

No. 2014-1786

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**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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SEGIN SYSTEMS, INC. and  
SEGIN SOFTWARE, LLC (d/b/a RYNOHLIVE),

*Plaintiffs-Appellants,*

– v. –

STEWART TITLE GUARANTY COMPANY,  
PROPERTYINFO CORPORATION, and  
FIRST BANKING SERVICES, INC.,

*Defendants-Appellees.*

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Appealed from the United States District Court  
for the Eastern District of Virginia  
Civ. No. 2:13-cv-00190 RAJ-TEM, Judge Raymond A. Jackson

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**NON-CONFIDENTIAL REPLY BRIEF OF  
PLAINTIFFS-APPELLANTS**

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## TABLE OF CONTENTS

Table of Authorities.....	iii
Introduction.....	1
Argument.....	3
I. This Court Should Review The AIA Stay Order De Novo. ....	3
II. Section 18(b) Does Not Reach Claims Unrelated To A CBM Proceeding. ....	10
A. This argument is properly before the Court. ....	10
B. Section 18(b) does not reach claims unrelated to the CBM proceeding. ....	14
C. Segin’s contract claim is unrelated to the CBM proceeding.....	18
D. A stay of the contract claim is inappropriate under the traditional standards. ....	19
III. The District Court Erred In Its Weighing Of The Section 18(b) Factors.....	22
A. The CBM proceeding will not simplify the breach of contract claim. ....	23
B. The status of the case weighs heavily against a stay. ....	25
C. A stay substantially prejudices Segin. ....	26
D. A stay will not substantially reduce the burden of litigation. ....	30
Conclusion .....	31

*On page 28, confidential information has been redacted pursuant to the protective order. The redacted passages are quotations from emails produced by Appellees, which were filed under seal in the district court.*

## TABLE OF AUTHORITIES

### CASES

<i>Abatena v. Norfolk State Univ.</i> , 2014 WL 1819665 (E.D. Va. 2014) .....	24
<i>In re Apple, Inc.</i> , 602 F.3d 909 (8th Cir. 2010).....	12
<i>Automated Merch. Sys. v. Crane Co.</i> , 357 F. App'x 297 (Fed. Cir. 2009).....	20
<i>Avago Techs. Fiber IP (Singapore) Pte. Ltd. v. IPtronics Inc.</i> , 2011 WL 3267768 (N.D. Cal. 2011) .....	29
<i>Benefit Funding Systems LLC v. Advance America Cash Advance Centers Inc.</i> , 767 F.3d 1383 (Fed. Cir. 2014).....	<i>passim</i>
<i>Broad. Innovation, L.L.C. v. Charter Commc'ns, Inc.</i> , 420 F.3d 1364 (Fed. Cir. 2005).....	5, 9
<i>Commil USA, LLC v. Cisco Sys., Inc.</i> , 720 F.3d 1361 (Fed. Cir. 2013).....	18
<i>Cordis Corp. v. Boston Scientific Corp.</i> , 658 F.3d 1347 (Fed. Cir. 2011).....	13
<i>Corley v. United States</i> , 556 U.S. 303 (2009).....	6
<i>Crumble v. Am. Bus. Mortg. Servs., Inc.</i> , 2003 WL 24198400 (E.D. Va. 2003).....	24
<i>Denius v. Dunlap</i> , 209 F.3d 944 (7th Cir. 2000).....	12
<i>ePlus, Inc. v. Lawson Software, Inc.</i> , 2010 WL 1279092 (E.D. Va. 2010).....	22
<i>Erickson v. U.S. Postal Serv.</i> , 759 F.3d 1341 (Fed. Cir. 2014).....	6

*Fedele v. Harris*,  
 2014 WL 1870840 (E.D.N.Y. 2014) ..... 25

*GPS Indus. Inc. v. Pro Link Solutions*,  
 2009 WL 8591841 (N.D. Ill. 2009) ..... 21

*Hall v. Bed Bath & Beyond, Inc.*,  
 705 F.3d 1357 (Fed. Cir. 2013)..... 14

*Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*,  
 134 S. Ct. 1744 (2014).....9

*Int’l Controls & Measurements Corp. v. Honeywell Int’l, Inc.*,  
 2013 WL 4805801 (N.D.N.Y. 2013)..... 17

*Interactive Gift Express, Inc. v. Compuserve Inc.*,  
 256 F.3d 1323 (Fed. Cir. 2001)..... 12

*Jacobi v. Blocker*,  
 153 F.R.D. 84 (E.D. Va. 1994) ..... 24

*Jones v. Bock*,  
 549 U.S. 199 (2007)..... 15

*Kamen v. Kemper Fin. Servs., Inc.*,  
 500 U.S. 90 (1991)..... 13

*Landis v. N. Am. Co.*,  
 299 U.S. 248 (1936)..... 22

*Lederer v. Newmatic Sound Sys.*,  
 2011 WL 31189 (E.D.N.Y. 2011) ..... 21

*Lincoln Elec. Co. v. Miller Elec. Mfg. Co.*,  
 2011 WL 976586 (N.D. Ohio 2011) ..... 21

*Loyalty Conversion Sys. Corp. v. Am. Airlines, Inc.*,  
 2014 WL 4352533 (E.D. Tex. 2014) ..... 17

*Marine Polymer Techs., Inc. v. HemCon, Inc.*,  
 672 F.3d 1350 (Fed. Cir. 2012)..... 12

*McBryde v. United States*,  
 299 F.3d 1357 (Fed. Cir. 2002).....4

*Nippon Steel & Sumito Metal Corp. v. POSCO*,  
2013 WL 1867042 (D.N.J. 2013) ..... 19

*Regents of Univ. of Mich. v. St. Jude Med.*,  
2013 WL 2393340 (E.D. Mich. 2013) ..... 21

*Richtek Tech. Corp. v. UPI Semiconductor Corp.*,  
2011 WL 445509 (N.D. Cal. 2011)..... 21

*Stone v. INS*,  
514 U.S. 386 (1995).....5

*Sunbeam Prods., Inc. v. Hamilton Beach Brands, Inc.*,  
2010 WL 1946262 (E.D. Va. 2010) ..... 26, 28

*United States v. Cnty. of Cook*,  
170 F.3d 1084 (Fed. Cir. 1999)..... 15

*United States v. Rodgers*,  
461 U.S. 677 (1983).....4

*Universal Elecs., Inc. v. Universal Remote Control, Inc.*,  
943 F. Supp. 2d 1028 (C.D. Cal. 2013)..... 29

*VirtualAgility Inc. v. Salesforce.com, Inc.*,  
759 F.3d 1307 (Fed. Cir. 2014)..... 23, 26

*Whitserve, LLC v. Computer Packages, Inc.*,  
694 F.3d 10 (Fed. Cir. 2012) ..... 13

**STATUTES AND RULES**

28 U.S.C. § 1292(d)(4)(A) ..... 15

35 U.S.C. § 281 ..... 15

Fed. R. Civ. P. 18(a) ..... 16

**OTHER AUTHORITY**

157 Cong. Rec. S1360-02 (Mar. 8, 2011)..... 1, 4, 6

## INTRODUCTION

Appellees (collectively, “Stewart”) concede that the CBM proceeding will have no bearing whatsoever on the contract claims. Stewart has virtually no answer to the district court’s express finding that a stay of appellees’ (collectively, “Segin”) contract claim will cause considerable prejudice, as Segin and Stewart are competitors, battling for market share. And, given that trial was set to begin in October 2014, Stewart cannot deny that, but for the stay, the trial would already be complete. These factors weigh overwhelmingly against a stay of Segin’s breach of contract claim.

I. Review of the trial court’s order is *de novo*. Stewart’s focus on *Benefit Funding Systems LLC v. Advance America Cash Advance Centers Inc.*, 767 F.3d 1383 (Fed. Cir. 2014), is misplaced, as that decision did not consider—and thus did not resolve—the standard of review in a typical America Invents Act (“AIA”) appeal. And Stewart fails to offer any plausible construction of the statutory text that results in a broadly applicable rule. The AIA’s text, purpose, and history demonstrate that review is generally *de novo*, unless the Court determines that “there are unique circumstances militating against a *de novo* review.” 157 Cong. Rec. S1364.

II. Section 18(b) of the AIA does not apply to non-patent claims unrelated to the CBM proceeding. Segin did not waive this argument: Segin

relied on common law authority to demonstrate that a stay of the contract claim was improper, and Stewart itself argued that the court should exercise its “inherent authority” to stay that claim. Stewart’s arguments on the merits fail. The statutory text of Section 18(b) confirms that it does not apply to non-patent claims unrelated to a CBM. Nor is Segin’s approach complicated: claims that may be affected by a CBM proceeding are subject to the liberal stay provision of Section 18(b), while other claims are subject to the common law standard. And the court’s decision to stay the breach of contract claim cannot be squared with the common law standard. The court found each of the common law factors either neutral or weighed *against* a stay; moreover, Stewart has not even attempted to show that, but for a stay, it will suffer prejudice—which is a requirement at common law.

III. To the extent the AIA applies at all, the court’s weighing of those factors was error. That the CBM proceeding cannot affect the contract claim, that the trial was a mere two and a half months away, and that Segin is suffering undue prejudice as a result of delay all weigh compellingly against a stay. These factors overwhelm any minor burden imposed by litigating the contract claim now.

## ARGUMENT

### I. This Court Should Review The AIA Stay Order De Novo.

Although the Court should reverse the stay issued below under any standard of review, de novo review is appropriate. While Stewart is correct that Section 18(b)(2) provides the Court a measure of discretion in determining what standard of review will apply in a particular case, the question is the framework to govern that discretion. We have demonstrated that Section 18(b)(2)'s text, purpose, and history together establish that the Court, absent "unique" circumstances, should review an AIA stay order de novo. Stewart, by contrast, offers no account as to what Congress sought to accomplish through Section 18(b)(2)'s use of the term "de novo," nor does it present any plausible standard governing when de novo review is appropriate. Stewart's reliance on *Benefit Funding*, 767 F.3d 1383, is misplaced. And, finally, the Court necessarily construes the scope of Section 18(b) de novo.

1. Stewart's argument turns on a caricature of the position that Segin advances. Stewart contends that, because Section 18(b)(2) provides review "may" be de novo, instead of "shall" be do novo, Segin is wrong to assert that the Court should, in all cases, review an AIA stay order de novo. Stewart Br. 17.



But that is not Segin’s argument—Segin’s position is that, in the normal course, review is de novo, *unless* there are “unique circumstances militating *against* a de novo review.” Segin Br. 16 (quoting 157 Cong. Rec. S1360-02, S1364 (Mar. 8, 2011)) (emphasis added). Segin, like Stewart, recognizes that Section 18(b)(2)’s use of the term “may” creates a degree of discretion as to what standard of review this Court should employ in a Section 18 appeal. *See id.* But “the use of the word ‘may’ does not, by itself, render a statute *wholly discretionary*.” *McBryde v. United States*, 299 F.3d 1357, 1362 (Fed. Cir. 2002) (emphasis added). Indeed, while the word “may” “implies some degree of discretion,” that understanding “can be defeated by indications of legislative intent to the contrary or by obvious inferences from the structure and purpose of the statute.” *Id.* (quoting *United States v. Rodgers*, 461 U.S. 677, 706 (1983)). The structure, purpose, and history of the statute all support a framework governing the Court’s exercise of discretion.

With respect to the statutory text, Stewart agrees with our showing (Segin Br. 15) that the “traditional,” common law standard of review for a stay order is abuse of discretion. *See* Stewart Br. 21. In specifically introducing a de novo standard—and thus bucking the common law—Congress must have intended to tilt appellate review towards a de novo standard.

Begin Br. 15. Stewart has no response. Instead, Stewart makes the improbable contention that, notwithstanding the purposeful use of “de novo” language, Congress intended for Section 18(b) to accord *greater* discretion to district courts than that available at common law. *See* Stewart Br. 20-21.<sup>1</sup> Stewart’s interpretation—which would negate wholly Congress’s purposeful use of the term “de novo” in Section 18(b)(2)—violates the strong presumption that statutory language has “real and substantial effect.” *Stone v. INS*, 514 U.S. 386, 397 (1995).<sup>2</sup>

The text and history make Congress’s purpose manifest: Congress sought to ensure “consistent[ency]” in the “application” of Section 18(b), and thus called on this Court to carefully police the issuance of stays un-

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<sup>1</sup> While simultaneously criticizing us for citing statements by Senator Schumer (Stewart Br. 18 n.5), Stewart itself points to a different part of his same address for the general contention that Section 18(b) looked to *Broadcast Innovation* as a model. Stewart then looks to language found in *Broadcast Innovation*. Stewart Br. 19-20. But *Broadcast Innovation*, a district court decision, says nothing at all about the *appellate* standard of review. Moreover, statutory interpretation does not reside in such rabbit holes, particularly where, as here, Senator Schumer made express his view that de novo review is “central” to the amendment he offered.

<sup>2</sup> Stewart mistakes Section 18(b)’s thumb on the scale in favor of staying a claim related to a CBM proceeding with a deferential standard of review. There is no doubt that the intent behind Section 18(b) was to encourage stays with respect to *CBM-related claims*, but this was achieved by adding a fourth “burden of litigation” factor to the common law three-factor test—not through displacing the common law standard review with a provision permitting a *less deferential* standard.

der this provision. AIA § 18(b)(2). As Senator Schumer—the “floor leader for the bill” (Stewart Br. 19)—explained, the “Federal Circuit can *and should* review the district court’s decision de novo,” as “de novo review is *central* to the purpose of the interlocutory appeal provision in the Schumer-Kyl amendment.” 157 Cong. Rec. at S1364 (emphasis added).<sup>3</sup> Thus, unless the Court exercises its discretion to hold that a particular appeal falls in some unique category—for example, where a litigant uses a Section 18(b) appeal to pursue a collateral challenge to the CBM or to bring serial appeals—review in this Court should be de novo. *See* Segin Br. 16.

Stewart, by contrast, offers no framework that would render Section 18(b)(2) administrable. It acknowledges that de novo review is proper in “appropriate” circumstances, but it does not hint at what may render a circumstance “appropriate.” Stewart Br. 22. It contends that review may be de novo in light of a “compelling reason,” but it offers no metric to measure

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<sup>3</sup> Stewart cannot sweep this directly on-point legislative history under the rug: “a sponsor’s statement to the full Senate carries considerable weight.” *Corley v. United States*, 556 U.S. 303, 318 (2009). Just a few months ago, the Court relied extensively on a Senator’s statements in support of a floor amendment—just what occurred here. *See Erickson v. U.S. Postal Serv.*, 759 F.3d 1341, 1350 (Fed. Cir. 2014). Stewart’s authority that chastises reliance on legislative history to arrive at an atextual result (Stewart Br. 18 & n.5) has no bearing: our contention is that Senator Schumer’s statement merely confirms the primary canons of construction implicated here—that Congress’s use of the term “de novo” is not surplusage, and that Congress legislated with knowledge of the law.

what qualifies as “compelling.” *Id.* at 16. And it says the Court may use de novo review “when necessary,” but that is no standard at all. *Id.* at 17. Because Stewart does not say when de novo review *is* appropriate, its argument against de novo review here is merely the rudderless contention of “anything-but-this-case.” That cannot do; whatever Congress may have intended in providing this Court discretion, it did not create a system where the standard of review is subject to the predilections of a particular panel, divorced from any broadly applicable framework.

2. Stewart’s reliance on *Benefit Funding* is misplaced. *Benefit Funding* did not establish an interpretation of Section 18(b)(2) that guides when the Court should apply de novo rather than abuse of discretion review. Instead, *Benefit Funding* dealt with the case immediately before it, which did not require resolution of this broader question.

There, as the Court expressly identified, the “sole argument on appeal” was appellants’ “collateral attack” on the Patent Trial and Appeal Board’s (“PTAB”) decision to initiate a CBM to consider a Section 101 challenge. *Benefit Funding*, 767 F.3d at 1386-87. The Court repeatedly explained that this was appellants’ “single” and “only real argument” on appeal. *Id.* at 1385, 1387. The Court rejected—without any apparent deference to the district court—appellants’ efforts to contort a stay proceeding

into an attack on the PTAB. Once the Court reached this conclusion, it had rejected the *only* argument that the appellant raised; there was, therefore, nothing left for the Court to consider.

The Court thus properly summed up the situation: “Having rejected Appellants’ sole argument on appeal, we conclude that the district court did not abuse its discretion in granting the stay.” *Benefit Funding*, 767 F.3d at 1387. Its conclusion—that there was no “compelling reason for a more searching review”—followed from the fact that there was *nothing* else in dispute. *Id.* The parties there did not dispute, as the parties here do, whether the district court properly evaluated the AIA factors or departed from established precedent.

Stewart is thus wrong to suggest that *Benefit Funding* settles, for all cases, the standard of review for a Section 18(b)(2) appeal. Indeed, the Court did not provide any express interpretation of the term “may,” nor did it consider the directly on-point statutory history—both of which the Court likely would have done had it actually issued a broad holding as to the meaning of this statutory provision. And the approach it took is consistent with Segin’s argument: when a party attempts to use an AIA appeal to collaterally attack a CBM proceeding, that may well qualify as an

“unusual” or “exceptional” circumstance warranting a more deferential standard of review.

In any event, even if *Benefit Funding* does establish a “compelling reason” test for the application of de novo review, that test is satisfied here. We are unaware of any case—and Stewart surely points to none—in which a district court has used the AIA stay mechanism to delay a non-patent claim unrelated to the CBM. And all of the “established precedent” (*Benefit Funding*, 767 F.3d at 1387)—that is, *every* district court case issued prior to the AIA in like circumstances—declined to stay non-patent claims unrelated to the CBM proceeding. *See* Segin Br. 23-24; *supra* 20. This is, accordingly, precisely the circumstance in which de novo review is required.

3. Finally, Stewart does not dispute Segin’s showing (Segin Br. 17) that regardless of Section 18(b)(2), the proper construction of Section 18(b) itself is subject to de novo review. The Court “reviews the district court’s interpretation of statutory ... provisions without deference.” *Broad. Innovation, L.L.C. v. Charter Commc’ns, Inc.*, 420 F.3d 1364, 1366 (Fed. Cir. 2005). And “[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law.” *Highmark Inc. v. Allcare*

*Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 n.2 (2014) (quotation omitted).

## **II. Section 18(b) Does Not Reach Claims Unrelated To A CBM Proceeding.**

Prior to the AIA, in *every* similar case where a defendant attempted to stay a lawsuit pending a PTO reexamination proceeding, the court either denied the stay in whole or in part when the plaintiff asserted a non-patent claim unrelated to the reexamination. *See* Segin Br. 23-24; *supra* 20. The AIA—which is designed to stay *patent* claims that may be affected by a CBM proceeding—did not alter this long-standing law. Segin did not waive this argument. And, because Stewart is not entitled to a stay of the contract claim under the common law standard, the stay issued below is error.

### **A. This argument is properly before the Court.**

Review of the record belies Stewart’s contention that Segin waived this argument below. In fact, in the district court, Stewart itself specifically *urged* the court to grant a stay of the contract claim based on its “inherent authority”—not authority derived from the AIA. A799. It is disingenuous for Stewart to now suggest Segin waived an argument that was never, prior to the district court’s final decision, at issue.

In opposing Stewart’s renewed stay motion, Segin argued, in part, that regardless of the court’s disposition of the patent claim, it should not stay the contract claim. A741-743. Segin relied on common law, not AIA, authority to demonstrate that a stay of the contract claim was improper. *Id.* The district court first granted the stay with respect to the patent claim, applying the AIA standard, and it simultaneously requested supplemental briefing from Stewart (but not Segin) as to whether it should stay the contract claim. A20. In particular, the court directed Stewart to address the non-AIA “precedent” Segin had cited. *Id.*

Stewart’s response is telling; in its brief, Stewart twice urged the court to exercise its “inherent power” to stay “non-patent claims.” A799. Stewart’s submission did not even mention the AIA, much less assert it as a basis to stay the contract claim. A798-806. Thus, while it was quite clear, as Stewart asserts, that the court “was being asked to stay all claims” (Stewart Br. 24), Stewart below urged the exact same legal framework we advocate here—that the “inherent power” standard, and not the more liberal AIA approach, governs a claim unrelated to a CBM proceeding.

In sum, both Segin and Stewart relied on non-AIA precedent in arguing as to whether the district court should stay the contract claim. *All* parties argued this issue under the common law standards, with Stewart ex-



pressly urging the court to use its “inherent power.” Prior to the court’s ultimate decision, no one had even suggested that the AIA applied, much less put this argument at issue. Waiver does not apply when “the appellant had no opportunity to raise the objection at the district court level.” *Interactive Gift Express, Inc. v. Compuserve Inc.*, 256 F.3d 1323, 1345 (Fed. Cir. 2001); *Marine Polymer Techs., Inc. v. HemCon, Inc.*, 672 F.3d 1350, 1371 n.4 (Fed. Cir. 2012) (same).

And Stewart’s suggestion that Segin should have sought reconsideration (Stewart Br. 24) is flatly wrong. A litigant need not seek reconsideration to preserve an issue for appeal. *See In re Apple, Inc.*, 602 F.3d 909, 912 (8th Cir. 2010); *Denius v. Dunlap*, 209 F.3d 944, 959 (7th Cir. 2000). When the district court, on its own accord, chose to apply the AIA to claims unrelated to a CBM, it rendered its broad application of the statute subject to review on appeal.

Against this backdrop, Stewart’s claim of “prejudice” rings hollow. Stewart Br. 25. Stewart speculates that “[h]ad Segin raised the argument below, the district court could have (and very likely would have) made an alternative finding staying the non-patent claim under its inherent authority.” *Id.* But Stewart *itself* argued that the contract claim should be

stayed under the Court’s inherent authority—it was Stewart’s *only* argument—yet the district court relied instead on the AIA.

Even if, contrary to fact, Segin waived this argument in the district court, the Court should nonetheless reach the issue. Segin has consistently maintained that a stay of the contract claim was error; because the broad “claim is properly before the court, the court is not limited to the particular legal theories advanced” below, but it instead “retains the independent power to identify and apply the proper construction of governing law.” *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 99 (1991).

Moreover, because this appeal requires the Court to adjudicate whether the district court erred in staying the contract claim, it should first identify the proper legal framework for this analysis. This is a circumstance where the purportedly “waived” issue is “necessary to the resolution of other issues ... on appeal.” *Cordis Corp. v. Boston Scientific Corp.*, 658 F.3d 1347, 1359 (Fed. Cir. 2011). Put differently, the scope of Section 18(b) is “an issue antecedent to” and, if we are correct, “ultimately dispositive of the dispute,” making it appropriate for the Court to reach, even if “the parties fail to identify and brief” it. *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 41 (Fed. Cir. 2012).

And, finally, the scope of Section 18(b) is a “significant question[] of general impact” and “of great public concern” warranting resolution now. *See Hall v. Bed Bath & Beyond, Inc.*, 705 F.3d 1357, 1371 (Fed. Cir. 2013). As parties are filing CBM proceedings with frequency, and the district court’s construction of Section 18(b) limits the ability of plaintiffs to obtain efficient relief for claims entirely unrelated to the CBM, the appropriate reach of Section 18(b) is critical.

**B. Section 18(b) does not reach claims unrelated to the CBM proceeding.**

Stewart opposes our showing (Segin Br. 16-21) that Section 18(b) does not reach unrelated patent claims by (1) focusing on the statute’s use of the term “civil action” (Stewart Br. 27-29), (2) contesting the practical implications (*id.* at 32-37), and (3) concocting a Seventh Amendment argument (*id.* at 43). Each contention fails.

1. Stewart first focuses on Section 18(b)(1)’s use of the term “civil action,” which Stewart suggests is evidence that Congress intended for entire actions to rise and fall together, pursuant to the same standard. The term “civil action” cannot bear the weight of Stewart’s argument.

In fact, the Supreme Court has rejected a similar argument in analogous circumstances. The Prison Litigation Reform Act provides, in part, that “[n]o action shall be brought’ unless administrative procedures are

exhausted.” *Jones v. Bock*, 549 U.S. 199, 220 (2007). There, the civil action contained multiple claims; the plaintiff had properly exhausted some claims, but not others. The defendant contended that Congress’s use of the term “action” (which the Court equated to “civil action”) meant that the whole suit rose and fell together—if *any* claim was improperly exhausted, then the *entire* action faltered. *Id.* at 220-21. The Court rejected this argument plainly: “statutory references to an ‘action’ have not typically been read to mean that every claim included in the action must meet the pertinent requirement before the ‘action’ may proceed.” *Id.* at 221. While Congress had used the term “action,” the Court held that the broader context actually revealed that the requirement applies only to particular *claims*.

Likewise, in construing 28 U.S.C. § 1292(d)(4)(A), which permits transfer of “an action” to the United States Court of Federal Claims, this Court held that, notwithstanding Congress’s use of the term “action,” the statute permits “the transfer of less than all of the claims in a civil action.” *United States v. Cnty. of Cook*, 170 F.3d 1084, 1089 (Fed. Cir. 1999).<sup>4</sup>

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<sup>4</sup> Indeed, throughout the patent laws, Congress has used the term “civil action” to mean a “claim.” Congress provides a patentee a “civil action for infringement of his patent,” even though it is plain that “civil action” in this context must mean “claim.” 35 U.S.C. § 281; *see also id.* § 292.

So too here: while Congress used the broad term “civil action,” the context of the statute itself—which anticipates claims “alleging infringement of a patent ... relating to a transitional proceeding for that patent” (AIA § 18(b)(1))—makes plain that Congress was focused on *claims* actually related to the CBM. The legislative history supports the same result. See Br. 19-20. Stewart does not contest either point.

Stewart relies on authority that distinguishes, as a general matter, the concept of a “civil action” from that of a claim. Stewart Br. 27-29. While that distinction is generally apparent, context is key—as *Jones* and *County of Cook* demonstrate. Because the context shows Congress was targeting specific kinds of individual claims and thus giving district courts a scalpel, the generic use of the term “civil action” does not convert Section 18(b) into a blunt hammer.

2. Stewart next disputes policy, arguing both that our interpretation of the statute is complicated (Stewart Br. 32-33) and that we are wrong in identifying the risk of plaintiffs splitting their claims (*id.* at 34-36).

There is nothing “complicated” about our understanding of Section 18(b). The AIA puts a heavy thumb on the scale in favor of staying claims that relate to a CBM proceeding. Thus, a district court first identifies which claims will be affected by the CBM proceeding and will typically

stay such claims. As to claims *unrelated* to the CBM, if the defendant also requests a stay of those claims, the court will apply the common-law stay standards that control in every case. This procedure is not at all complicated.

As for the inefficiencies of broadly interpreting Section 18(b), Stewart seems to be of the view that two claims may be joined in the same federal lawsuit only if the non-patent claims arise from the common nucleus of operative fact. But claims are often joined on other grounds—such as diversity—pursuant to the permissive claim joinder standard of Fed. R. Civ. P. 18(a). Thus, parties can and do bring claims in separate actions—a result Stewart’s approach to Section 18(b) will undoubtedly encourage. *See, e.g., Loyalty Conversion Sys. Corp. v. Am. Airlines, Inc.*, 2014 WL 4352533, at \*3 (E.D. Tex. 2014); *Int’l Controls & Measurements Corp. v. Honeywell Int’l, Inc.*, 2013 WL 4805801, at \*2 (N.D.N.Y. 2013).

Stewart also ignores the market reality of suits involving patent and non-patent claims. The plaintiff’s primary concern will often be to obtain an injunction as soon as possible. Thus, if joining claims will also result in a stay of non-patent claims unrelated to the CBM, plaintiffs will proceed with two suits in tandem, seeking an expeditious resolution of one of its actions.

3. Later in its brief, Stewart argues that two trials could somehow offend the Seventh Amendment, which apparently is an argument against treating claims unrelated to the CBM proceeding apart from patent claims. Stewart Br. 43. But there is no limitation against “two juries review[ing] the same *evidence*,” it is only “against having two juries *decide* the same *essential issues*.” *Commil USA, LLC v. Cisco Sys., Inc.*, 720 F.3d 1361, 1371 (Fed. Cir. 2013) (quotation omitted). We do not dispute that the AIA applies to claims *related* to the CBM proceeding. Claims raising other, distinct issues, are outside the scope of the CBM proceeding and cannot, therefore, raise a Seventh Amendment concern.

**C. Segin’s contract claim is unrelated to the CBM proceeding.**

Because Segin’s contract claim is unrelated to the CBM proceeding, the common law stay standard—not the liberalized standard of the AIA—governs. In fact, Stewart concedes the critical finding: “the breach of contract claim does not necessarily turn on the validity of the patent.” Stewart Br. 32. And this is precisely what the district held, in express terms, in finding that nothing Stewart advanced “establish[ed] that a ruling from the PTAB as to the validity of the patent will have any effect whatsoever on the breach of contract claim.” A27.

The operative inquiry is whether the *CBM proceeding* will have any bearing on the non-patent claim. A district court recently explained this distinction: in denying a motion to stay a whole civil action pending a reexamination, the court recognized that, while the patent and non-patent claims share a “common nucleus of operative facts,” the *reexamination* was irrelevant to the non-patent claims because those claims “do not depend on the validity of the patent in any way.” *Nippon Steel & Sumito Metal Corp. v. POSCO*, 2013 WL 1867042, at \*8 (D.N.J. 2013).

Perhaps cognizant it has no argument on this score, Stewart attempts to argue that the relevant factor is the relationship between the contract claim and the *patent claim*. It is on this basis that Stewart accuses us of “mischaracterize[ing]” the record. Stewart Br. 32. But that is not—and never has been—our argument. *See* Segin Br. 1, 2, 13, 17, 21, 22. If a CBM proceeding cannot affect the particular claim—which Stewart concedes to be the case here—that claim is outside the scope of Section 18(b)(2).

**D. A stay of the contract claim is inappropriate under the traditional standards.**

Finally, as to whether the court’s stay of the contract claim is permissible under the traditional stay standards, Stewart has little to say. It does not dispute that, under the traditional standard, it is *Stewart’s* bur-



den to demonstrate, absent a stay, it will suffer prejudice. Segin Br. 22. Nor does Stewart point to *any* prejudice it would suffer. *Id.* And it cannot dispute that the key factor on which the district court relied in staying the AIA claim—the “burden of litigation”—is precisely the factor that the AIA added because, at common law, it is *not* a sufficient basis for a stay. *Id.* at 22-23. These points together, all of which Stewart is apparently willing to concede, require reversal.

Stewart merely repeats its argument that the “district court would have ample grounds to stay the non-patent claims under its inherent authority.” Stewart Br. 36. But Stewart offers no reason to believe this true; indeed, the “burden of litigation” factor, as Stewart apparently concedes, is *not* a distinct factor at common law. Yet more telling, as we showed above (*infra*, 10-11), Stewart itself urged the court to rely on its inherent authority, yet the court instead rested solely on the AIA.

And there can be no real dispute as to the result at common law. Every case of which we are aware to have decided this issue before the AIA favors Segin. That is to say, in *every* similar case in which (1) a plaintiff brought patent and non-patent claims in a single lawsuit, and (2) the defendant then sought some kind of reexamination at the PTO, the district court either denied the stay in whole (Segin Br. 24 n.2) or it denied it with

respect to the claims unrelated to the reexamination (*id.* at 23-24). The district court's wild departure from this authority confirms that, to the extent it had any discretion here, it abused it.<sup>5</sup>

Finally, Stewart suggests that the Court cannot decide the "inherent authority" argument itself. Stewart Br. 36-37. The outcome under the common law standard, however, is plain from the district court's decision.

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<sup>5</sup> Stewart footnotes (Br. 34 n.8), but does not explain, cases it purports stayed non-patent claims unrelated to the reexamination. None of this authority holds up. In three cases, the court found that the reexamination proceeding *would* impact the non-patent claim. See *GPS Indus. Inc. v. Pro Link Solutions*, 2009 WL 8591841, at \*3 (N.D. Ill. 2009); *Regents of Univ. of Mich. v. St. Jude Med.*, 2013 WL 2393340, at \*3 (E.D. Mich. 2013); *Automated Merch. Sys. v. Crane Co.*, 357 F. App'x 297, 303 (Fed. Cir. 2009).

In *Lincoln Elec. Co. v. Miller Elec. Mfg. Co.*, 2011 WL 976586, at \*4 (N.D. Ohio 2011), the district court stayed the action when the *only* claims were patent claims; the district court declined to lift the stay *after the* plaintiff amended the complaint to add additional claims. The court remarked that "[t]he presence of these additional claims might have factored into the court's earlier decision to grant [the defendant's] motion to stay." Mem. Order, at 2, Dkt. No. 58, No. 1:06CV2981 (N.D. Ohio).

In *Richtek Tech. Corp. v. UPI Semiconductor Corp.*, 2011 WL 445509, at \*2-6 (N.D. Cal. 2011), the court stayed patent and copyright claims where the patent claims were "the true meat and potatoes of this action," "[the plaintiff] consistently . . . treated its copyright claim as an afterthought," the plaintiff "ha[d] not argued or submitted any evidence that its copyright claim require[d] immediate resolution," and "[b]ecause [the plaintiff] already ha[d] obtained relief" meaning that "it w[ould] not be unduly prejudiced ... by a stay," "mak[ing] this an exceptional case."

In *Lederer v. Newmatic Sound Sys.*, 2011 WL 31189, at \*3-4 (E.D.N.Y. 2011), when the stay was granted, "[n]o discovery ha[d] yet taken place, and neither a *Markman* hearing nor a trial ha[d] been scheduled."

The common law test requires courts to evaluate the same factors as the first three factors under the AIA (whether the stay will simplify the claims, the status of the litigation, and prejudice). *See, e.g., ePlus, Inc. v. Lawson Software, Inc.*, 2010 WL 1279092, at \*2 (E.D. Va. 2010). The district court already found all of those factors either neutral or weighed *against* a stay. A26-28. Thus, absent the AIA's thumb on the scale, a stay is impermissible. Moreover, Stewart has not so much as attempted to "make out a 'clear case of hardship or inequity in being required to go forward,'" as it must to obtain a stay at common law. *Id.* (quoting *Landis v. N. Am. Co.*, 299 U.S. 248, 255 (1936)).

### **III. The District Court Erred In Its Weighing Of The Section 18(b) Factors.**

While the contract claim should not have been decided under the liberalized standard of Section 18(b) to begin with, the district court's ultimate conclusion was nonetheless error on its own terms. The balance here is overwhelming: the CBM proceeding will have no bearing on the contract claim at all; discovery is nearly complete; but for the stay, the trial would be complete; and the district court *expressly found* that Segin is suffering prejudice. Any minor burden that may be caused is wholly overcome by these compelling factors.

**A. The CBM proceeding will not simplify the breach of contract claim.**

As the district court clearly found, the CBM proceeding will have no implications whatsoever for the contract claim. A26-27. Even if the patent is invalidated in its entirety, the contract claim will remain in identical form. Nothing in the CBM proceeding could possibly simplify the breach of contract claim. Stewart itself recognizes that “a decision on the validity of the patent will not necessarily determine the outcome of the state law claim.” Stewart Br. 45.

Stewart again tries to argue that there could be some relationship between the contract claim and the patent *claim*. Stewart Br. 45. But, just as we explained above (*see, supra*, 18-19), this contention is not at all relevant. Indeed, the statute itself, which requires inquiry as to whether a stay “will simplify the issues in question and streamline the trial,” necessarily looks to the “transitional proceeding for that patent.” AIA § 18(b)(1). Moreover, in *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1314 (Fed. Cir. 2014), the Court made plain that the relevant inquiry is the effect of the CBM proceeding—not some interrelationship between claims.

Aware that it has no real basis to argue that the CBM proceeding can affect the contract claim, Stewart tries to shuffle the deck, arguing

that Segin's breach of contract claim will be dismissed if the patent is invalidated. That is plainly wrong. As an initial matter, a district court has broad discretion to retain supplemental jurisdiction, even after the federal claim is dismissed; courts typically exercise that authority where, as here, trial is near and litigation substantially advanced. *See, e.g., Abatena v. Norfolk State Univ.*, 2014 WL 1819665, at \*16 (E.D. Va. 2014); *Crumble v. Am. Bus. Mortg. Servs., Inc.*, 2003 WL 24198400, at \*4 (E.D. Va. 2003).

Moreover, here, the *trial would already be complete* long before the CBM proceeding concludes. In these circumstances, there is no question that the court would continue to entertain the contract claim.

While supplemental jurisdiction is sufficient, there is no serious dispute that the district court also has diversity jurisdiction, as the opposing parties are citizens of different states (A1779-80) and the amount in controversy exceeds \$75,000 (A1661). Segin's proposed amended complaint makes these allegations clear. A1780. And courts permit an amendment to replead subject matter jurisdiction. *See, e.g., Jacobi v. Blocker*, 153 F.R.D. 84, 86 (E.D. Va. 1994).<sup>6</sup>

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<sup>6</sup> The NDAs are not to the contrary. *See* A325. They provide venue in the Eastern District of Virginia in light of a suit where there is "exclusive federal jurisdiction." And "circumstances at the time of filing the complaint govern venue." *Fedele v. Harris*, 2014 WL 1870840, at \*9 (E.D.N.Y. 2014).

**B. The status of the case weighs heavily against a stay.**

In considering the status of the case, Stewart ignores that it waited more than eight months to file the CBM proceeding. *See* Segin Br. 29. And it cannot deny that trial was a mere two and a half months away from the date on which the stay was granted. *Id.* at 29-30. While Stewart contends that trial dates are fluid (Stewart Br. 50), it has no basis—and there is none—to suggest that *this* trial date was subject to change. The parties were gearing up for trial, which would have already concluded but for the stay. In this light, with an impending trial date, Stewart’s contention that substantial discovery remains is unpersuasive.

Indeed, Stewart now contradicts the position it took below: in the district court, Stewart argued that discovery had nearly run its course as it had produced “mammoth” amounts of documents, including “6 terabytes of electronic data.” A1366-1367, 1368-1369; *see* A734. And two months *before* the court issued a stay, Stewart expressly represented that “the close of discovery” is “looming.” A1200; *see* A733-734. Stewart also ignores that the parties had scheduled depositions and engaged experts. A733-734. Moreover, the critical fact is the amount of *time* left remaining in discov-

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Because venue is governed by circumstances at the time of filing, the presence of a non-fraudulently joined patent claim in the complaint renders the federal forum the correct one pursuant to the NDAs.

ery; given the immediate pendency of the trial when the stay was granted, this factor—which considers holistically the status of the case—weighs against a stay. *See Sunbeam Prods., Inc. v. Hamilton Beach Brands, Inc.*, 2010 WL 1946262, at \*2 (E.D. Va. 2010).<sup>7</sup>

**C. A stay substantially prejudices Segin.**

The district court held in express terms that, because Segin and Stewart are “direct competitors,” Segin is “likely to suffer undue prejudice as a result of delay.” A27. Stewart has little to say as to this very specific, concrete finding that the court made repeatedly. *See also* A12 (“a delay in the resolution of Plaintiffs’ claims poses a substantial risk of undue prejudice to Plaintiffs.”); A20 (“The third factor (undue prejudice and clear tactical advantage) still weighs strongly against a stay.”). As this Court has plainly held, “competition between parties can weigh in favor of finding undue prejudice.” *VirtualAgility Inc.*, 759 F.3d at 1318.

Stewart’s principal argument in response is that the district court was wrong on the facts. It asserts, without any record citation, that “Defendants do not place AgencySecure on any open market,” and therefore

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<sup>7</sup> Stewart’s own brief is internally inconsistent. It states that “[t]he district court is in the best position to evaluate how much discovery actually transpired and how much remains.” Stewart Br. 49. But then, although the court itself found this factor “neutral” (A27), Stewart suggests that it “weighs in favor of a stay.” Stewart Br. 50.

contends that the parties do not compete. Stewart Br. 51. But this extraordinary assertion is belied by both the district court's plain factual findings and the record itself.

The district court, for example, pointed to Stewart's "advertisement for AgencySecure," which Stewart copyrighted in 2013, as evidence that Segin and Stewart compete. A10. The court credited Segin's showing that Stewart is "marketing and licensing AgencySecure 'to RynohLive's main customers (various title agencies) at a lower price than that charged for RynohLive.'" *Id.*

This specific finding of direct competition is well-supported. Stewart has expressly admitted, by way of a verified declaration, that it offers AgencySecure to independent title agencies. Stewart provided a Declaration of Joyce Johnson, which states that "PIC offers the AgencySecure Program to *independent agents* of Stewart Title Guaranty Company" (A1641 (emphasis added)) and lists current and former *independent title agency* users of AgencySecure (A1641-1659). This declaration provides the specific identity of 260 different "independent agents" who use or have used AgencySecure, along with another 11 who use only On-Trac, a constituent element of AgencySecure. These 271 agencies are all possible customers for RynohLive.



***Confidential Information Subject To A Protective Order Is Redacted From This Page***

Stewart’s own emails acknowledge broadly that AgencySecure and RynohLive are competitors. In one such email, appellee First Banking Services, Inc. (“FBS”) states, [[REDACTED]] A858 (redacted). In another, appellee PropertyInfo Corp. (“PIC”) explains that [[REDACTED]]  
[REDACTED]  
[REDACTED]  
[REDACTED]] A854 (redacted).

Stewart’s only other contention is that a stay is inappropriate because any harm can be remedied by money damages. This argument, however, ignores wholesale other reasons we proffered why time is of the essence—Segin is a small company struggling to market its product, its founder is 71 years old, and memories fade over time. Segin Br. 32-33. Stewart flatly ignores these immeasurable repercussions.

Moreover, time erodes Segin’s market share; the loss of “market share—potentially permanently—during the stay,” undoubtedly qualifies as irreparable injury. *Sunbeam Prods.*, 2010 WL 1946262, at \*4. Stewart has the resources and national reach to cripple Segin’s position in the market and will continue to misuse Segin’s confidential information to usurp Segin’s business.

While Stewart focuses on Segin’s decision to forego a preliminary injunction in favor of seeking expeditious *permanent* relief, this hardly demonstrates that Segin “would not suffer prejudicial harm from its competitor’s market activity during a lengthy delay in the case.” *Universal Elecs., Inc. v. Universal Remote Control, Inc.*, 943 F. Supp. 2d 1028, 1034 (C.D. Cal. 2013); *see also Avago Techs. Fiber IP (Singapore) Pte. Ltd. v. IPtronics Inc.*, 2011 WL 3267768, at \*6 (N.D. Cal. 2011) (declining to “hold against [the plaintiff] its decision to spare the parties more litigation” by not pursuing a preliminary injunction). In light of the enormous resource disparity between Segin and Stewart, such a decision is sensible—particularly because the district court’s “rocket docket,” which assured Segin that it would have its claims resolved within a year of filing.

Finally, the timing of Segin’s filing this action has little bearing on the prejudice analysis. Segin did not immediately file suit because Stewart and PIC continued to tell Segin that they were interested in a licensing arrangement. Likewise, after filing the Complaint, the parties engaged in settlement discussions, and Segin sought to resolve its claims without the expense of a lawsuit. A547-552. Attempting non-judicial dispute resolution does not suggest that a claim is unimportant.

**D. A stay will not substantially reduce the burden of litigation.**

Stewart highlights that the “burden of litigation” factor was the innovation of the AIA as designed by Senator Schumer. Stewart Br. 38-39. But what Stewart neglects to mention is that Senator Schumer’s discussion of the statute was couched, expressly, in his view that the claims subject to the AIA stay provision were *patent claims related* to the CBM proceeding. See Segin Br. 19-20. This only underscores why Stewart errs in trying to fit the square peg of Segin’s contract claim into the round hole of the AIA stay provision. The AIA was not designed to operate in this manner.

Moreover, Stewart’s contentions about inefficiencies in this case are overwrought: because the contract claim is entirely separate from the patent, there will be no material duplication of efforts by proceeding on the contract claim now. The discovery obtained in the contract proceeding will not disappear should a trial result. Should the patent claim resume, the parties can quickly and efficiently supplement the existing record with whatever additional, tailored discovery may be relevant to the patent claim.

But to the extent that the burden of litigation factor could weigh, ever slightly, in favor of a stay, it is overwhelmed by countervailing inter-

ests: the outcome of the CBM proceeding will have no conceivable effect on the contract claim; trial on the contract claim was two and a half months away, meaning that discovery was nearly complete; and Segin is experiencing substantial prejudice. These factors decisively overwhelm any interest of the trial court in avoiding two proceedings, particularly when, as here, the possibility of a second trial is speculative.

In sum, Segin cannot afford delay before it gets its day in court on its contract claim, a claim entirely unrelated to the ongoing CBM proceeding.

### **CONCLUSION**

The Court should reverse the order of the district court that stayed the breach of contract claim pending the CBM proceeding.

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### **CERTIFICATE OF COMPLIANCE**

Pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned counsel certifies that this brief:

(i) complies with the type-volume limitation of Rule 32(a)(7)(B) because it contains 6,978 words, including footnotes and excluding the parts of the brief exempted by Rule 32(a)(7)(B)(iii); and

(ii) complies with the typeface requirements of Rule 32(a)(5) and the type style requirements of Rule 32(a)(6) because it has been prepared using Microsoft Office Word 2007 and is set in Century Schoolbook font in a size equivalent to 14 points or larger.

Dated: November 13, 2014

/s/ A. John P. Mancini  
A. John P. Mancini

**CERTIFICATE OF SERVICE**

I hereby certify that on November 13, 2014, I served the foregoing Non-Confidential Reply Brief of Appellants on each party separately represented via email and the Court's electronic case filing (ECF) system.

Dated: November 13, 2014

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