

**Ceiva Logic Inc. v. Frame Media Inc.**  
**2009 WL 7844245**  
**C.D.Cal.,2009**

Proceedings: (In Chambers) Order Granting Defendant Frame Media, Inc. and Digital Spectrum Solutions, Inc.'s Motion to Stay the Proceedings Inter Parties Reexamination (filed 04/10/09)  
JAMES V. SELNA, Judge.

\*1 Karla J. Tunis Deputy Clerk

Defendants Frame Media, Inc. and Digital Spectrum Solutions, Inc. (collectively, "Frame Media") move to stay this case pending the U.S. Patent and Trademark Office's ("PTO") inter partes reexamination of U.S. Patent No. 6,442,573 B1 (the "?573 Patent"). Plaintiff Ceiva Logic, Inc. ("Ceiva") opposes the motion. The motion is granted.

**I. Legal Standard**

Any person may, at any time, file a request for reexamination with the PTO of any claim of a patent on the basis of prior art that bears on the claim's patentability. 35 U.S.C. §§ 301–02. The PTO's reexamination procedure exists to shift the burden of redetermining patent validity from the courts to the PTO. See *Canady v. Erbe Elektromedizin GmbH*, 271 F.Supp.2d 64, 78 (D.D.C.2002).

Whether to grant a stay is a decision within the discretion of this Court. See, e.g., *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed.Cir.1988); *ASCII Corp. v. STD Entertainment USA, Inc.*, 844 F.Supp. 1378, 1379 (N.D.Cal.1994). In exercising their discretion, district courts balance the benefits of granting a stay with concerns of delay and prejudice to the opposing party. *Broadcast Innovation, L.L.C. v. Charter Communication, Inc.*, 2006 U.S. Dist. LEXIS 46623 at \* 12 (D.Colo.2006). There are many advantages to granting such a stay:

- a) All prior art presented to the Court will have been first considered by the PTO, with its particular expertise.
- b) Many discovery problems relating to prior art can be alleviated by the PTO examination.
- c) In those cases resulting in effective invalidity of the patent, the suit will likely be dismissed.
- d) The outcome of the reexamination may encourage a settlement without further involvement of the Court.
- e) The record of the reexamination would likely be entered at trial, thereby reducing the complexity and length of the litigation.
- f) Issues, defenses, and evidence will be more easily limited in pre-trial conferences after a reexamination.

g) The cost will likely be reduced both for the parties and the Court.

Softview Computer Products Corp. v. Haworth Inc., 56 U.S.P.Q.2d 1633, 1635 (S.D.N.Y.2000); Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co. Ltd., 3 U.S.P.Q.2d 1889, 1890 (N.D.Ill.1987); Fisher Controls Co. Inc. v. Control Components, Inc., 443 F.Supp. 581, 582 (S.D.Iowa 1977).

Countervailing concerns include: allowing delay and changing market conditions to dramatically lower the value of injunctive relief ( Remington Arms Co., Inc. v. Modern Muzzleloading, Inc., 1998 WL 1037920 at \*2 (M.D.N.C.1998)); wasting substantial expense and time invested in the issues under reexamination ( ASCII Corp., 844 F.Supp. at 1380); granting a tactical advantage to the moving party ( Whatley v. Nike Inc., 54 U.S.P.Q.2d 1124, 1125 (D.Or.2000)); and risking a reexamination outcome that would not affect the civil litigation ( Gladish v. Tyco Toys Inc., 29 U.S.P. Q.2d 1718, 1720 (E.D.Cal.1993)). A primary worry often responsible for denying a motion to stay is unjustifiable delay by the moving party in filing for a reexamination. See, e.g., Freeman v. Minnesota Mining and Mfg. Co., 661 F.Supp. 886, 887 (D.Del.1987).

\*2 Although many courts have focused on the stage of the proceedings, the extent to which a stay would simplify the issues in the case, and the prejudice to the non-moving party, absent any controlling precedent limiting the inquiry to these elements, the Court finds that the analysis is not so limited but rather that “the totality of the circumstances governs.” Broadcast Innovation, L.L.C., 2006 U.S. Dist. LEXIS 46623 at \* 13.

## II. Discussion

In this action, Ceiva alleges that Frame Media has infringed Claims 1, 6, and 7 of the ?573 Patent. (Opp. pp. 3–4.) On October 15, 2008, approximately four months after this action was filed, Frame Media filed a request for inter partes reexamination of the ?573 Patent. (Keeton Decl. ¶ 6.) In an initial office action, the PTO found that, among other claims not relevant to this action, Claims 1 and 7 are subject to reexamination. ( Id., Ex. 3, p. 16.) The PTO rejected Claims 1 and 7 in the initial office action. ( Id.) Frame Media now seeks a stay of this entire action pending the outcome of the reexamination proceedings.

First, the Court finds that the stage of proceedings favors a stay. The action was filed on June 10, 2008, which is only about ten months ago. (Docket No. 1.) To date, Ceiva has served only one round of written discovery requests. (Keeton Decl. ¶ 3.) No depositions have been taken and no experts have been disclosed. ( Id. at ¶ 5.) Discovery is not set to close until February 8, 2010 and trial is not scheduled until May 25, 2010. (Docket No. 55, 56.) The preliminary infringement and validity contentions have not been served and claim construction issues have not been briefed. Moreover, Frame Media requested the reexamination only about four months after the action was filed. Ceiva argues in response that Frame Media has produced nearly 9,000 documents related to the case.<sup>1</sup> (Opp. p. 4.) The Court nevertheless finds that this case is at an early stage of

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<sup>1</sup> Frame Media contends that it has produced more than 8,000 pages, representing fewer than 2,300 separate documents. (Keeton Decl. ¶ 6.)

development.<sup>2</sup>

Next, the Court considers whether a stay would unreasonably delay this action, causing prejudice to Ceiva. Ceiva has presented evidence showing that the average inter partes reexam takes longer than the average ex parte reexam. (Suppl. Opp. Exs. 1 & 2.) The Court agrees that a stay may delay the resolution of this action. However, delay alone is not enough to show prejudice to Ceiva. *KLA–Tencor Corporation v. Nanometrics, Inc.*, 2006 WL 708661 at \*3 (N.D.Cal.2006).

The Court recognizes, that delay may become more significant when a stay impedes a plaintiff's ability to pursue injunctive relief. Ceiva recently filed a motion for preliminary injunction with respect to Claim 6. The Court denied this motion, finding that Ceiva did not demonstrate a likelihood of success on the merits. This weighs in favor of a stay. Ceiva also seeks a permanent injunction enjoining Frame Media from infringing the '573 Patent. (Compl., Demand for Relief ¶ f.) However, given that a permanent injunction would not come until much later in this action and given that Ceiva has failed to demonstrate a likelihood of success on the merits, the Court finds that the request for a permanent injunction is not controlling.

\*3 Ceiva argues that injunctive relief would be important to the protection of Ceiva's rights under the '573 Patent because Frame Media competes directly with Ceiva in the market for photo sharing services. (Mot. p. 7.) Ceiva argues that its photo sharing service is a fee based subscription service but that Frame Media gives away its competing photo sharing service for free. ( *Id.*) Indeed, “[w]here the parties are direct competitors, a stay would likely prejudice the non-movant.” *Tesco Corp. v. Weatherford Intern., Inc.*, 2009 WL 529212, \* 3 (S.D.Tex.2009). In addition, the Federal Circuit has stated that:

Competitors change the marketplace. Years after infringement has begun, it may be impossible to restore a patentee's (or an exclusive licensee's) exclusive position by an award of damages and a permanent injunction. Customers may have established relationships with infringers. The market is rarely the same when a market of multiple sellers is suddenly converted to one with a single seller by legal fiat. Requiring purchasers to pay higher prices after years of paying lower prices to infringers is not a reliable business option.

*Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 976 (Fed.Cir.1996).

Frame Media argues in response that Ceiva and Frame Media are not direct competitors because they offer different products and services. (Reply p. 11.) Frame Media asserts that Ceiva is a manufacturer and seller of a photo sharing service and frame device while Frame Media is a content distributor, not a seller of a frame device. ( *Id.* at 11–12.)

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<sup>2</sup> In addition, although the Court has granted summary judgment in favor of Ceiva with respect to infringement, the major issue of patent validity has not been determined.

Given that the Court has found that Frame Media directly infringes Claims 1, 6, and 7 of the '573 Patent, the Court finds that Frame Media and Ceiva are likely direct competitors. However, the language above from Polymer refers to the need for preliminary injunctive relief. The court explained that a permanent injunction may not be sufficient to protect the plaintiff. Given that the Court has denied Ceiva's request for a preliminary injunction, the fact that the parties are likely in direct competition is not entitled to significant weight. Moreover, the Court has found that Ceiva has not shown a likelihood of success. Therefore, the Court cannot say that it is likely that a permanent injunction will issue.

Moreover, in a recent decision in another case, *Allergan, Inc. v. Cayman Chem. Co., et al.*, SACV 07-1316 JVS (RNBx), this Court rejected a motion to stay, finding that it was at least likely that the parties were direct competitors. In *Allergan*, the Court noted that the plaintiff had only just released its product and therefore the development of the market was at a critical juncture. Here, the products or services were not recently released into the market. Therefore, the argument regarding competition is less persuasive in this case.

Finally, Frame Media argues that staying the action will serve to simplify issues for trial and reduce costs. (Mot. p. 6.) The Court notes that:

\*4 An inter partes reexamination may present stronger reasons for a stay than an ex parte reexamination. An inter partes reexamination allows a third party to participate in the reexamination, including filing comments addressing issues raised by the PTO's actions or the patent owner's responses and to appeal the outcome. Estoppel applies to a third party requesting and participating in an inter partes reexamination. For these reasons, courts have an even more compelling reason to grant a stay when an inter partes reexamination is proceeding with the same parties.

*Tesco Corp. v. Varco I/P, Inc.*, 2006 U.S. Dist. LEXIS 82047 \* 13 (S.D.Tex. Nov. 9, 2006).

The Court finds that the fact that estoppel applies to an inter partes reexamination increases the likelihood of simplification of the issues. In addition, the Court takes into account Frame Media's evidence that 70% of inter partes reexaminations result in cancellation of all claims. (Keeton Decl., Ex. 4.) These factors weigh in favor of a stay.

Ceiva argues that the fact that the PTO declined to reexamine Claim 6 weighs against a stay. (Opp. p. 6.) This Court disagrees. Ceiva asserts that the PTO has determined that Claim 6 is valid. ( *Id.* ) However, Ceiva has not presented evidence to support this assertion. The parties have merely demonstrated that the PTO has declined to reexamine Claim 6. (Keeton Decl., Ex. 3, p. 16.) This is not the same as determining that it is valid. Thus, the Court is not persuaded that Frame Media would be estopped from asserting that Claim 6 is invalid.

In addition, the parties do not dispute that Claim 6 includes all the elements of independent Claim 1 plus an additional element. ( See Opp. p. 3. ) This weighs in favor of a stay. Any

determination the PTO makes with respect to Claim 1 will likely simplify the proceedings in this Court as to Claim 6.<sup>3</sup> Accordingly, the Court agrees that granting a stay would likely result in simplification of the issues and reduced costs.

### III. Conclusion

For the foregoing reasons, the Court grants the motion to stay pending the inter partes reexamination by the PTO.<sup>4</sup>

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<sup>3</sup> Ceiva contends that any determination with respect to Claims 1 and 7 cannot affect the validity determination regarding Claim 6. (Supp.Opp. pp. 1–2.) The Court is not persuaded by this argument, as discussed in the Court's ruling on Ceiva's motion for preliminary injunction set for hearing on June 1, 2009.

<sup>4</sup> The Court is not persuaded that this motion should fail based on Local Rule 7–3. ( See Opp. p. 12.)

**LMT Mercer Group, Inc. v. McFarland Cascade Holdings, Inc.**  
**2011 WL 2039086 (D.N.J.,2011)**

MEMORANDUM OPINION AND ORDER  
ARPERT, United States Magistrate Judge.

I. INTRODUCTION

\*1 This matter having come before the Court on a Motion by Defendants McFarland Cascade Holdings, Inc. and McFarland Cascade Pole & Lumber Company (collectively, “Defendants”) to stay this matter pending completion of the U.S. Patent and Trademark Office's ex parte reexamination of the ?637 patent [dkt. entry. no. 10], returnable June 6, 2011. Plaintiff LMT Mercer Group, Inc. (“Plaintiff”) filed opposition on May 2, 2011. Defendants filed a reply brief on May 13, 2011. For the reasons stated herein, Defendants' Motion is granted.

II. FACTUAL BACKGROUND AND PROCEDURAL HISTORY

On January 31, 2011, Plaintiff filed a Complaint against Defendants (“McFarland Action”) alleging infringement of U.S. Patent No. 6,722,637 (“ ?637 patent”) entitled “Fence Post Accessory Apparatus”. See Pl.'s Comp., dkt. entry no. 1 at 1, 3. In addition, Plaintiff filed two (2) separate actions in the District of New Jersey alleging infringement of the ?637 patent against different defendants. Those matters are captioned LMT Mercer Group, Inc. v. Maine Ornamental, LLC, et al., Civ. Action No. 10–4615 (D.N.J.2010) ( “Maine Action”) and LMT Mercer Group, Inc. v. Home Tops, LLC, Civ. Action No. 10–6699 (D.N.J.2010) (“Home Tops Action”). Presently, all three (3) actions are assigned to District Judge Freda L. Wolfson and Magistrate Judge Douglas E. Arpert.

On February 1, 2011, Maine Ornamental, LLC, Universal Consumer Products, Inc., and Universal Forest Products, Inc. (“Maine Action Defendants”) filed a request for ex parte reexamination of the ?637 patent with the United States Patent & Trademark Office (“USPTO”). See Def.'s Decl. of Christopher H. Strate (“Strate”), dkt. entry no. 10–7, Ex. D. The Court notes that the Maine Action Defendants made this request based, in part, on a “continuation application” filed by Stallion Fence Accessories—Plaintiff's predecessor in interest—which was rejected by the USPTO with respect to “claims very similar to the claims issued in the ?637 patent on the basis of” additional prior art. Id. The Court notes that on February 9, 2011, the USPTO “issued a Notice of Failure to Comply with Ex Parte Reexamination Request Filing Requirements under 37 C.F.R. § 1.510 and required Defendants to modify” their request within thirty (30) days. Id. On March 9, 2011, Maine Action Defendants filed a second request for ex parte reexamination of the ?637 patent. Id. On March 29, 2011, the USPTO granted Defendants' request for ex parte reexamination. Id. Specifically, the USPTO concluded that “each of the references cited by the [Maine Action Defendants] raises a substantial new question of patentability with respect to the subject patent” and, “[a]ccordingly, claims 1–23 of the subject patent will be reexamined”. Id.

On April 21, 2011, Defendants filed a Motion to stay this matter pending the USPTO's ex parte reexamination of the ?637 patent. See dkt. entry no. 10. The Court notes that a similar motion to

stay proceedings was filed in the Maine Action on April 4, 2011. See LMT Mercer Group, Inc. v. Maine Ornamental, LLC, et al., Civ. Action No. 10–4615 (D.N.J.2010), dkt. entry no. 32. The Court also notes that a similar motion to stay proceedings was filed in the Home Tops Action on May 13, 2011. See LMT Mercer Group, Inc. v. Home Tops, LLC, Civ. Action No. 10–6699 (D.N.J.2010), dkt. entry no. 18.

#### A. Defendants' Arguments in Support of the Motion to Stay

\*2 Initially, citing *Softview Computer Products Corp. v. Haworth Inc.*, 2000 WL 1134471, at \*1 (S.D.N.Y.2000), *Ethicon v. Quigg*, 849 F.2d 1422, 1426 (Fed.Cir.1988), *Proctor & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 849 (Fed.Cir.2008), *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed.Cir.), cert. denied, 464 U.S. 935, 104 S.Ct. 343, 78 L.Ed.2d 310 (1983), Defendants maintain that “[t]his Court has the inherent power to stay proceedings pending a patent reexamination”. See Def.’s Br., dkt. entry no. 10–1 at 2–3. Citing *Gould*, 705 F.2d at 1342, Defendants contend that the “objective of the reexamination procedure is to eliminate the need to try the issue of validity of a patent claim (when the claim is cancelled by the [US]PTO), or to facilitate trial of that issue by providing a district court with the expert view of the [US]PTO”. Id. at 3. Citing *ICI Uniqema, Inc. v. Kobo Prods., Inc.*, 2009 U.S. Dist. LEXIS 108421, at \*3 (D.N.J.2009), Defendants state that “some benefits provided by a stay include: (1) a review of all prior art presented to a court by the Patent Office with its particular expertise; (2) the potential alleviation of numerous discovery problems relating to prior art by Patent Office examination; (3) the potential dismissal of a civil action should invalidity of a patent be found by the Patent Office; (4) encouragement to settle based upon the outcome of the Patent Office; (5) an admissible record at trial from the Patent Office proceedings which would reduce the complexity and length of the litigation; (6) a reduction of issues, defenses and evidence during pre-trial conferences; and (7) a reduction of costs for the parties and a court”. Id. Further, Defendants acknowledge that, pursuant to *ICI Uniqema*, 2009 U.S. Dist. LEXIS 108421, at \*3–4,

In deciding whether to stay a matter pending reexamination, courts have developed a three-part test. A court should consider (1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.

Id.

#### 1. A stay will not prejudice or disadvantage Plaintiff.

Citing *Sabert Corp v. Waddington North America, Inc.*, 2007 U.S. Dist. LEXIS 68092, at \*21 (D.N.J.2007), Defendants maintain that “[c]ourts in this district have recognized that when a request for stay is made in the early stages of discovery, the likelihood of prejudice to the patent owner is decreased”. Id. at 3–4. Defendants note that in this matter, “the Court has not held an initial scheduling conference”, “the parties have not exchanged infringement or validity contentions”, and “the parties have not exchanged discovery requests or taken any depositions” and thus argue that “Plaintiff will not be significantly prejudiced by ... a stay at this juncture”. Id.

at 4. Citing ICI Uniqema, 2009 U.S. Dist. LEXIS 108421, at \*4, 35 U.S.C. § 305, and the Manual of Patent Examining Procedure § 2261 (2008), Defendants contend that “courts in this district recognize that the delay inherent in the reexamination process does not constitute, by itself, undue prejudice” and “such delay is considered relatively short as the [US]PTO is required to conduct all reexamination proceedings with special dispatch”. Id. “Given the posture of this case, the benefits provided by a stay pending the outcome of reexamination” and “any delay will be minimized by the expedited handling of reexamination by the [US]PTO”, such that any prejudice to Plaintiff will be minimal and does not outweigh the benefits of staying this action”. Id.

2. A stay will simplify this litigation.

\*3 Citing ICI Uniqema, 2009 U.S. Dist. LEXIS 108421, at \*5, Ethicon, 849 F.2d at 1428, and GPAC, Inc. v. D.W.W. Enters., Inc., 144 F.R.D. 60, 62–63 (D.N.J.1992), Defendants argue that “reexamination proceedings will eliminate, narrow, or clarify key disputed issues in this litigation” because “[c]laims that may be rejected during the reexamination will not need to be litigated and ... any claims surviving reexamination may be amended” such that “a stay would prevent resources from being expended on invalid or amended claims”. Id. at 4–5. “Even if the reexamination did not lead to claim amendment or cancellation, it could still provide valuable analysis to the district court”. Id. at 5. Defendants note that the USPTO “reports that 77% of ex parte reexaminations lead to canceled or amended claims” and, therefore, “[s]ince it is very likely that the claims of the patent-in-suit will be changed or cancelled, the issues of infringement and validity cannot be properly addressed at this time”. Id. Defendants contend that “the posture of this action favors the conclusion that a stay in favor of ex parte reexamination” should be granted. Id.

3. A stay is warranted based upon the stage of this litigation .

Citing Sabert, 2007 U.S. Dist. LEXIS 68092, at \*21 and GPAC, 144 F.R.D. at 64–65, Defendants maintain that “this action is in its infancy” such that “[g]ranting a stay will avoid a waste of time, money and resources by the Court, the parties and even a jury in adjudicating claims that are cancelled or amended during the reexamination proceeding”. Id. at 5–6.

B. Plaintiff's Arguments in Opposition to the Motion

Initially, citing *Landis v. N. Am. Co.*, 299 U.S. 248, 254–55, 57 S.Ct. 163, 81 L.Ed. 153 (1936), Plaintiff maintains that although the Court's inherent power to control its own docket includes the power to stay proceedings, the “Court must weigh competing interests and maintain an even balance” such that the “party moving for a stay must make out a clear case of hardship or inequity in being required to go forward ... if there is even a fair possibility that the stay for which he prays will work to damage someone else”. See Pl.'s Opp'n Br., dkt. entry no. 15 at 6–7. Citing *BarTex Research LLC v. FedEx Corp.*, 611 F.Supp.2d 647, 650 (E.D.Tex.2009) and *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427–28 (Fed.Cir.1988), Plaintiff contends that “[l]itigation and reexamination are not mutually exclusive alternatives for the parties to test the validity of a patent ... [and] may be concurrent proceedings”. Id. at 7–8. Citing *eCOMSYSTEMS, Inc. v. Shared Mktg. Servs., Inc.*, Case No. 10–531, slip. op. at 4–5 (M.D.Fla.2011), *MercExchange, LLC v. eBay, Inc.*, 500 F.Supp.2d 556, 563 (E.D.Va.2007), and



*Soverain Software LLC v. Amazon.com, Inc.*, 356 F.Supp.2d 660, 662 (E.D.Tex.2005), Plaintiff argues that a district court “is under no obligation to delay its own proceedings by yielding to ongoing Patent Office patent reexaminations, regardless of their relevancy to infringement claims” because “such a rule would invite parties to unilaterally derail litigation”. *Id.* at 6–7. Citing *Wyeth v. Abbott Labs.*, 2001 WL 380902, at \*2 (D.N.J.2011) and *Bel Fuse, Inc. v. Halo Elects., Inc.*, Case No. 07–2168, slip op. at 35 (D.N.J.2009), Plaintiff maintains that courts generally weigh the following three factors to determine whether to grant a stay pending reexamination: “(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date is set”. *Id.* at 7. Based on all of the above, Plaintiff argues that Defendants have “not made any showing of hardship or inequity”. *Id.* Oppositely, Plaintiff contends that it has shown there is “a strong possibility that a stay will harm [its interests]” and that “the outcome ... [of reexamination] is not binding upon the infringer, who may litigate the same issues in district court” such that the Court should discount “the relevance of the second and third factors”. *Id.* at 7.–8.

1. The factors cited above weigh in favor of denying a stay.

(a) A stay will unduly prejudice and tactically disadvantage Plaintiff.

\*4 Citing *Tesco Corp. v. Weatherford Int'l, Inc.*, 599 F.Supp.2d 848, 851 (S.D.Tex.2009), *eCOMSYSTEMS*, Case No. 10–1531, slip op. at 8, and *Heraeus Electro–Nite Co. v. Vesuvius USA Corp.*, 2010 U.S. Dist. LEXIS 1887, at \*3 (E.D.Pa.2010), Plaintiff maintains that “[w]here the parties are direct competitors, a stay would likely prejudice the non-movant” and “[s]tays should be denied where there is a concern that the patent owner will be irreparably harmed by the competitor's gain of market share during the pendency of the stay”. *Id.* at 8. A stay would prejudice Plaintiff by: “(1) allowing Defendants to continue knocking off Plaintiff's patented solar-powered fence post lights, gaining market share to the detriment of Plaintiff and its licensees; (2) delaying discovery and final resolution of Plaintiff's claims for more than two years; (3) giving Defendants a second bite at asserting the same prior art against the '637 patent; and (4) interfering with Plaintiff's ongoing licensing program”. *Id.* Plaintiff notes that, on average, it takes “25.6 months to complete the reexamination process from the filing date to the certificate issue date” and, if these results are appealed to the Board of Patent Appeals (“BPAI”), “it will be nearly an additional three years until a decision is rendered”. *Id.* at 9. Thereafter either party may appeal to the Court of Appeals for the Federal Circuit. *Id.* Thus, Plaintiff argues Defendants' attempt “to downplay the length of the delay caused by a stay ... is misleading”. *Id.*

Noting that Defendants “compete directly” with Plaintiff, Plaintiff maintains that granting a stay will allow Defendants to “continue to sell infringing goods” and thereby erode Plaintiff's market share and goodwill throughout the pendency of the entire reexamination process and any subsequent appeals. *Id.* Citing *Heraeus*, 2010 WL 181375, at \*1, *Nidec Corp. v. LG Innotek Co., Ltd.*, 2009 WL 3673433, at \*4 (E.D.Tex.2009), *LG Elecs. U.S.A., Inc. v. Whirlpool Corp.*, 2011 WL 487574, at \*2 (D.N.J.2011), and *Tesco*, 599 F.Supp.2d at 851, Plaintiff argues that “compensation for these harms likely cannot be remedied by money damages” when the “parties are direct competitors” due to the loss of “substantial profits ... [and] goodwill in the market” caused by any delay. *Id.* at 9–10. Plaintiff contends that “the prejudice to [it] from delayed

discovery would outweigh any mitigating effect of ... money damages”. Id. at 10.

Finally, citing *BarTex*, 611 F.Supp.2d at 651–52, *Gladish v. Tyco Toys, Inc.*, 1993 WL 625509, at \*2 (E.D.Cal.1993), and *Bel Fuse*, Case No. 07–2168, slip op. at 37–38, Plaintiff contends that any delay may create “a tactical disadvantage at trial” due to the “expected loss of critical evidence as witnesses could become unavailable, their memories may fade, and evidence may be lost”. Id. Further, Plaintiff argues that Defendants' strategy “would derail the litigation and interfere with Plaintiff's licensing of the '637 patent so that Defendants can continue to manufacture and sell infringing products and take market share away from Plaintiff and its licensees”. Id. Plaintiff maintains that “this is demonstrated by Defendants repeated requests for extension to answer and their reliance on the Maine Action Defendants' application for ex parte reexamination”. Id.

(b) A stay will not simplify issues at trial and is unlikely to conserve judicial resources.

\*5 Citing *Bel Fuse*, Case No. 07–2168, slip op. at 36–38, Plaintiff maintains “it is entirely speculative at this time whether the reexamination will have any impact on this litigation” but “what is certain is that Defendants intend to re-litigate the same issues raised in the reexamination before this Court”, thereby “using the reexamination process as both a sword and a shield to get two attempts at invalidating the '637 patent and prevent Plaintiff from pursuing any remedies in defense of its business activities, market share, and goodwill in the interim”. Id. at 10–11. Plaintiff contends that Defendants have “raised defenses and counterclaims beyond the prior art cited in the Maine Action Defendants' request for reexamination, thus raising issues that the USPTO cannot and will not decide” and making it “virtually inevitable that discovery and this litigation will move forward after the reexamination”. Id. at 11. Citing the Manual of Patent Examining Procedure § 2217 (2008) and *BarTex*, 611 F.Supp.2d at 653, Plaintiff notes that the USPTO “will only consider patents or printed publications” during reexamination and that “those references must be applied directly to claims under reexamination under 35 U.S.C. 103 and/or an appropriate portion of 35 U.S.C. 102” such that Defendants “may also raise invalidity arguments at trial other than those currently before the USPTO”. Id.

Citing *Bel Fuse*, Case No. 07–2168, slip op. at 36–37 and *Hoescht Selanese Corp. v. BP Chems. Ltd.*, 78 F.3d 1575, 1584 (Fed.Cir.1996), Plaintiff argues that “[d]espite the fact that reexamination has been granted—as it is ... over 90 percent of the time—whether or not the Patent Office will declare the patent invalid is entirely speculative and the grant of reexamination is not probative of unpatentability and is unlikely to be entirely dispositive of the case since the overwhelming majority of patents survive reexamination”. Id. at 11–12. Citing *Hoechst*, 78 F.3d at 1584 and *Nidec Corp.*, 2009 WL 3673433, at \*6, Plaintiff maintains that “the USPTO's decision to reexamine the claims of the '637 patent cannot be perceived as a determination of invalidity” and the Court “should not put too much weight on the USPTO's actions because the showing required to obtain an order granting ex parte reexamination is easily reached”. Id. at 12. In the first quarter of the 2011 fiscal year, “98%” of the requests for ex parte reexamination were granted by the USPTO. Id. Plaintiff notes that it now has the “opportunity to respond to the USPTO's initial determination” and that same “may result in the USPTO terminating the reexamination proceeding without issuing a single substantive rejection of any claim”. Id.

Assuming the USPTO decides to move forward, Plaintiff contends that “it is very unlikely that the USPTO will determine that all of the claims of the ?637 patent are invalid” as “87% of patents will survive with confirmation of at least some of the claims”. Id. at 12–13. Citing *Whatley v. Nike Inc.*, 54 U.S.P.Q.2d 1124, 1126 (D.Or.2000), Plaintiff argues that “the invalidity issues raised by Defendants and the ? 637 patent itself are not so overly complex as to require the USPTO's guidance”. Id. at 13.

\*6 Finally, Plaintiff contends that “the prior art cited in the request for reexamination is cumulative of prior art examined during the prosecution of the application for the ?637 patent”—specifically, in its request for reexamination, the Maine Action Defendants cited U.S. Patent No. 5,367,422 to Frost et al. (“Frost”) and U.S. Patent No. 5,453,729 to Chu (“Chu”) as the basis for its contention that the ?637 patent was anticipated by or obvious over the prior art. Id. Plaintiff argues that “these references disclose nothing more than the prior art that the USPTO examiner considered during prosecution of the application for the ?637 patent” and that “it is very likely that the ?637 patent will emerge from reexamination with claims still covering Defendants' solar-powered fence post lights”. Id.

(c) Defendants' motivation is purely dilatory.

Plaintiff notes that Defendants “obtained two extensions of time to answer and had requested yet another extension ... which Plaintiff opposed”. Id. at 14. Further, because “the Court took no action on Defendants' informal request, Defendants filed [their] Answer ... [on] May 2”. Id. Plaintiff maintains that “Defendants' strategy is now clear: delay and avoid asserting a substantive position in this case and put a cloud over Plaintiff's patent”. Id. Citing *Cheung v. Dulles*, 16 F.R.D. 550, 552 (D.Mass.1954) and *Remington Arms Co. v. Modern Mouzzleloading, Inc.*, 1998 WL 1037920, at \*3 (M.D.N.C.1998), Plaintiff argues that “[c]ourts have held that requests for extension to answer should include requester's intent to serve motions or take other action”. Id. Here, Plaintiff contends that Defendants “never indicated their intent to file a motion to stay when requesting their first two extensions to answer” and that “courts are reluctant to stay proceedings where a party is using the reexamination process merely as a dilatory tactic”. Id. As such, Plaintiff requests “that the Court deny the Motion”. Id.

(d) A stay should not be granted at this stage in the litigation.

Citing *Wyeth*, 2011 WL 380902, at \*3–4 and *Sunbeam Prods. Inc. v. Hamilton Beach Brands, Inc.*, 2010 WL 1946262, at \*3 (E.D.Va.2010), Plaintiff maintains that although Defendants believe “it is too early in the proceedings to deny the issue of stay, this District has recognized that although the advanced nature of a case approaching trial may weigh heavily against granting a stay, the opposite inference—that a suit in the early stages should weigh heavily in favor of a stay—is not true”. Id. at 14–15. In support of the proposition that “courts have denied a stay at a similar, or earlier, stage of litigation”, Plaintiff cites *Ariba Inc. v. Emptoris, Inc.*, 2007 WL 3132606, at \*1–2 (E.D.Tex.2007), *Biax Corp. v. Fujitsu Computer Sys. Corp.*, 2007 WL 614187, at \*2 (E.D.Tex.2007), *Sighting Sys. Instruments, LLC v. Prestige Law Enforcement, Inc.*, 2006 WL 2642184, at \*4 (N.D.Tex.2006), and *IMAX Corp. v. In-Three, Inc.*, 385 F.Supp.2d 1030, 1033 (C.D.Cal.2005). Id. at 15.

\*7 Separately, Plaintiff argues that the “cases cited by Defendants supporting a grant of a stay at later stages of litigation than the present case are distinguishable”. Id. In GPAC, 144 F.R.D. at 61, “claims in the patent in suit were rejected by the USPTO during an initial reexamination after which the USPTO BPAI reversed the examiner and affirmed the validity of all of the patent claims including several new claims that were added”. Id. In that case, “the motion to stay was filed after a second reexamination with the same result, and the second appeal process was underway”. Id. Plaintiff notes that such is not the case here, as “the reexamination request was only recently approved ... and no modifications to the claims [have] occurred”. Id. In Sabert, 2007 WL 2705157, at \*2, “the court granted a stay where defendant patent holder moved for a stay after requesting reexamination with both amended and new claims following plaintiff’s Complaint, which requested declaratory judgment of patent non-infringement, declaratory judgment of patent invalidity as well as damages”. Id. at 15–16. Here, “the accused infringer ... is the party moving for a stay” and Plaintiff “has neither requested the reexamination nor submitted amended or new claims”. Id. at 16. Plaintiff argues that “neither of the cases cited by Defendants [is] on point with the facts of this case” and, as such, the Motion should be denied. Id.

2. Although Plaintiff denies that a stay is warranted, if the Court is inclined to grant Defendants’ Motion, any stay should be conditioned to conserve judicial resources and minimize prejudice to Plaintiff.

Should the Court be inclined to stay this matter, Plaintiff argues that “such a stay should have certain conditions to minimize the prejudice to Plaintiff and ... [to conserve] judicial resources”. Id. at 16. Citing *Emhart Indus., Inc. v. Sankyo Seiki Mfg. Co.*, 1987 WL 6314, at \*4 (N.D.Ill.1987) and *Heraeus*, 2010 WL 181375, at \* 1, Plaintiff maintains that many courts have granted stays only upon certain stipulations or conditions such as where “the moving party agrees not to assert at trial any prior art cited during reexamination” or where “the moving party withdraws the infringing products from the marketplace during the stay”. Id. If a stay is entered in this matter, Plaintiff requests the following conditions be imposed: “(1) Defendants shall not be permitted to challenge the validity of the ’637 patent at trial based on any prior art cited by or provided to the USPTO during reexamination; and (2) Defendants shall not expand [their] market for solar-powered fence post lights for the duration of the stay”. Id.

### III. DISCUSSION

#### A. Legal Standards

##### 1. Stay Proceedings

It is well-settled that “the power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants. How this can best be done calls for the exercise of judgment, which must weigh competing interests and maintain an even balance.” *Landis v. North American Co.*, 299 U.S. 248, 254–55, 57 S.Ct. 163, 81 L.Ed. 153 (1936) ( citing *Kansas City Southern Ry. Co. v. U.S.*, 282 U.S. 760, 763, 51 S.Ct. 304, 75 L.Ed. 684 (1931); *Enelow v. New York Life Ins. Co.*, 293 U.S. 379, 382, 55 S.Ct. 310, 79 L.Ed. 440 (1935)). “Especially in cases of

extraordinary public moment, the individual may be required to submit to delay not immoderate in extent and not oppressive in its consequences if the public welfare or convenience will thereby be promoted.” *Id.* at 256. Specifically, “a United States district court has broad power to stay proceedings.” *Bechtel Corp. v. Laborers' International Union*, 544 F.2d 1207, 1215 (3d Cir.1976). “In the exercise of its sound discretion, a court may hold one lawsuit in abeyance to abide the outcome of another which may substantially affect it or be dispositive of the issues.” *Id.*; see also *American Life Ins. Co. v. Stewart*, 300 U.S. 203, 215, 57 S.Ct. 377, 81 L.Ed. 605 (1937). However, “it is well settled that before a stay may be issued, the petitioner must demonstrate ‘a clear case of hardship or inequity’, if there is ‘even a fair possibility’ that the stay would work damage on another party.” *Gold v. Johns–Mansville Sales Corp.*, 723 F.2d 1068, 1075–76 (3d Cir.1983) ( citing *Landis v. North American Co.*, 299 U.S. 248, 255, 57 S.Ct. 163, 81 L.Ed. 153 (1936)).

\*8 With respect to patent cases, courts have “consistently recognized the inherent power of the district courts to grant a stay pending reexamination of a patent”. *P & G v. Kraft Foods Global, Inc.*, 549 F.3d 842, 849 (Fed.Cir.2008); see also *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1341 (Fed.Cir.), cert. denied, 464 U.S. 935, 104 S.Ct. 343, 78 L.Ed.2d 310 (1983); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426 (Fed.Cir.1988). However, “a stay should ordinarily not be granted unless there is a substantial patentability issue raised” and “both a preliminary injunction and a stay ordinarily should not be granted at the same time” because this “could subject an accused infringer to unfair and undesirable delay in reaching a final resolution”. *Id.*; see also *Amazon.com v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350–51 (Fed.Cir.2001).

“A district court is not required to stay a proceeding pending reexamination”, although “one purpose of the reexamination procedure is to eliminate trial of that issue (when the claim is canceled) or to facilitate trial of that issue by providing the district court with the expert view of the PTO (when a claim survives reexamination proceedings)”. *Cross Atl. Capital Partners ., Inc. v. Facebook, Inc.*, 2008 U.S. Dist. LEXIS 62869, at \*2 (E.D.Pa.2008); see also *Viskase Corp. v. Am. Nat'l Can Co.*, 261 F.3d 1316, 1328 (Fed.Cir.2001). “[G]ranting a stay is favored” and is “particularly appropriate when the reexamination result might assist the court in making a validity determination or would eliminate the need to make an infringement determination”. *Id.* at \*2–3; see also *Alltech, Inc. v. Cenzone Tech, Inc.*, 2007 U.S. Dist. LEXIS 19989 (S.D.Cal.2007); *ASCII Corp. v. STD Entm't USA, Inc.*, 844 F.Supp. 1378, 1381 (N.D.Cal.1994); *In re Cygnus Telecomm. Tech., LLC Patent Litig.*, 385 F.Supp.2d 1022, 1023 (N.D.Cal.2005). In fact, “[a]lthough every case is fact specific, almost every reported New Jersey District Court opinion that has considered the issue has granted a stay where a reexamination request was pending”. *Brass Smith, LLC v. RPI Indus.*, 2010 U.S. Dist. LEXIS 116063, at \*19–20 (D.N.J.2010). However, “litigation and reexamination are not mutually exclusive alternatives for the parties to test the validity of a patent—they may be concurrent proceedings”. *BarTex Research v. FedEx Corp.*, 611 F.Supp.2d 647, 650 (E.D.Tex.2009); see also *Ethicon*, 849 F.2d 1422, 1427–28. District courts are “under no obligation to delay [their] own proceedings by yielding to ongoing PTO patent reexaminations, regardless of their relevancy to infringement claims which the court must analyze”. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F.Supp.2d 556, 563 (E.D.Va.2007). Adoption of a “per se rule that patent cases should be stayed during

reexamination ... would not promote the efficient and timely resolution of patent cases, but would invite parties to unilaterally derail timely patent case resolution by seeking reexamination”. *Soverain Software LLC v. Amazon.com, Inc.*, 356 F.Supp.2d 660, 663 (E.D.Tex.2005).

\*9 “Courts have enumerated many advantages with respect to staying a civil action pending PTO reexamination of a patent, which include: (1) a review of all prior art presented to a court by the PTO, with its particular expertise; (2) the potential alleviation of numerous discovery problems relating to prior art by PTO examination; (3) the potential dismissal of a civil action should invalidity of a patent be found by the PTO; (4) encouragement to settle based upon the outcome of the PTO reexamination; (5) an admissible record at trial from the PTO proceedings which would reduce the complexity of the litigation; (6) a reduction of issues, defenses and evidence during pre-trial conferences; and (7) a reduction of costs for the parties and a court”. *ICI Uniqema, Inc. v. Kobo Prods., Inc.*, 2009 U.S. Dist. LEXIS 108421, at \*3 (D.N.J.2009); see also *Eberle v. Harris*, 2005 U.S. Dist. LEXIS 31885 (D.N.J.2005); *GPAC, Inc. v. D.W.W. Enterprises, Inc.*, 144 F.R.D. 60, 63 (D.N.J.1992). “District courts have listed the following factors to determine whether a stay is appropriate: (1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set”. *Cross Atl.*, 2008 U.S. Dist. LEXIS 62869, at \*3–4; see also *In re Laughlin Prods. Inc.*, 265 F.Supp.2d 525, 530–31 (E.D.Pa.2003); *Sabert Corp. v. Waddington North Am., Inc.*, 2007 U.S. Dist. LEXIS 68092 (D.N.J.2007); *Alltech*, 2007 U.S. Dist. LEXIS 19989; *Cygnus*, 385 F.Supp.2d at 1023; *Xerox Corp. v. 3Com Corp.*, 69 F.Supp.2d 404, 406 (W.D.N.Y.1999); *ASCII*, 844 F.Supp. at 1380; *GPAC*, 144 F.R.D. at 66; *ICI Uniqema*, 2009 U.S. Dist. LEXIS 108421, at \*4.

#### B. Defendants' Motion

Here, the Court finds that advancing this litigation while ex parte reexamination is pending before the USPTO may be an exercise in futility. If claims 1–23 of the ’637 patent are invalidated, the basis for this lawsuit may be moot and the case dismissed.

Further, with respect to the factors used to determine the appropriateness of a stay, the Court finds that they also weigh in Defendants' favor. While the Court appreciates that a stay would delay these proceedings, delay alone is not a sufficient reason to deny a stay. See *Stryker Trauma S.A. v. Synthes*, 2008 U.S. Dist. LEXIS 23955 (D.N.J.2008); see also *Sorensen v. Black and Decker Corp.*, 2007 U.S. Dist. LEXIS 66712 (S.D.Cal.2007). Similarly, while the Court appreciates Plaintiff's concern that Defendants are competitors which may continue selling infringing goods and eroding market share and goodwill during a stay, Plaintiff did not seek a preliminary injunction in this matter and the Court denies Plaintiff's request to impose any restraints with respect to Defendants' business activities at this time. See *WABCO Holdings, Inc. v. Bendix Commer. Vehicle Sys.*, 2010 U.S. Dist. LEXIS 64036, at \*8–9 (D.N.J.2010). Importantly, the Court notes that all of Plaintiff's legal and equitable remedies will be available when the stay is lifted; a stay does not foreclose Plaintiff from any remedy. Given that discovery in this matter has not yet begun and the fact that no trial date has been set, and based upon the

factors cited with respect to the advantages of granting a stay while the USPTO conducts a reexamination ( see ICI Uniqema, 2009 U.S. Dist. LEXIS 108421, at \*3), the Court also finds that a stay may ultimately simplify the issues in question and the trial of this case.

\*10 As set forth in Sorensen, 2007 U.S. Dist. LEXIS 66712, at \* 18–19,

If the PTO does not invalidate or otherwise alter the claims of the patent, the plaintiffs' legal remedy remains unaffected. Moreover, if the claims are narrowed, both sets of parties will have benefitted by avoiding the needless waste of resources before this Court, and again, the plaintiffs will be able to pursue their claim for money damages at trial. Finally, if the claims are strengthened, the plaintiffs' position will be as well, and their likelihood of monetary damages will increase.

At the same time, based upon the fact that “the Federal Circuit has recently confirmed that the PTO would not be bound in its reexamination by the determinations of [a district court]”,

not only is plaintiff unlikely to be prejudiced in these proceedings by a stay pending the PTO reexamination, but defendants would potentially be prejudiced by failing to enter a stay....Not only could the court and the PTO reach conflicting determinations, but one possible scenario could result in irreparable harm to defendant: if this court finds that the patent is not invalid and the defendant has infringed it, and orders defendant to pay damages to plaintiff for such infringement, then defendant would have no ability to recover those damages if at a later date the PTO determined that the patent is invalid.

Sorensen, 2007 U.S. Dist. LEXIS 66712, at \*15; see also Bausch & Lomb, Inc. v. Alcon Lab., Inc., 914 F.Supp. 951, 952 (W.D.N.Y.1996). Contrary to the argument proffered by Plaintiff, the Court finds that “Congress ... does not estop a third-party requester in an ex parte reexamination from challenging validity in a future civil action ... in the same way that it does in inter partes reexaminations” although it could have included a similar legislative provision to that effect. WABCO, 2010 U.S. Dist. LEXIS 64036, at \*6–8; 35 U.S.C. §§ 305, 306, 314, 315. As a result, and based on the fact that a USPTO decision will be beneficial to the Court by either declaring the patent “unpatentable ... [and] eliminating the need for the trial” or by finding the “claims to be valid ... [and thereby] aid[ing] the Court when considering the claims during litigation”, the Court denies Plaintiff's request to limit Defendants' ability to challenge the validity of the '637 patent in this matter based upon prior art cited in the ex parte reexamination. *Id.*; see also GPAC, 144 F.R.D. at 65–66; Gould, 705 F.2d at 1342.

While the Court recognizes that the Complaint in this case was filed in January 2011 and discovery would otherwise commence in the near future, failing to grant a stay at this time may in fact prolong, rather than expedite, this litigation.

#### IV. CONCLUSION AND ORDER

The Court having considered the papers submitted and opposition thereto, and for the reasons set forth above;

IT IS on this 24th day of May, 2011,

\*11 ORDERED that Defendants' Motion to stay this matter pending completion of the U.S. Patent and Trademark Office's ex parte reexamination of the '637 patent [dkt. entry. no. 10] is GRANTED; and it is further

ORDERED that counsel for Defendants shall notify the Court within ten (10) days of any disposition of the USPTO's ex parte reexamination of the '637 patent.



**Alps South, LLC v. Ohio Willow Wood Co.**  
**2011 WL 899627 (M.D.Fla.,2011)**

**ORDER ON DEFENDANT'S RENEWED MOTION TO STAY  
KOVACHEVICH, J.**

\*1 This cause is before this Court on Defendant's, THE OHIO WILLOW WOOD COMPANY ("Willow Wood"), renewed motion to stay (Doc. 92) and Plaintiff's, ALPS SOUTH, LLC ("Alps"), response thereto (Doc. 96). Willow Wood contends that because the United States Patent and Trademark Office ("PTO") has issued a Final Office Action rejecting each claim asserted in the instant case (Doc. 92 Ex 2), this Court should stay this action pending resolution of the reexamination. For the reasons set forth below, Defendant's renewed motion to stay will be GRANTED.

**I. Statement of Facts**

Alps filed this action for patent infringement under the United States Patent Law, 35 U.S.C. § 271, et seq., on March 3, 2009, alleging Willow Wood, a competitor in the business of selling and manufacturing gel liners for prosthetic products, was infringing on United States Patent No. 7,344,568 (" '568 patent"). Willow Wood requested the PTO conduct an ex-parte reexamination of patent '568 on November 13, 2009. On November 17, 2009, Willow Wood filed a motion to stay pursuant to its request for reexamination of patent '568, which this Court denied on June 16, 2010. (Doc. 52). This Court's denial of Willow Wood's motion to stay came after reexamination had been granted, but preceding the Final Office Action by the PTO on January 2, 2011. (Doc. 92-2). As of the final office action of on January 7, 2011, the PTO has rejected all claims asserted in the present litigation against Willow Wood. (Doc 92-2).

**II. Discussion**

"[I]t is entirely within the discretion of the District Court to order a stay pending conclusion of a reexamination by the [Patent and Trademark Office]." *Lentek Int'l, Inc. v. Sharper Image Corp.*, 169 F.Supp.2d 1360, 1362 (M.D.Fla.2001) (citing *Ethicon Inc. v. Quigg*, 849 F.2d 1422, 1426-27 (Fed.Cir.1988); *ASCII Corp. v. STD Entm't USA, Inc.*, 844 F.Supp. 1378, 1379 (N.D.Cal.1994)). There is a liberal policy in favor of granting motions to stay proceedings pending the outcome of the Patent and Trademark Office reexamination proceedings. *Freedom Scientific, Inc. v. GW Micro, Inc.*, No. 8:08-cv-1365-T-33TBM, 2009 WL 2423095, \*1 (M.D.Fla. July 29, 2009).

Reexamination of patent validity is authorized by 35 U.S.C. § 301, et seq., and "the sponsors of the patent reexamination legislation clearly favored the liberal grant of stays by the district courts when patents are submitted for reexamination as a mechanism for settling disputes quickly and less expensively and for providing the district courts with the expertise of the patent office." *Lentek Int'l*, 169 F. Supp 2d at 1362. "One purpose of the reexamination procedure is to eliminate trial of [the patent validity] issue ... or to facilitate trial of that issue by providing the district court with the expert view of the [Patent and Trademark Office] (when a claim survives the reexamination proceeding)." *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342

(Fed.Cir.1983).

\*2 A determination whether to stay litigation pending a PTO reexamination requires consideration of whether a stay (1) would unduly prejudice or tactically disadvantage the opposing party, (2) would simplify the issues and streamline the trial, and (3) would lessen the burden of litigation on the court and the parties. See *Tap Pharm. Prods., Inc. v. Atrix Labs., Inc.*, 2004 WL 422697, at \*1 (N.D.Ill. March 3, 2004).

This Court notes the recent decision to grant a stay in Case No. 8:08-cv-01893-VMC-MAP styled *Alps South, LLC v. The Ohio Willow Wood Company* pending Final Office Action in reexamination of United States Patent No. 6,552, 109 (“’109 patent”). Just as this Court initially denied Willow Wood's motion to stay, so too did the Court in the case relating to the ’109 patent. Upon the issuance of the PTO's final rejection of all asserted claims, the ’109 patent Court granted Willow Wood's renewed motion to stay, despite the progression of the case past discovery and summary judgment briefing. Alps contends that it would suffer prejudice as present litigation has proceeded the past summary judgment stage; however, this Court does not find the posture of the present action to be warrant denial of Willow Wood's motion to stay. Alps further contend that reexamination is a long process and that it will be burdened with royalty and licensing fees associated with the patent.

This Court finds the majority of factors weigh in favor of granting Willow Wood's motion to stay. The benefit of expertise provided by the PTO will aid both the parties and this Court. *United Sweetner USA, Inc. v. Nutrasweet Co.*, 766 F.Supp. 212, 217 (D.Del.1991) (“we believe that waiting for the outcome of the PTO reexamination would be the most useful option in that it would simplify issues and aid in preparation of trial.”); *Ohio Willow Wood Company v. Alps South Corp.*, 2:04-cv-1223-GLF-MRA (S.D.Ohio Nov. 22, 2006) (“reexamination could indeed simplify the issues”). A stay will also preserve judicial resources and the cost of litigation to the parties by allowing the PTO to fully address potential claim limitations. *Gould*, 705 F.2d at 1342 (“one purpose of the reexamination procedure is to elimination trial of [the validity issue].”) Accordingly, it is:

ORDERED that Willow Wood's renewed motion to stay (Doc. 92) is GRANTED. This action is STAYED pending conclusion of the reexamination proceedings. The parties are required to file a status update with the Court every six months, the first of which is due on September 30, 2011. The parties are further directed to file a notice with this Court upon the completion of the reexamination process. The Clerk of the Court is directed to ADMINISTRATIVELY CLOSE this case.

DONE and ORDERED.

**AT&T Intellectual Property I v. Tivo, Inc.**  
**--- F.Supp.2d ----, 2011 WL 794933**  
**N.D.Cal.,2011.**

Background: In patent infringement action, alleged infringer moved for stay pending reexamination.

Holdings: The District Court, Sandra Brown Armstrong, J., held that:

- (1) action was in early stage of litigation;
- (2) stay pending reexamination simplify issues in question and trial of case; and
- (3) stay pending reexamination would not unduly prejudice patentee, and thus grant of motion to stay proceedings pending reexamination was warranted.

Motion granted.

**ORDER GRANTING DEFENDANT'S MOTION TO STAY PENDING REEXAMINATION  
SAUNDRA BROWN ARMSTRONG, District Judge.**

\*1 Plaintiffs bring this action against Defendant asserting infringement of U.S. Patent Nos. 5,809,492 (the “?492 Patent”), 5,922,045 (the “?045 Patent”), 6,118,976 (the “?976 Patent”) and 6,983,478 (the “?478 Patent”) (collectively, the “patents-in-suit”). The parties are presently before the Court on Defendant's Motion to Stay Pending Reexamination. Dkt. 63. Having read and considered the papers filed in connection with this matter and being fully informed, the Court hereby GRANTS Defendant's Motion to Stay. The Court, in its discretion, finds this matter suitable for resolution without oral argument. See Fed.R.Civ.P. 78(b).

**I. BACKGROUND**

On March 12, 2010, Plaintiffs filed this action against Defendant asserting infringement of the patents-in-suit. The initial case management conference occurred on June 24, 2010, during which the Court set the claim construction hearing for January 27, 2011. Dkt. 34. No trial date has been set. Plaintiffs filed a First Amended Complaint (“FAC”) on December 17, 2010. On January 20, 2011, Defendant filed its Answer and Counterclaims, asserting counterclaims seeking declaratory judgment of non-infringement and invalidity of the patents-in-suit. Dkt. 83.

Meanwhile, on December 3, 2010, Defendant filed a inter partes reexamination request with the U.S. Patent and Trademark Office (“PTO”) for the ?478 Patent.FN1 Mouzari Decl. Ex. 6, Dkt. 63–1. On that same day, Defendant also filed with the PTO ex parte reexamination requests for the ? 492 Patent, the ? 045 Patent, and the ? 976 Patent. Id. Exs. 7–9. Defendant's four reexamination requests collectively ask the PTO to reexamine all of the patent claims asserted in this action.

On December 6, 2010, Defendant filed the instant Motion to Stay Pending Reexamination. Dkt. 63. Plaintiffs oppose Defendant's motion. On December 29, 2010, the Court vacated the January 27, 2011 claim construction hearing pending resolution of Defendant's motion to stay. Dkt. 78.

After the close of briefing on the stay motion, Defendant filed a notice with this Court indicating that the PTO has granted Defendant's requests for reexamination with respect to all four patents-in-suit. Dkt. 84.

## II. LEGAL STANDARD

[1] Headnote Citing References[2] Headnote Citing References[3] Headnote Citing References  
“A patent is presumed to be valid, and this presumption only can be overcome by clear and convincing evidence to the contrary.” *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 424 F.3d 1276, 1281 (Fed.Cir.2005) (citation omitted). However, “[a]ny person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art....” 35 U.S.C. § 302. A district court has the discretion to stay judicial proceedings pending reexamination of a patent. See *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426–27 (Fed.Cir.1988); accord *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1358 (Fed.Cir.2008). In determining whether to grant a stay pending reexamination, courts consider: (1) whether discovery is complete and whether a trial date has been set; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party. See *Telemac Corp. v. Teledigital, Inc.*, 450 F.Supp.2d 1107, 1110 (N.D.Cal.2006); *Fresenius Medical Care Holdings, Inc. v. Baxter Intern., Inc.*, 2007 WL 1655625 at \*3 (N.D.Cal.2007).

\*2 [4] Headnote Citing References There is a “liberal policy in favor of granting motions to stay proceedings pending the outcome of USPTO reexamination or reissuance proceedings.” *ASCII Corp. v. STD Entm't*, 844 F.Supp. 1378, 1381 (N.D.Cal.1994).

## III. ANALYSIS

### A. Stage of the Litigation

[5] Headnote Citing References The early stage of a litigation weighs in favor of granting a stay pending reexamination. See *Target Therapeutics, Inc. v. SciMed Life Sys., Inc.*, 33 U.S.P.Q.2d 2022, 2023 (N.D.Cal.1995) (holding that the absence of “significant discovery” or “substantial expense and time ... invested” in the litigation weighed in favor of staying the litigation); see also *ASCII Corp.*, 844 F.Supp. at 1381 (granting stay where parties had undertaken little or no discovery and the case had not yet been set for trial).

[6] Headnote Citing References Here, Plaintiffs filed their complaint in March 2010. The parties have not exchanged expert reports, conducted any depositions, or filed any dispositive motions. Mouzari Decl. ¶¶ 12–13. While claim construction briefs have been filed, the claim construction hearing was vacated, and no trial date is currently scheduled.

Nevertheless, Plaintiffs argue that this litigation should not be stayed because it is in its “advanced stages.” In support of that argument, Plaintiffs note that the parties have completed briefing on claim construction, and argue that, under similar circumstances, courts have denied requests for stay. Plfs.' Opp. at 2. However, the cases that Plaintiffs rely upon are distinguishable. For example, the defendants in *Roy-G-Biv Corp. v. Fanuc Ltd.*, 2009 WL 1080854 (E.D.Tex.2009), who had notice of the patents before the plaintiff filed suit, waited

nearly three years to file the reexamination request from first learning of the patents-in-suit. *Id.* at \*2. Here, there is no indication that Defendant was aware of the patents-in-suit before Plaintiffs filed their complaint in March of 2010. In *Borgwarner, Inc. v. Honeywell, Int'l, Inc.*, 2008 WL 2704818 (W.D.N.C.2008), the defendant was aware of a “substantial portion” of the prior art as early as 2005, and only filed for reexamination approximately three years later. *Id.* at \*2. Finally, in *I-Flow Corp. v. Apex Medical Techs., Inc.*, 2008 WL 2078623 (S.D.Cal.2008), plaintiff had asserted state law claims that would be litigated regardless of whether a stay pending reexamination was granted. *Id.* at \*2. Therefore, in that case, the reexamination would not truly simplify the issues for trial. In *Cynosure, Inc. v. Cooltouch Inc.*, 2009 WL 2462565 (D.Mass.2009), the court denied a motion to stay filed five months after the court had held its claim construction hearing and issued an order construing the claims at issue, and after the close of fact discovery, with summary judgment motions filed by both parties and trial only a few months away. *Id.* at \*1. Simply put, the circumstances presented in the cases cited by Plaintiffs are not at issue here.

\*3 In view of the circumstances of this case, the Court finds that the first factor militates in favor of a stay.

#### B. Simplification of the Issues and Trial

[7] Headnote Citing References The second factor examines whether a stay pending reexamination will simplify the issues in question and trial of the case. As explained by the Federal Circuit: “[o]ne purpose of the reexamination procedure is to eliminate trial of that issue (when the claim is canceled) or to facilitate trial of that issue by providing the district court with the expert view of the PTO (when a claim survives the reexamination proceeding).” *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed.Cir.1983); see also *Ho Keung Tse v. Apple Inc.*, 2007 WL 2904279 at \*3 (N.D.Cal.2007) (Armstrong, J.) (“Waiting for the outcome of the reexamination could eliminate the need for trial if the claims are cancelled or, if the claims survive, facilitate the trial by providing the Court with the opinion of the PTO and clarifying the scope of the claims.”).

In this case, granting a stay pending issuance of a reexamination certificate will significantly narrow invalidity issues as to the ?478 Patent, which is undergoing inter partes reexamination proceedings. Specifically, under 35 U.S.C. § 315(c), a third-party requester (here, Defendant) “is estopped from asserting at a later time, in any civil action ... the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the inter partes reexamination proceedings.” 35 U.S.C. § 315(c). Simplifying invalidity challenges directed to the ?478 Patent would provide a benefit because invalidity comprises a significant part of patent litigation. Moreover, the simplification of issues would be substantial, as Defendant would be estopped from asserting invalidity on any ground that Defendant “raised or could have raised” during the reexamination proceedings. See 35 U.S.C. § 315(c).

Also, while Section 315(c) is not applicable to Defendant's ex parte reexamination requests directed to the other three patents-in-suit, a stay pending reexamination of those patents would

nevertheless simplify the issues and trial in this case. Here, Plaintiffs' claims are only for patent infringement, and Defendant's counterclaims are limited to requests for declaratory relief—asking the Court to declare that the patents-in-suit are invalid and not infringed by Defendant. There are no issues in the case unrelated to patent infringement for which the PTO's expertise resulting from the reexamination would not be helpful. Cf. *Yodlee, Inc. v. Ablaise Ltd.*, 2009 WL 112857 at \*5 (N.D.Cal.2009) (Armstrong, J.) (“If regardless of the result of the reexamination, there are still claims or counterclaims that need to be resolved by the Court, then reexamination clearly fails to provide a final resolution.”) (citing *IMAX Corp. v. In-Three, Inc.*, 385 F.Supp.2d 1030, 1032–1033 (C.D.Cal.2005) (denying motion to stay in part because the court must still address defendant's counterclaims, some of which are completely unrelated to patent infringement)).

\*4 In response, Plaintiffs argue that a stay is inappropriate because the reexaminations are unlikely to cancel or modify all of the patent claims at issue. However, this Court has recognized that “if the reexamination proceeding should narrow any of the asserted claims of the [patent-in-suit], the scope of th[e] litigation may be significantly simplified.” *Ho Keung Tse*, 2007 WL 2904279 at \*8 (emphasis added); see also *In re Cygnus Telecommunications Technology, LLC Patent Litigation*, 385 F.Supp.2d 1022, 1024 (N.D.Cal.2005) (“If the USPTO cancels any of the 21 claims asserted in the two patents, infringement and validity issues that could potentially be raised ... would be resolved. For those claims that survive the reexamination, this court may have a richer prosecution history upon which to base necessary claim construction determinations or reconsideration.”); *Brass Smith, LLC v. Advanced Design Mfg. LLC*, 2010 WL 5363808 at \*1 (C.D.Cal.2010) (“Cancellation of some ... of the claims would obviously streamline ... the litigation.”).

In sum, a stay pending final resolution of the reexamination proceedings would simplify the issues in question and trial, weighing in favor of a stay.

### C. Prejudice and Tactical Concerns

[8] Headnote Citing References The third factor examines whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party. It should be noted that “delay inherent in the reexamination process does not constitute, by itself, undue prejudice.” *Esco Corp. v. Berkeley Forge & Tool, Inc.*, 2009 WL 3078463 at \*3 (N.D.Cal.2009) (Armstrong, J.) (citing *SKF Condition Monitoring, Inc. v. SAT Corp.*, 2008 WL 706851 at \*6 (S.D.Cal.2008)). Moreover, parties having protection under the patent statutory framework may not “complain of the rights afforded to others by that same statutory framework.” *Pegasus Dev. Corp. v. Directv, Inc.*, 2003 WL 21105073 at \*2 (D.Del.2003). Defendant here “is legally entitled to invoke the reexamination process,” and the PTO has already taken up the reexaminations. See *id.*

[9] Headnote Citing References Because delay inherent in the reexamination process does not constitute undue prejudice, courts also consider evidence of dilatory motives or tactics, such as when a party unduly delays in seeking reexamination of a patent. See *KLA-Tencor Corp. v. Nanometrics, Inc.*, 2006 WL 708661 at \*3 (N.D.Cal.2006). In this case, Plaintiffs argue that

Defendant delayed filing its reexamination requests to gain a tactical advantage. To support that argument, Plaintiffs note that there was a three-month gap between Defendant's service of its invalidity contentions and its filing of the reexamination requests. In response, Defendant asserts that its preparation of the reexamination requests took some time. It explains that the process of developing, vetting, finalizing, and drafting invalidity theories to be used in reexamination requests took eight months and nearly 2,000 hours to complete. Mouzari Decl. ¶ 11. Defendant states that the reexamination requests raise eleven substantial new questions of patentability regarding all four patents-in-suit and all forty-eight patent claims asserted by Plaintiffs, and that the requests constitute a combined 2,295 pages, including exhibits. Id. ¶ 3. In view of these factors, Defendant does not appear to have filed the reexamination requests as a dilatory tactic. See *Ho Keung Tse*, 2007 WL 2904279 at \*4 (“[Plaintiff] has not proffered any evidence suggesting that Defendants are actually requesting reexamination for the purpose of delay; they filed their request just three months after they served their Preliminary Invalidity Contentions ....”).

\*5 At bottom, Plaintiffs have failed to show, beyond the delay implicit in the reexamination process, how they would be unduly prejudiced or tactically disadvantaged if this Court were to grant a stay. Therefore, this factor weighs in favor of granting a stay.

#### IV. CONCLUSION

For the above stated reasons,

#### IT IS HEREBY ORDERED THAT:

1. Defendant's Motion to Stay (Dkt. 63) is GRANTED. This action is STAYED pending final exhaustion of all four pending reexamination proceedings, including any appeals.FN2
2. The Clerk shall ADMINISTRATIVELY CLOSE this matter.
3. The parties are instructed to submit status reports to the Court every six months, apprising the Court of the status of the pending reexamination proceedings. The parties are advised that the failure to submit such status reports could result in dismissal of this matter.
4. Upon final exhaustion of all four pending reexamination proceedings, including any appeals, the parties shall jointly submit to the Court, within one week, a letter indicating that all appeals have been exhausted, and requesting that this matter be reopened and a case management conference be scheduled.
5. This Order terminates Docket 63.

#### IT IS SO ORDERED.

FN1. An inter partes proceeding allows third parties to have a role in the reexamination process, while an ex parte proceeding does not. See *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330,

1332 (Fed.Cir.2008); 35 U.S.C. § 302 ( ex parte procedure); 35 U.S.C. § 312 ( inter partes procedure).

FN2. While the Court orders this action stayed pending final exhaustion of all four pending reexamination proceedings, this Order does not foreclose any party from moving to reopen this action prior to completion of all of the reexamination proceedings upon a showing of compelling circumstances.



**Richtek Technology Corp. v. UPI Semiconductor Corp.**  
**2011 WL 445509 (N.D.Cal. 2011)**

ORDER PARTIALLY GRANTING MOTION FOR STAY, DENYING LEAVE TO FILE  
MOTION FOR PRELIMINARY INJUNCTION, AND VACATING HEARING  
WILLIAM ALSUP, District Judge.

**INTRODUCTION**

\*1 In this patent and copyright infringement action, three corporate defendants move to stay the action pending reexamination of the patents-in-suit. This order grants the motion.

**STATEMENT**

This action was filed in December 2009, and then was stayed the following month pending the outcome of Investigation No. 337-TA-698 before the United States International Trade Commission. The ITC investigation was terminated in September 2010, and the stay of this action was lifted the following month (Dkt. No. 89). The ITC investigation concerned the same three patents, the same category of accused products, and some of the same defendants that are at play in this action. The ITC entered stipulated consent orders against defendants uPI Semiconductor Corporation and Sapphire Technology Limited in August 2010.

The third amended complaint, filed in September 2010, is currently operative, but it has been significantly narrowed via robust motion practice. The operative complaint was filed by the Taiwanese company Richtek Technology corporation and its wholly-owned United States subsidiary, Richtek USA, Inc. The complaint named seventeen individuals and five companies as defendants, and alleged seven claims for relief in total. After the first round of motions to dismiss, all claims against fourteen Taiwanese individuals were dismissed for lack of personal jurisdiction, and all claims for breach of contract and trade-secret misappropriation were dismissed for lack of subject-matter jurisdiction. After the second round of motions to dismiss, the copyright claim against Maxchip Electronics Corporation was dismissed for inadequate pleading pursuant to FRCP 12(b)(6), and jurisdictional discovery was allowed regarding personal jurisdiction over defendant Powerchip Technology Corporation. After a third round of motions to dismiss, all claims against Canadian individual Ming Chen were dismissed for inadequate pleading pursuant to FRCP 12(b)(6). Because Richtek USA was a complaining plaintiff only for the trade-secret-misappropriation claim, which was dismissed in the first round of motions, Richtek USA is no longer a party to this action.

The only claims for relief that now remain in the action are the patent-infringement claims against defendant Maxchip, and the patent- and copyright-infringement claims against the other four corporate defendants and two remaining individual defendants. The patent-infringement claims for relief (counts 1-3) assert the following three United States patents: No. 7,315,190; No. 6,414,470; and No. 7,132,717. The copyright-infringement claim for relief (count 7) refers to a list of United States copyright registrations that allegedly cover “design schematics, software code, mask works, data sheets and other copyrightable expressions related to Richtek's proprietary design-in process for semiconductors” (Compl.¶ 75).

The factual theory of Richtek's complaint is that Taiwanese former employees of Richtek Technology, along with Powerchip and uPI (both Taiwanese companies), “devised a complex and elaborate scheme to steal, plunder, and cart-away Richtek's invaluable trade secret and confidential information” (id ¶ 62). Using proprietary documents and information stolen from their former employer, the individual defendants allegedly designed competing power-management products that infringed Richtek's intellectual property rights. Defendant uPI allegedly then developed and sold these products in conjunction with other defendants. Richtek claims that it has been injured by sales of these power-management products to customers in California and the United States.

\*2 Defendants uPI, Sapphire, and Silicon XTAL Corporation now move to stay the entire action pending reexamination of the three patents-in-suit. Requests for reexamination of these patents were filed with the United States Patent and Trademark Office in August 2010 (Kwon Exh. B-D). The USPTO granted these requests in October and November 2010 (Kwon Exh. E-G). In December 2010, the USPTO issued a first office action in connection with the reexamination of the ?190 patent, in which it rejected all asserted claims of that patent (Kwon Exh. H). No other office actions have yet been issued in connection with the reexamination of the patents-in-suit. The three moving defendants represent that the other two corporate defendants (Powerchip and Maxchip) do not oppose the instant motion. Plaintiff Richtek, however, does oppose staying the action. This order follows full briefing on the motion.

## ANALYSIS

The decision to stay a case pending resolution of a reexamination at the USPTO is within the discretion of a district court. *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1341 (Fed.Cir.1983). A stay pending reexamination is justified where “the outcome of the reexamination would be likely to assist the court in determining patent validity and, if the claims were canceled in the reexamination, would eliminate the need to try the infringement issue.” See, e.g., *Slip Track Sys., Inc. v. Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed.Cir.1998). It has been the undersigned's normal practice to deny motions for such a stay absent extraordinary circumstances. In determining whether to stay an action pending reexamination, district courts consider the following factors: (1) whether discovery is complete and whether a trial date has been set; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party. E.g., *Telemac Corp. v. Teledigital, Inc.*, 450 F.Supp.2d 1107, 1111 (N.D.Cal.2006) (Wilken, J.). On the present record, these factors favor a stay, and the fact that Richtek already has obtained relief from the ITC makes this an exceptional case.

### 1. Status of Discovery and Case Development.

Despite having been filed over a year ago, this action is in its early stages. Trial is not set to begin for nearly a year, claim construction is still months away, and no summary judgment motions have been filed. Expert discovery has not commenced, and fact discovery is not set to close for another eight months. Richtek, however, argues that allowing the use of the ITC discovery in this action “would quickly make discovery in this case virtually complete” (Opp.9). The qualifiers in this statement- would and virtually-are telling. The parties vigorously dispute

whether the ITC discovery can be imported into this action en masse, and the thorny issues surrounding this question ( e.g., the treatment of third-party confidential business information) have yet to be resolved. Even if these issues were overcome and the ITC discovery were imported wholesale, discovery would by no means be complete. Only three of the seven remaining defendants in this action were respondents in the ITC investigation, so discovery would still need to be undertaken from scratch as to the other four defendants. Moreover, this action raises a variety of issues that were not reached in the ITC investigation ( e.g., damages, willfulness, and copyright infringement) and which will require fresh discovery involving all defendants. The fact remains that this action is in its early stages; substantial resources have not yet been invested in discovery, claim construction, or trial preparation. Accordingly, the first factor weighs in favor of a stay.

## 2. Simplification of Issues and Trial.

\*3 In granting the reexamination requests for all three patents-in-suit, the USPTO indicated that a “substantial new question of patentability” has been raised as to each of the patents. 35 U.S.C. 303(a). If any of the asserted claims are cancelled, the ordeals of claim construction and trial will become unnecessary for those claims. If any of the asserted claims are amended, the contours of claim construction and trial will likely be different as a result. Even if none of the asserted claims are cancelled or amended, this action will be shaped by the richer prosecution history available to inform the claim construction process. See *Gould*, 705 F.2d at 1342. Now that the reexamination train has left the station, all claim construction bets are off.

Richtek advances three arguments as to why a stay would not simplify the issues in this action; none is compelling. First, Richtek notes that the patent reexamination process will not resolve the copyright claims. This observation is correct, but it does not diminish the likelihood that the patent claims for relief, which are the true meat and potatoes of this action, will be simplified through reexamination. Second, Richtek notes that the USPTO has not yet issued any final office action regarding the patents-in-suit, so the outcome of the reexaminations remains speculative. This observation also is correct, but regardless of the outcome, the reexamination process is likely to shape and simplify these proceedings.

Third, Richtek argues that substantial progress could be made by forging on with claim construction. Any such progress, however, would come with the risk of wasted effort, given that cancellation or amendment of the construed claim terms likely would render these claim construction exercises obsolete. Richtek cites the Federal Circuit decision in *Ethicon v. Quigg* for the proposition that the “issue of validity is solely for this Court to decide and its decision is not affected in any way by proceedings at the PTO” (Opp .10). The cited *Ethicon* decision contains no such holding. On the contrary, it merely holds that the USPTO may not suspend a reexamination proceeding pending a district court’s determination of a patent’s validity, in part because doing so would frustrate “one purpose of the reexamination procedure”-“to eliminate trial of [a patent claim validity] issue (when the claim is cancelled) or to facilitate trial of that issue by providing the district court with the expert view of the PTO (when a claim survives the reexamination proceeding).” *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1426 (Fed.Cir.1988). Richtek also makes much of the facts that the parties “have already engaged in claim

construction by exchanging proposed terms for construction” and that claim construction discovery is underway (Opp.10). The scheduled claim construction hearing, however, is still more than three months away. The vast majority of the claim construction work remains to be done, and it would serve the interests of all involved for it to be done only once. The second factor weighs in favor of a stay.

### 3. Impact on Nonmoving Party.

\*4 Because Richtek already has obtained relief from another tribunal, it will not be unduly prejudiced or placed at a clear tactical disadvantage by a stay of this action. In August 2010, the ITC issued consent orders in which defendants uPI and Sapphire agreed to the following provision:

Effectively immediately upon the entry of this Consent Order, [uPI/Sapphire] will not import into the United States, sell for importation into the United States, or sell or offer for sale in the United States after importation, or knowingly aid, abet, encourage, participate in, or induce importation into the United States, the sale for importation into the United States, or the sale, offer for sale, or use in the United States after importation, without the consent or agreement of [Richtek], any DC-DC controllers or products containing same which [allegedly infringe / are allegedly covered by] claims 1-11, 26 or 27 of [the ?190 patent], claims 29 or 34 of [the ?470 patent], or claims 1-3 or 6-9 of [the ?717 patent], or which are produced using or which contain Richtek's asserted trade secrets.

(Kwon Exh. A). This consent order addresses the same category of accused products and the exact same patent claims that are asserted in the instant action. Because this action and the ITC investigation both target the same distribution chain, Richtek should be able to stem all or most of its alleged harm through enforcement of the ITC consent orders. Richtek insists that the ITC consent orders are inadequate and that it will suffer irreparable harm if this action is stayed. Indeed, Richtek focuses the largest portion of its opposition brief on this point. But none of Richtek's arguments on irreparable harm are persuasive.

First, Richtek “believes that uPI's accused products are still being sold in the United States despite the existence of the Consent Orders” (Opp.5). One explanation Richtek offers for this belief is Richtek's further “belie[f]” that uPI is “re-marking its old products with new part numbers” and “marking its products with a manufacturing date before the enforcement date, even though the products were actually manufactured after that date” ( *ibid.*). A second explanation is that uPI allegedly stockpiled and now continues to sell products whose manufacture in Taiwan “may pre-date” the consent orders ( *ibid.*). If these beliefs are borne out by fact, then uPI's evasion of the ITC order could be curbed and punished by the ITC. Richtek admits, however, that it “may not meet the threshold requirement to institute an enforcement proceeding with the ITC” because it lacks knowledge of “when these uPI products were actually made and sold by uPI” ( *ibid.*). Richtek's eligibility to institute an ITC enforcement proceeding and any discovery that Richtek might need in order to do so are matters best to be sorted out between Richtek and the ITC. In the meanwhile, Richtek's speculative beliefs are insufficient to demonstrate a likelihood of irreparable harm following a stay of the action before this district

court.

\*5 Second, Richtek notes that a district court is able to grant relief broader than that available from the ITC, because an injunction issued by a district court need not be tied to importation or to a particular manufacture date (Opp.6-7). This argument is a nonstarter. As to importation, Richtek alleges that all of the accused products in this action are designed by uPI, manufactured by Maxchip or Powerchip in Taiwan, and then incorporated into other downstream products sold in the United States. Because all of the accused products are manufactured in Taiwan, they all must be imported before they can be used, sold, or offered for sale in the United States. The importation requirement in the ITC consent orders therefore does not narrow the scope of these orders in any meaningful way with respect to the products accused in this action. As to manufacture date, the ITC consent orders do not contain any mention of a manufacture date limitation. By their own plain language, the ITC orders proscribe certain actions by uPI and Sapphire-including selling or knowingly aiding others in selling accused products that have been imported into the United States. The dates on which the products were manufactured or imported are irrelevant to this ban on sales. If uPI and Sapphire are still selling (or helping others sell) accused products that were imported into the United States, then Richtek has recourse available in the form of ITC enforcement proceedings on the consent orders.

Third, Richtek notes that certain defendants in this action are not subject to the ITC consent orders. Richtek argues that Powerchip, Maxchip and Silicon XTAL “may continue to manufacture, sell, offer to sell and import the accused uPI products” and emphasizes that “uPI and Sapphire specifically refused to include language in their Consent Orders precluding their officers, directors, employees and agents from engaging in the conduct prohibited by the Consent Order” (Opp.7). If Richtek was so concerned about the nefarious intent of uPI and Silicon's officers and suppliers, then perhaps Richtek should have rejected the language its opponents proposed for the consent orders and litigated the ITC investigation to the possible result of a general exclusion order, which would have applied to all accused products regardless of their source. Richtek is correct that, as a result of its tactical decision to agree to the language of the ITC consent orders, everyone in the world besides uPI and Sapphire remains free to import and deal in the accused products without running afoul of those orders. Richtek, however, has not presented convincing evidence that the other defendants in this action are doing so. While “there is nothing to prevent the individuals at uPI from setting up shop under a different corporate name and engaging in the conduct prohibited by the Consent Order” ( *ibid.*), there also is nothing in the record that suggests they have done so. Richtek cites sworn testimony that various accused products remain on the United States market in downstream products and stores, but the fact that accused products have been discovered on the market does not imply that responsibility for these continued sales rests with any of the defendants in this action.

\*6 If uPI and Sapphire are violating or evading the ITC consent orders, then Richtek's best available recourse is an enforcement proceeding before the ITC. As to acts and defendants that would fall beyond the scope of the ITC consent orders, Richtek has not provided any evidence that such circumstances explain the continued presence in California computer stores of downstream products that incorporate the accused products. Indeed, Richtek's claim that it would

suffer irreparable harm if this action were stayed is undercut by the lack of urgency with which it has pursued (or failed to pursue) available interim remedies. Richtek has not attempted to institute an enforcement proceeding before the ITC, and Richtek has not filed a motion for a preliminary injunction in this year-and-change-old district court action. Although Richtek expressed intent to eventually file a preliminary injunction motion at the October 2010 case management conference and in its early January discovery dispute letter brief, it did not even request permission to file such a motion until nearly a week after motion practice was suspended in mid-January (Dkt. Nos. 108 at 14, 229 at 2, 242). If the threat of irreparable harm truly were imminent, then Richtek would not have dragged its feet this long. Richtek has not shown that it would suffer irreparable harm or clear tactical disadvantage as a result of a stay of this action. The third factor weighs in favor of a stay.

\* \* \*

All three factors favor a stay, and the fact that the party opposing the stay already has received relief from another tribunal makes this a procedurally exceptional case. Accordingly, the motion to stay the action pending reexamination of the patents-in-suit is Granted in part. Although the copyright claim for relief will not be resolved by the patent reexamination proceedings, a stay of that portion of the action is appropriate in light of the stay to be placed on litigating the other claims for relief. Richtek's copyright claim arises from the same basic factual theory as its patent claims for relief, so discovery for the copyright and patent portions of the action will be inextricably intertwined. Accordingly, a partial stay of the action that applied only to the patent claims for relief and allowed piecemeal discovery and litigation to move forward on the copyright claim simply would create a mess. Richtek consistently has treated its copyright claim as an afterthought, and on the instant motion it has not argued or submitted any evidence that its copyright claim requires immediate resolution. The interests of judicial economy and efficient case management will be served better by a stay of all, rather than three quarters, of Richtek's remaining claims for relief.

On the other hand, the personal jurisdictional discovery underway concerning defendant Powerchip should continue despite the stay (Dkt. No. 235). The question of personal jurisdiction over Powerchip is a relatively discrete issue, and the resolution of this question sooner rather than later is likely preferable to all involved. Counsel must remember that discovery that happens to bear on the merits is allowable so long as it relates to the jurisdictional issue. In light of the stay, perhaps Powerchip will prefer to submit to the jurisdiction of the Court rather than face discovery. If so, any such general appearance must be made by Noon on February 11, 2011.

\* \* \*

\*7 In a letter brief regarding a discovery dispute filed on January 10, 2011, Richtek indicated its intent to file a motion for a preliminary injunction (Dkt. No. 229). Richtek promptly was instructed that it "shall file no motion for a preliminary injunction without explaining why said motion is not being filed before the ITC rather than before this district court" (Dkt. No. 230). Due to the excessive use of motion practice in this action, a complete halt was put on the filing of new motions on January 14, 2011 (Dkt. No. 235). Five days later, Richtek filed a request for leave to file a motion for preliminary injunction, along with an explanation why the relief was

sought from this court rather than the ITC (Dkt. No. 242). Indeed, Richtek references its desire for a preliminary injunction throughout its opposition to the instant motion for a stay.

A district court “ordinarily should not grant both a preliminary injunction and a stay.” *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 849 (Fed.Cir.2008). The reason that a stay normally precludes a preliminary injunction is that a “preliminary injunction should not be granted if there is a substantial issue of patent validity.” *Ibid.* In light of the stay of this action and the substantial issues of patent validity raised by the reexaminations of the patents-in-suit, Richtek's request for leave to file a motion for a preliminary injunction is Denied.

#### CONCLUSION

For the foregoing reasons, the motion to stay the action pending reexamination of the patents-in-suit is Granted in part. Richtek's request for leave to file a motion for a preliminary injunction is Denied. Except for the jurisdictional discovery allowed in the January 14 order (Dkt. No. 235), the entire action is hereby Stayed pending conclusion of the USPTO reexaminations of the patents-in-suit. If Powerchip now prefers to submit to the jurisdiction of the Court, it must make a general appearance by Noon on February 11, 2011. The motion hearing set for February 10, 2011, is Vacated. The hearing on Richtek's discovery dispute set for February 15, 2011, is Vacated. The parties shall file a joint status report on December 15, 2011, or within ten days after the conclusion of the reexaminations, whichever is earlier.

IT IS SO ORDERED.

**eCOMSYSTEMS, Inc. v. Shared Marketing Services, Inc.**  
**Slip Copy, 2011 WL 280942**  
**M.D.Fla.,2011.**  
**January 26, 2011**

ORDER

VIRGINIA M. HERNANDEZ COVINGTON, District Judge.

\*1 This cause comes before the Court pursuant to Defendants Shared Marketing Services, Inc. and Ace Hardware Corporation's motion to stay the instant action, filed on September 8, 2010. (Doc. # 13). On October 19, 2010, Plaintiff eCOMSYSTEMS, Inc. filed a memorandum of law in opposition to the motion to stay. (Doc. # 23). On November 2, 2010, Shared Marketing and Ace filed a reply memorandum. (Doc. # 31). For the reasons set forth below, the motion to stay is denied.

I. Background

This is a patent infringement action related to United States Patent Nos. 7, 315, 983; 7, 665, 105; 7, 673, 237; 7, 698, 719; and 7,707,081. (Doc. # 13 at 1). eCOM, a Florida corporation that provides advertising solutions to its customers, including its patented product, AdStudio®, (Doc. # 23 at 2-3), owns all five of the patents-in-suit, which are entitled “System and Method for Computer-Created Advertisements.” (Doc. # 1 at 2-3, 4, 6, 8, 10).

Ace is a Delaware corporation and a cooperative of about 4,600 independently owned and operated member hardware stores throughout the United States and around the world. (Doc. # 23 at 3; Doc. # 1 at 1; Doc. # 12 at 2). eCom asserts that it began a relationship with Ace in 2003, using eCom's software to develop domestic and international circulars. (Doc. # 23 at 3). Along with the contract with Ace, eCom asserts that it developed relationships with many Ace members and currently provides web-based advertising services to over 200 Ace members. *Id.*

Shared Marketing is an Illinois corporation that provides Trade Fund management services to cooperative marketing organizations. (*Id.*; Doc. # 1 at 1). eCom alleges that Shared Marketing “has created a knock-off of eCom's patented AdStudio®” and that in 2009, Shared Marketing sold to Ace its infringing Brand Construction Kit, advertised as Ace Brand Place. (Doc. # 23 at 4). eCom contends that immediately thereafter, Ace cancelled its eCom account. *Id.* Shared Marketing contends that it did not create a “knock-off of eCom's patented AdStudio®” (Doc. # 31 at 1) (emphasis in original); rather, Shared Marketing maintains that it “conceived, developed, and sold its alleged infringing system years before having any knowledge of [eCom] or the eCom product.” *Id.*

Shared Marketing and Ace allege that all five of the patents-in-suit are invalid in view of prior art that was not considered by the Patent and Trademark Office at the time the patents-in-suit were granted. (Doc. # 13 at 2, 7). In September 2010, Shared Marketing filed a request for ex parte reexaminations of each of the patents-in-suit with the United States Patent and Trademark Office. (Doc. # 13 at 2). All five of the requests have been accepted and given a filing date.



(Doc. # 31 at 2). Accordingly, there are ex parte reexaminations currently pending in regard to each of the patents-in-suit.

By their motion, Shared Marketing and Ace move the Court to stay the case pending resolution of the Patent and Trademark Office's reexamination proceedings of all five of the patents-in-suit. (Doc. # 13 at 2).

## II. Legal Standard

\*2 “A district court has broad discretion to grant or deny a stay pending [Patent and Trademark Office] reexamination of the patents-in-suit and ‘is under no obligation to delay its own proceedings by yielding to ongoing [Patent and Trademark Office] patent reexaminations, regardless of their relevancy to infringement claims which the court must analyze.’ ” MercExchange, L.L.C. v. eBay, Inc., 500 F.Supp.2d 556, 563 (E.D.Va.2007) (quoting NTP, Inc. v. Research in Motion, Ltd., 397 F.Supp.2d 785, 787 (E.D.Va.2005)).

There is no per se rule requiring that patent cases be stayed pending reexaminations because such a rule “would invite parties to unilaterally derail” litigation. Soverain Software LLC v. Amazon .Com, Inc., 356 F.Supp.2d 660, 662 (E.D.Tex.2005).

In determining whether to grant a stay, courts generally examine three factors: (1) whether a stay will unduly prejudice or tactically disadvantage the non-moving party; (2) whether a stay will simplify the issues and streamline the trial; and (3) whether a stay will reduce the burden of litigation on the parties and on the court. Freedom Scientific, Inc. v. GW Micro, Inc., No. 8:08-cv-1365, 2009 U.S. Dist. LEXIS 70701, at \*3, 2009 WL 2423095 (M.D.Fla. July 29, 2009).

## III. Analysis

### A. The Requested Stay Will Not Significantly Simplify the Case or Reduce the Burden of Litigation

The Court notes that the parties are in the initial stages of this lawsuit and have undertaken little or no discovery. (Doc. # 13 at 5-6). Because this case is in its inception, the second and third factors appear, at first blush, to weigh in favor of a stay. As the court in Roblor Mktg. Group, Inc. v. GPS Indus., Inc., observed:

[The reexamination] process is considered to be an efficient and relatively inexpensive procedure for reviewing the validity of patents which would employ the [Patent and Trademark Office's] expertise and provide the federal courts with the expertise of the [Patent and Trademark Office] in resolving patent claims. One purpose of the reexamination procedure is to eliminate trial of invalidity issues when a claim is canceled or, otherwise, to facilitate trial of remaining issues following [Patent and Trademark Office] denial of reexamination and the survival of a claim.

633 F.Supp.2d 1341, 1346 (S.D.Fla.2008) (internal quotations and citations omitted).

However, because the pending Patent and Trademark Office proceedings are ex parte reexaminations, rather than inter partes reexaminations, the Court is not persuaded that the second and third factors weigh in favor of a stay. Rather, the Court anticipates that the benefits of a stay would likely to be marginal, at best.

Inter partes reexaminations provide a third party the right to participate in the reexamination process and, thus, have a res judicata effect on the third party requester in any subsequent or concurrent civil action. See 35 U.S.C. §§ 314-315; *Tomco2 Equip. Co. v. S.E. Agri-Systems, Inc.*, 542 F.Supp.2d 1303, 1306 (N.D.Ga.2008). Ex parte reexaminations, on the other hand, do not bar the requestor from relitigating the exact same issues in district court. *Id.*

\*3 Accordingly, the Court does not find that judicial economy will be served by a stay because the pending ex parte reexaminations of the patents-in-suit would still leave Shared Marketing and Ace free to relitigate the exact same issues before this Court. See *Id.* at 1309 (noting that an inter partes reexamination, in contrast to an ex parte reexamination, “is very likely to simplify issues before this Court because the defendant cannot relitigate any of the issues determined by the [Patent and Trademark Office]”); *Nidec Corp. v. LG Innotek Co., Ltd.*, No. 6:07-cv-108, 2009 U.S. Dist. LEXIS 46123, at \*12-13, 2009 WL 3673433 (E.D.Tex. Apr. 3, 2009) (noting that because the patents-in-suit were undergoing ex parte reexamination, the defendants would not be estopped “from asserting the same issues of invalidity” in the district court and the Patent and Trademark Office, which contributed to the determination that “simplification of issues in this litigation will not necessarily result from reexamination”).

Moreover, it should be noted that the reexamination process only considers the validity of the patent with regard to prior art. *Tomco2*, 542 F.Supp.2d at 1307. The Patent and Trademark Office will not analyze other infringement issues or other grounds for invalidity. *Id.* Therefore, in the case at bar, these issues would remain and could ultimately require attention from this Court. See *Tomco2*, 542 F.Supp.2d at 1310 (“[M]any courts deny stays when the reexamination will not resolve all the issues in the litigation”); cf. *Ariba, Inc. v. Emptoris, Inc.*, No. 9:07-CV-90, 2007 U.S. Dist. LEXIS 78857, at \*4, 2007 WL 3132606 (E.D.Tex. Oct. 23, 2007) (“Statistically, 90% of all reexaminations result in the confirmation of at least some of the claims in a patent. Therefore, even after reexamination, if only one claim remained, invalidity would continue to be an issue, and so a stay would not preserve many resources”).

#### B. The Requested Stay Will Unduly Prejudice eCom

eCom contends that “a stay would cause irreparable harm” because the parties are direct competitors in the marketplace and Shared Marketing would be free to continue selling the allegedly infringing product while the reexamination runs its course. (Doc. # 23 at 6). eCom also argues that a stay “would severely weaken eCom's ability to sell its product while leaving [Shared Marketing] free to gut eCom's market share with its infringing product.” *Id.* at 5.

To support its argument, eCom argues that “[o]nce [Shared Marketing] began selling [Shared Marketing's allegedly infringing Kit] to Ace Corporate, Ace Corporate cancelled its contract with eCom and to this day threatens to deny eCom access to Ace images, trademarks, and

accounting systems, thereby threatening eCom's ability to provide AdStudio® to its Ace Member customers.” (Doc. # 23 at 6).

Courts have recognized that where the parties are direct competitors, a stay would likely prejudice the non-movant. *Tesco Corp. v. Weatherford Int'l, Inc.*, 599 F.Supp.2d 848, 851 (S.D.Tex.2009). In such situations, stays are denied where there is concern that the patent owner will be irreparably harmed because the accused product will continue to gain market share during the pendency of the stay. *Heraeus Electro-Nite Co., LLC v. Vesuvius USA Corp.*, Case No. 09-2417, 2010 U.S. Dist. LEXIS 1887, at \*3, 2010 WL 181375 (E.D.Pa. Jan. 11, 2010).

\*4 Here, Shared Marketing gives no indication that it will cease its sales of the allegedly infringing product during the course of the five reexaminations. See *Nat'l Flooring Equipment, Inc. v. Equipment Development Co., Inc.*, No. 0:09-cv-0974, slip op. at 4 (D.Minn. Jan. 28, 2010) (“This Court concludes that, because EDCO intends to continue selling the accused product throughout the stay, National will suffer undue prejudice. This factor, therefore, militates against a stay here.”); *Baratta v. Homeland Housewares, LLC*, No. 05-60187-CIV, 2007 U.S. Dist. LEXIS 92845, at \*6, 2007 WL 4365596 (S.D.Fla. Dec. 13, 2007) (finding the fact that “[d]efendant continues to sell the allegedly infringing product” weighed against granting a stay); cf. *Heraeus*, 2010 U.S. Dist. LEXIS 1887, at \*3, 2010 WL 181375 (“Because Vesuvius has withdrawn the accused product, there is no risk of irreparable harm accruing during the stay. HEN can be adequately compensated with money damages.”)

eCom has presented evidence that eCom was providing patented technology to Ace and that Ace backtracked in its relationship with eCom in favor of Shared Marketing when it was able to procure from Shared Marketing the same, allegedly infringing, product that Ace previously had been receiving from eCom. (Doc. # 23 at 3-4). If the Court were to grant the motion to stay, this trend could potentially continue to usurp eCom's market share.

This type of market loss is difficult to measure in monetary damages. See *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 975-76 (Fed.Cir.1996) (“Years after infringement has begun, it may be impossible to restore a patentee's (or an exclusive licensee's) exclusive position by an award of damages and a permanent injunction. Customers may have established relationships with infringers. The market is rarely the same when a market of multiple sellers is suddenly converted to one with a single seller by legal fiat”).

Furthermore, the potential prejudice to eCom is exacerbated by the lengthy and indefinite amount of time required to complete the reexamination proceedings for all five of the patents-in-suit. The requested stay would expire only after completion of the reexamination and the appellate process. *Fusilamp, LLC v. Littelfuse, Inc.*, No. 10-20528-CIV, 2010 U.S. Dist. LEXIS 56553, at \*12, 2010 WL 2277545 (S.D. Fla. June 7, 2010). The reexamination process averages 25.4 months to complete, and the appellate process averages 24 months to complete. *Id.*

And whereas the estoppel effects of an inter partes reexamination can serve to reduce the prejudice to the nonmovant, they are not implicated here because the patents-in-suit are

undergoing ex parte reexaminations, which do not preclude Shared Marketing and Ace from relitigating the same issues in district court. See *Tesco Corp. v. Weatherford Int'l, Inc.*, 599 F.Supp.2d 848, 851 (S.D.Tex.2009) (citations omitted) (“The estoppel effects of an inter partes examination can serve to reduce the prejudice to the non-movant”). Accordingly, the Court determines that a denial of timely enforcement of eCom's patent rights does indeed cause eCom undue prejudice.

\*5 The Court has balanced all factors and finds that they weigh in favor of denying Shared Marketing and Ace's motion to stay the instant action pending resolution of the Patent and Trademark Office's reexamination proceedings.

Accordingly, it is

ORDERED, ADJUDGED, and DECREED:

Defendants' motion to stay the instant action (Doc. # 13) is DENIED.

DONE and ORDERED.