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SMARTFLASH LLC, Smartflash Technologies Limited, Plaintiffs–Appellees  
v.

APPLE INC., Defendant–Appellant  
Smartflash Llc, Smartflash Technologies Limited, Plaintiffs–Appellees  
v.

Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, HTC Corporation, HTC America, Inc., Exedeia, Inc., Defendants–Appellants.

Nos. 2015–1701, 2015–1707. | Decided July 30, 2015.

Appeal from the United States District Court for the Eastern District of Texas in Nos. 6:13–cv–00447–JRG, 6:13–cv–00448–JRG–KNM, Judge J. Rodney Gilstrap.

#### Attorneys and Law Firms

Bradley Wayne Caldwell, Caldwell Cassady & Curry, Dallas, TX, argued for plaintiffs-appellees. Also represented by Jason Dodd Cassady, John Austin Curry, John Franklin Summers.

Mark Andrew Perry, Gibson, Dunn & Crutcher LLP, Washington, DC, argued for defendant-appellant Apple Inc. Also represented by Blaine H. Evanson, Los Angeles, CA; Douglas Hallward–Driemeier, Kevin John Post, Ropes & Gray LLP, Washington, DC; James Richard Batchelder, East Palo Alto, CA; Ching–Lee Fukuda, New York, NY.

Charles Kramer Verhoeven, Quinn Emanuel Urquhart & Sullivan LLP, San Francisco, CA, argued for defendants-appellants Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, HTC Corporation, HTC America, Inc.,

Exedeia, Inc. Also represented by Melissa J. Baily, Kevin Alexander Smith.

Before NEWMAN, LINN, and O'MALLEY, Circuit Judges.

#### Opinion

Opinion for the court filed by Circuit Judge O'MALLEY.

Opinion concurring in part and dissenting in part filed by Circuit Judge NEWMAN.

O'MALLEY, Circuit Judge.

\*1 Appellants, Apple Inc. (“Apple”) and Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC, HTC Corporation, HTC America, Inc., and Exedeia, Inc. (collectively, “Samsung”), appeal from the district court's order denying their motions to stay patent infringement litigation pending covered business method (“CBM”) review of the asserted claims. For the reasons set forth below, we affirm the district court's order as to Apple, but reverse as to Samsung.

#### BACKGROUND

Smartflash LLC and Smartflash Technologies Ltd. (collectively, “Smartflash”), patent licensing companies, filed separate suits against Apple and Samsung on May 29, 2013, alleging infringement of U.S. Patent Nos. 7,334,720 (the “#720 Patent”); 8,033,458 (the “#458 Patent”); 8,061,598 (the “#598 Patent”); 8,118,221 (the “#221 Patent”); 8,336,772 (the “#772 Patent”); and 7,942,317 (the “#317 Patent”). Subsequently, Smartflash sued Google, Inc. (“Google”) on May 7, 2014 and Amazon.com, Inc. (“Amazon”) on December 23, 2014 for patent infringement, asserting the same six patents as those asserted against Apple and Samsung, as well as an additional patent that issued on August 5, 2014, U.S. Patent No. 8,794,516. All of the asserted patents relate to managing access to data via payment information.

Throughout the course of these cases, both Apple and Samsung filed multiple CBM petitions with the Patent Trial and Appeal Board (“PTAB”). See America Invents Act, Pub.L. No. 112–29, § 18, 125 Stat. 284, 329–31 (2011) (“AIA”). Between March 28 and April 3, 2014, Apple filed 12 separate petitions for CBM review on 35 U.S.C. §§ 102 and 103 grounds. And, on April 3, 2014, Apple moved to stay the

district court action pending CBM review. *See* Defendants' Motion to Stay Litigation, *SmartFlash LLC v. Apple Inc.*, No. 6:13-cv-447 (E.D.Tex. Apr. 4, 2014), ECF No. 120. On May 15, 2014, Samsung filed a motion to stay based on Apple's CBM petitions, explaining that, if the court were to grant its motion, it "would stipulate to be bound to the same extent as Apple is under § 18(a)(1)(D) of the America Invents Act." Defendants' Motion to Stay Litigation, *SmartFlash LLC v. Samsung Elecs., Co.*, No. 6:13-cv-448 at 3 n. 4 (E.D.Tex. May 15, 2014), ECF No. 149. Because the PTAB had not yet decided whether to grant these petitions, the district court denied both motions without prejudice to refile if any of the petitions were granted. *SmartFlash LLC v. Apple Inc.*, No. 6:13-cv-447 (E.D.Tex. July 8, 2014), ECF No. 175; *SmartFlash LLC v. Samsung Elecs., Co.*, No. 6:13-cv-448 (E.D.Tex. Dec. 30, 2014), ECF No. 424. On September 30, 2014, the PTAB granted Apple's petitions for CBM review on several claims, but denied review for the majority of the challenged claims, including those asserted at trial. Neither Apple nor Samsung renewed their motions to stay.

On September 26, 2014, Samsung filed ten petitions for CBM review of all the patents-in-suit on §§ 101, 102, and 103 grounds. Apple also filed six more petitions for CBM review between October 30 and November 24, 2014, this time only asserting that the patents covered patent ineligible subject matter. Neither party filed a motion to stay with the district court at this time.

\*2 While the parties awaited the PTAB's decisions regarding the most recent petitions, both the Apple and Samsung cases proceeded towards trial. Because the cases raised similar issues, the district court held joint hearings on claim construction, dispositive motions, and the parties' *Daubert* challenges during 2014, conducted a joint pretrial conference in January 2015, and denied both defendants' motions for summary judgment of invalidity under § 101. It also set a February 2015 trial date for Apple—postponing Samsung's trial until after the conclusion of Apple's trial. Thereafter, the district court held two additional pretrial conferences for the Apple case and the case went to trial. After a six day trial in the Apple case, the jury returned a verdict in favor of Smartflash on February 24, 2015. *See Smartflash LLC v. Apple Inc.*, No. 6:13-cv-447 (E.D.Tex. Feb. 24, 2015), ECF No. 503. Briefing on post-trial motions then began, and the court scheduled a hearing on those motions for July 1, 2015.

In late March and early April 2015, the PTAB instituted CBM review in seven proceedings filed by Apple and Samsung

on all asserted claims of the '221, ' 720, '458, '598, and '317 Patents on § 101 grounds. On May 28, 2015, the PTAB also instituted CBM review on the asserted claims of the '772 Patent on § 101 grounds. In light of these decisions, on April 10, 2015, Samsung filed a "renewed" motion to stay all proceedings pending CBM review, and on April 23, 2015, Apple filed a motion to stay post-trial activity in its case, or, in the alternative to stay entry of final judgment, pending CBM review.

The district court denied both of these stay requests. The court did, however, *sua sponte* stay the actions against Google and Amazon.<sup>1</sup> *Smartflash LLC v. Apple Inc.*, Nos. 6:13-cv-447, 2015 U.S. Dist. LEXIS 70259 (E.D.Tex. May 29, 2015) ("*Stay Op.*"). The district court wrote a lengthy opinion analyzing the stay requests and explaining his ruling with respect to the four pending related actions. With respect to Apple, the district court's analysis focused on the timing of Apple's motion to stay, which was two months *after* the jury trial, and the fact that only the resolution of the parties' post-trial motions remained before the case could be appealed to this Court. Because "seeing the case to its conclusion maximizes judicial and party resources and discourages gamesmanship in filing CBM petitions," the district court concluded that a stay of the Apple litigation was unwarranted. *Id.* at \*89 (quotation omitted). Similarly, the district court considered the significant resources already expended in the Samsung case and Samsung's decision to wait until sixteen months into the litigation to file a CBM petition asserting § 101. Because the case was on the eve of trial and an appeal to the Federal Circuit of both Samsung and Apple's district court cases would be resolved before an appeal from a final PTAB decision, the district court concluded that the cases should proceed as scheduled. Because the actions against Google and Amazon remained in the early stages of litigation, the court found a stay of those actions to be appropriate even though there necessarily would be an overlap with respect to many of the issues to be decided.

\*3 Appellants timely filed interlocutory appeals to this Court. Apple further filed a motion to stay entry of final judgment and/or expedite appeal and Samsung filed a motion to stay district court proceedings pending appeal and to expedite briefing. Two days before oral argument, the district court vacated the jury's damage award and ordered a new trial on damages to begin on September 14, 2015. *See Smartflash LLC v. Apple Inc.*, No. 6:13-cv-447 (E.D.Tex. July 7, 2015), ECF No. 581. After oral argument this Court, *sua sponte*,

granted both parties motions for temporary stays pending disposition of these appeals.

We have jurisdiction pursuant to § 18(b) of the AIA.

## DISCUSSION

On appeal, both Apple and Samsung challenge the district court's decision not to stay their cases. In light of the PTAB's decision to institute CBM review on all asserted claims under 35 U.S.C. § 101, both argue that the district court should have stayed the litigation pending the PTAB's eligibility determinations because those decisions could end both cases without any further proceedings, either at the district court or in this one. Apple goes so far as to ask this Court to create a bright line rule mandating stays whenever CBM review is granted on all relevant patent claims, without regard to the state of the litigation. Oral Arg. at 9:14–55, *available at* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2015-1701.mp3>.

Under the AIA, parties may request a stay of district court litigation pending CBM review, but a stay is not obligatory. Rather, under § 18(b)(1), the district court is required to weigh four factors to determine whether to stay the case:

(A) whether a stay, or 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 moving 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.

AIA § 18(b)(1). These factors include the three factors courts traditionally have considered when deciding whether a stay of litigation is appropriate pending administrative review in the PTO (prejudice to the non-moving party, the state of the litigation, and simplification of the issues) and a fourth—a consideration of the burdens of litigation. Though these factors are statutory, consideration of them in a particular case remains committed to the district court's discretion. *See Benefit Funding Sys. LLC v. Advance Am. Cash Advance Ctrs., Inc.*, 767 F.3d 1383, 1385–86 (Fed.Cir.2014); *see also*

*NFC Tech. LLC v. HTC Am., Inc.*, No. 2:13–CV–1058, 2015 WL 1069111, at \*1 (E.D.Tex. Mar. 11, 2015) (“A district court has the inherent power to control its own docket, including the power to stay proceedings before it.”(citing *Clinton v. Jones*, 520 U.S. 681, 706 (1997))). We, thus, review a district court's stay decision for abuse of discretion except to the extent necessary “[t]o ensure consistent application of established precedent.” *Benefit Funding*, 767 F.3d at 1385. As discussed below, based on this record and the district court's thorough analysis, we see no reason “to conduct [a] more searching review.” *Id.*

### A. Apple's Motion to Stay

#### Factor (A): Simplification of the issues in question and potential to streamline the trial

\*4 The district court concluded that the first factor in § 18(b)(1) weighed against a stay because there was “nothing left to simplify” as the district court and the jury had already decided nearly every potential issue, including the § 101 issue. *Stay Op.* at \*71. Thus, the district court determined that the simplest way for the § 101 dispute to be resolved now was to allow the district court litigation to reach this Court. *Id.* at \*72. We agree that this factor does not favor a stay.

Apple does not dispute that “[g]enerally, the time of the motion is the relevant time to measure the stage of litigation. *See VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1317 (Fed.Cir.2014). Nor can Apple dispute that it filed its motion post-trial, a point in time when the possibility that the issues will be simplified is greatly diminished. *Id.* at 1314. Apply argues, however, that there is a good chance that it will prevail on one or more post-trial motions or prevail on one or more issues on appeal that could result in a remand. Either way, Apple argues that the litigation could remain ongoing. And, Apple asserts that, because a CBM review that results in invalidation of the patents at issue would dispose of the entire litigation, the litigation issues necessarily would be simplified. That is, Apple points out, “The ultimate simplification of the issues.” *Id.*

But the first factor relates to the simplification of the issues before the trial court. In its entirety, the focus of this factor is on streamlining or obviating the trial by providing the district court with the benefit of the PTO's consideration of the validity of the patents before either the court or the jury is tasked with undertaking that same analysis. *See NFC*

*Tech.*, 2015 WL 1069111, at \*4–5. When the motion to stay is made post-trial, many of the advantages flowing from the agency's consideration of the issues—such as resolving discovery problems, using pre-trial rulings to limit defenses or evidence at trial, limiting the complexity of the trial, etc.—cannot be realized. The simplification contemplated by the first factor is far less likely to occur once all the legal, procedural, and evidentiary issues involved in a trial have already been resolved.

Apple attempts to mitigate these realities by noting that, since the beginning of this appeal, the district court vacated the jury's damage award and ordered a new trial on damages to begin on September 14, 2015. In light of this new development, Apple argues that this case is no longer only a single post-trial order away from final appellate review, and that significant work remains. As this Court has recognized, a court may “take[ ] judicial notice of post-appeal developments ... when assessing the propriety of a trial court's ruling on a motion to stay premised on the existence of a pending CBM[ ] proceeding,” so long as it only considers the fact that such an event occurred and not the propriety of such developments. *Intellectual Ventures II LLC v. JPMorgan Chase & Co.*, 781 F.3d 1372, 1374 n. 4 (Fed.Cir.2015) (citing *VirtualAgility, Inc.*, 759 F.3d at 1312–13). But taking judicial notice of this fact does not change our conclusion that this factor does not favor a stay.

\*5 The district court and a jury have already addressed infringement and invalidity issues, which are the only questions common to the two proceedings which could be “simplified” by agency review. The new trial is limited solely to a consideration of the appropriate measure of damages—an issue with which the PTO is not concerned. Although we may take judicial notice of the fact of the trial court's post-trial order, we may not, in the first instance, conduct an analysis of what the new trial may entail, how long it may take, or the complexity of the issues therein. Moreover, the trial court did not revisit the request for a stay after ordering a new trial, indicating that it did not believe the new trial impacted its reasoning.

Ultimately, the existence of a new damages trial does not alter our finding that the district court did not err when assessing this factor.<sup>2</sup>

### Factor (B): Whether Discovery is Complete and Whether a Trial Date has been Set

Turning to the second factor, the district court determined that the status of the case weighed heavily against granting a stay. *Stay Op.* at \*75–79. Specifically, it noted that, not only was discovery complete and a trial date set, but a jury had already rendered a verdict on February 24, 2015. The district court also considered Apple's lack of diligence in filing its petitions for CBM review on § 101 grounds. The district court concluded that this delayover seventeen months from start of the case—negated the intent of the CBM review process, which was designed to provide a cost-effective alternative to litigation and to reduce the burden on the courts. *Id.* at \*78 (citing 157 Cong. Rec. S1367 (Mar. 8, 2011) (statement of Sen. Kyl)). The district court further explained that granting Apple's motion to stay “at the latest conceivable stage of district court litigation” would “encourage parties to misuse CBM review.” *Id.* at \*77–78.

Apple disagrees that this factor weighs heavily against a stay, contending that the stage of this litigation does not preclude the issuance of a stay because even a stay post-trial would avoid wasting judicial resources to resolve post-trial motions and any resulting appeal. Apple also argues that it was improper for the district court to consider the timeliness of Apple's CBM petitions because there is no statutory deadline to file such a petition.

We agree with the district court that this factor weighs against a stay. At the time of Apple's motion to stay on April 23, 2015, discovery had been complete since September 2014, and there had been a six day jury trial. Apple downplays these facts, arguing that the work yet to be done in the case is still significant, but Apple's argument addresses whether a stay would reduce the burden of litigation on the parties and on the court—a different and separate factor in the analysis—and does not alter the finding that discovery is complete and there has been a jury trial. *See VirtualAgility, Inc.*, 759 F.3d at 1313 (“We cannot, as VA requests, collapse the four-factor test expressly adopted by Congress into a three-factor test.”). While there may be circumstances where a stay is appropriate post-trial, on this record, where Apple filed its motion to stay well until after the jury had rendered its verdict, the stage of litigation factor clearly favors a stay. And the existence of a new damages trial does not modify this conclusion, both for the reasons previously noted and because a trial date has already been set for September 14, 2015.

\*6 We also find Apple's argument regarding its diligence in filing unpersuasive. The district court considered the timing of these petitions in order to assess the state of the proceeding when Apple actually filed its petitions and when it *could have* filed its petitions. *Stay Op.* at \*75–78. Finding Apple could have reasonably raised § 101 issues in petitions well before three months prior to trial, the district court concluded that, but for Apple's own decision to delay filing its petitions, the stage of the litigation had progressed to a point that no longer justified a stay. We see no error in this analysis. It was not an abuse of discretion for the district court to consider *why* the litigation was so advanced. And, although Apple argues its delay in filing its CBM petitions on § 101 grounds was justified in light of the Supreme Court's decision in *Alice Corp. v. CLS Bank Int'l*, 134 S.Ct. 2347 (2014), which issued in June 2014, *Alice* did not create a *new* § 101 defense, but rather clarified § 101 jurisprudence. A party cannot wait to assert an *available* defense as litigation marches on and then argue that the stage of litigation facing the court is irrelevant to its right to a stay. In any event, the Supreme Court issued *Alice* in June 2014 but Apple did not file its petition until late October 2014, four months later. Without any explanation for this additional delay, we find no special circumstances that would justify an extended grace period for filing a CBM petition. Accordingly, we find that the timing factor, although not of significant weight, mitigates against a stay.<sup>3</sup>

#### Factor (C): Undue Prejudice or Tactical Advantage

The district court concluded that the undue prejudice factor also weighed against a stay. By waiting until the eve of trial to pursue CBM proceedings on § 101 grounds, the district court determined that Apple had multiple opportunities to challenge the eligibility of the asserted patents in two separate forums, which gave Apple a clear tactical advantage over Smartflash. *Stay Op.* at \*83. Thus, even though there was no undue prejudice to Smartflash because Smartflash does not compete with Apple, the district court found that this factor disfavored a stay. *Id.* at \*82–83.

Apple disputes these findings, arguing that the district court erred when it determined that Apple improperly gained the opportunity to challenge the validity of Smartflash's asserted patents in multiple forums. According to Apple, the entire purpose of CBM review is to create an *alternative avenue* to challenge the validity of a claim, thus, the district court's decision to weigh this fact against it is illogical. Additionally,

Apple argues against any finding of tactical advantage, asserting that it is actually at a disadvantage now because it must continue to litigate its case, whereas the cases against its competitors, Google and Amazon, have been stayed. We find these arguments unpersuasive.

\*7 Congress enacted the AIA, in part, to address concerns about business method patents. With this Court's decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed.Cir.1998), the test for patent eligibility greatly expanded until the Supreme Court's decision in *Bilski v. Kappos*, 561 U.S. 593 (2010), which significantly curtailed the patentability of business methods. As a result of “[t]his judicial expansion and subsequent judicial retraction of U.S. patentability standards ... a large number of business-method patents” issued that may not be valid. 157 Cong. Rec. S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). Through the enactment of Section 18 of the AIA, Congress sought to clarify this confusion by providing “a relatively inexpensive administrative alternative to litigation for addressing disputes concerning the validity of [CBM] patents.” 157 Cong. Rec. S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl); *see also* 157 Cong. Rec. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the fundamental purpose of the CBM review process is “to provide a cost-efficient alternative to litigation”).

But in order to realize Congress's intent to establish an *alternative* to district court litigation for CBM issues, parties must file CBM petitions in a manner that facilitates this goal. We recognize that there is no statutory deadline to file a CBM petition, unlike other post-grant proceedings, but we nevertheless conclude the timing of the petitions in this case created a tactical advantage for Apple. *See VirtualAgility, Inc.*, 759 F.3d 1319–20 (considering the timing of a CBM petition to assess whether a party sought to gain a tactical advantage or had a “dilatatory motive”). By waiting to submit its petitions until almost the eve of trial and well after it filed its motion for summary judgment on the § 101 issue, Apple was able to first pursue its § 101 defense at the district court and then at the PTAB. As the district court correctly found, this strategy thus afforded Apple multiple opportunities to pursue a single defense—a clear tactical advantage. *See Segin Sys., Inc. v. Stewart Title Guar. Co.*, 30 F.Supp.3d 476, 484 (E.D.Va.2014) (“[T]wo separate opportunities in two separate forums to challenge the validity of Plaintiffs' patent does raise a concern of an unfair tactical advantage, giving them two bites of the apple as to a central defense.”).

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