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# IP Newsflash



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## FEDERAL CIRCUIT CASES

### Federal Circuit Orders Stay of District Court Proceedings Pending Post-Grant Review

In its first decision on stays pending post-grant review under the AIA, the Federal Circuit has ordered a Texas district court to stay proceedings pending PTAB's review of the patent-in-suit. Plaintiff VirtualAgility sued Salesforce.com and other defendants in January 2013, alleging infringement of U.S. Patent No. 8,095,413 relating to systems and methods for management of collaborative activities. In May 2013, Salesforce filed a petition with the PTAB for post-grant review of the '413 patent under the CBM program, and asked the district court to stay proceedings. In November 2013, the PTAB instituted review of the '413 patent, finding all claims likely patent-ineligible under § 101 and invalid under § 102. In January 2014, the district court denied defendants' motion to stay. Evaluating the merits of the CBM petition, the district court was not convinced that the board would eventually cancel the claims. On interlocutory appeal, the Federal Circuit reversed. As a threshold matter, the court noted that the AIA expressly created an immediate right of appeal of stay decisions pending CBM review. While not deciding whether a *de novo* standard of review applied to such appeals, the court found that it would reverse the lower court's decision even under an abuse of discretion standard.

Applying the AIA's four-factor test, the court found that the first factor—simplification of the issues—weighed heavily in favor of a stay given that the PTAB's review “could dispose of the entire litigation: the ultimate simplification of issues.” The court faulted the district court's decision to conduct its own evaluation of the bases upon which PTAB had granted the CBM petition. “Congress clearly did not intend district courts to hold mini-trials reviewing the PTAB's decision on the merits of the CBM review,” and “district courts have no role in reviewing the PTAB's determinations regarding the patentability of claims that are subject to CBM proceedings,” the court wrote. The court also disagreed with the district court that the third factor—undue prejudice—weighed heavily against a stay. It found no evidence in the record that the two companies ever competed against each other. Moreover, VirtualAgility's delay in filing suit and failure to seek a preliminary injunction weighed against its claims of undue prejudice. The court rejected the district court's finding of an “added risk of witness loss” based on the fact that relevant witnesses were 60 to 70 years of age. Noting the availability of depositions to perpetuate testimony under Rule 27, the court also questioned, “Since when did 60 become so old?” Lastly, the court rejected VirtualAgility's argument that a stay would provide a clear tactical advantage to the defendants given that they had withheld certain prior art from the post-grant proceeding. Concluding that three of four factors weighed heavily in favor of a stay, the court remanded with instructions to grant the motion.

Judge Newman issued a strong dissent arguing that trial judges are owed deference on such rulings. In her view, the district court was within its discretionary authority to continue with the trial, which was on a fast track to completion.

*VirtualAgility Inc. v. Salesforce.com, Inc.*, No. 2014-1232 (Fed. Cir. July 10, 2014) [Newman (dissent), Moore (author), Chen].

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## DISTRICT COURT CASES

### Action Star Penalized With Sanctions for Withholding Discoverable Information

In a recent decision, a California court granted sanctions against a patent owner, Action Star, for bringing an “unreasonable” suit, citing the U.S. Supreme Court's *Octane Fitness* ruling.

U.S. District Judge Beverly Reid O'Connell found that Action Star's withholding of discoverable information related to infringement from KaiJet was an “exceptional” case that merits sanctions of \$365,444.

In this case, defendant, KaiJet, requested any evidence in support of its infringement claims, but Action Star responded that the evidence was in KaiJet's control. During summary judgment, however, Action Star produced YouTube videos and a declaration of an Action Star employee in response to KaiJet's motion for summary judgment that were not in KaiJet's control. This included testimony by the inventor saying KaiJet's products operate the same way as his invention and YouTube videos of KaiJet's product that allegedly supported the inventor's testimony.

The judge found that Action Star misrepresented that it did not have any evidence of infringement and failed to produce the YouTube videos in its possession. In response, Action Star argued that it withheld the evidence because the evidence was only going to be used defensively. The judge did not agree and noted that it was not proper to withhold evidence.

The judge found Action Star's conduct unreasonable under *Octane Fitness* and awarded KaiJet fees. This was not a case of bad faith, which the Judge made clear when ruling that Action Star's attorneys should not be personally sanctioned.

*Action Star Enterprise v. KaiJet Technology International*, No. 12-CV-08074 BRO (MRWx) (C.D.Ca. July 7, 2014).

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## PATENT TRIAL AND APPEAL BOARD

### Decision by Patent Trial and Appeal Board Highlights Importance of Properly Addressing Means-Plus-Function Limitations

On June 30, 2014, a panel of administrative patent judges of the Patent Trial and Appeal Board (the "Board") denied institution of *Inter Partes* review brought by Panel Claw, Inc., for failing to properly propose a construction for a means-plus-function limitation. According to the Rules for *Inter Partes* review (i.e., 37 C.F.R. § 42.104(b)(3)), where a challenged claim contains a means-plus-function limitation, "the construction of the claim *must* identify the specific portions of the specification that describe the structure, material, or acts corresponding to each claimed function." (emphasis in Board decision). In the patent-at-issue, independent claim 1, included the limitation "*means for regulating the temperature of said photovoltaic modules.*" (emphasis added). Following established precedent, the Board held this limitation to be presumptively governed by 35 U.S.C. § 112, ¶ 6 (i.e., a means-plus-function limitation). See *Inventio AG v. ThyssenKripp Elevator Corp.*, 649 F.2d 1350, 1356 (Fed. Cir. 2011) ("The use of the term 'means' triggers a rebuttable presumption that § 112, ¶ 6 governs the construction of the claim term.") Thus, pursuant to the Rules and § 112, ¶ 6, the Board held that (without rebutting the presumption), petitioner must identify the function of the means-plus-function limitation and "the corresponding structure described in the specification and its equivalents." Instead, petitioner failed to provide any rebuttal to the presumption that the term-at-issue is governed by § 112, ¶ 6 and only proposed that the term be construed as "solely functional" without proposing a corresponding structure. Accordingly, the Board found that because petitioner failed to propose a corresponding structure for the means term-at-issue, its petition as to independent claim 1 (and its dependents) "is denied for this reason alone."

The Board's decision in *Panel Claw* highlights the significance of fully addressing means-plus-function limitations (or any limitation that includes "means" language) in an *Inter Partes* review petition – either by, if appropriate, rebutting the presumption that the term is governed by § 112, ¶ 6 or by proposing a recited function and corresponding structure for the term.

*Panel Claw, Inc. v. Sunpower Corp.*, IPR2014-00386 (PTAB June 30, 2014).

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