court failed to explain why the fact that the expected date of the PTAB's decision, which is scheduled to issue no later than seven months before the scheduled trial date, counsels against a stay. Second, and more importantly, the district court failed to analyze how much more remains to be done in litigation before reaching the trial date. For these reasons, we conclude that the district court clearly erred by finding that the relative timing of the PTAB's expected decision alone disfavors a stay.

When Callidus filed its first set of CBM petitions and concurrent motion to stay in August 2013, discovery had not yet started; hence, no documents or discovery requests had been exchanged, no depositions taken, no expert reports prepared. Because the Markman hearing and trial were two years away (scheduled for June and October 2015), the parties had not yet exchanged claim terms or proposed constructions. The litigation was still in its infancy.

On appeal, Versata argues that the case advanced past its infancy between Callidus's original motion to stay in August 2013 and the district court's denial of that motion in May 2014. During that period, the parties exchanged discovery requests, issued third-party subpoenas, and produced documents, including source code. In Versata's view, the state of the ongoing discovery undermined the purpose of a stay: preservation of resources and judicial efficiency.

Though unclear from the district court's brief analysis, it appeared to evaluate the stage of litigation at the time of its decision. This was error. [G]enerally the time of filing the motion will be the relevant stage at which to measure this factor. [I]t is entirely appropriate and within the discretion of the district court to wait for the institution decision before ruling on the motion. And courts are not obligated to ignore advances in the litigation that occur as of the date that the PTAB granted CBM review.

[W]hether we look at the August 2013 date when the motion to stay was filed or the March 2014 date when the PTAB granted CBM review, this factor strongly favors a stay. By March 2014, the case had not yet progressed to a point that disfavors a stay. Although many documents and discovery requests had been exchanged, fact discovery was still ongoing and no fact witnesses had been deposed. With the close of expert discovery still seven months away, the parties had not filed any expert reports or taken any expert depositions. And finally, the parties had not exchanged proposed terms or claim construction positions, for both the Markman hearing and the trial were well over a year away. While the parties have conducted some discovery, we must also be mindful of the burden on the parties and the court in completing both fact and expert discovery, resolving summary judgment motions, completing the Markman process, and preparing for trial. We therefore conclude that in this case, the timing factor strongly favors a stay, and the district court clearly erred by not evaluating the status of the litigation.

On this factor, the district court made no factual findings that Versata would suffer undue prejudice as a result of a stay. Instead, the court determined that Callidus held an improper tactical advantage over Versata by seeking to stay Versata's infringement claims while still pursuing its own infringement counterclaims . . . . At oral argument, Versata did not dispute that Callidus sought a stay of the entire case. The district court's findings therefore were clearly erroneous.

Although not clear, it appears that the district court may have also found that Callidus's motions to transfer and dismiss for failure to state a claim amounted to improper tactics. But if this was a consideration in the district court's analysis, the opinion fails to explain why such motions were improper. For example, Versata does not claim that the motions were frivolous. Litigants are within their rights to seek a proper forum or to

dismiss a claim, and these motions by themselves are not improper, without some basis to find otherwise. This record does not suggest any undue prejudice to Versata or clear tactical advantage to Callidus. The district court clearly erred, and we conclude that this factor strongly favors a stay.

Callidus's motions practice influenced the district court in finding that this fourth factor weighs against a stay. By filing preliminary motions, the district court concluded that "Callidus' tactics have actually increased the burdens of litigation, rather than reduced them."

We conclude that the district court clearly erred in evaluating the burden-of-litigation factor exclusively through this backward-looking lens. The correct test is one that focuses prospectively on the impact of the stay on the litigation, not on the past actions of the parties. When framed appropriately, it becomes clear that a stay will indeed reduce the future burdens of litigation.

[W]e note that the simplification analysis under the first factor often points in the same direction as reducing the burden of litigation under the fourth factor. Since the CBM proceedings will move forward on all asserted claims, if Callidus is successful, a stay will relieve the parties and the district court of having to expend substantial resources on claim construction and both noninfringement and invalidity defenses. For these reasons and the same reasons identified for the first factor, we conclude that the district court clearly erred, and that this fourth factor strongly favors a stay.