

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

LAKESOUTH HOLDINGS, LLC,

Plaintiff,

v.

ACE EVERT, INC., *et al.*,

Defendants.

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Civil Action No. 3:14-CV-1348-N

ORDER

This Order addresses Defendant Ace Evert, Inc.’s (“Ace Evert”) motion to stay proceedings pending *inter partes* review [Doc. 74] and Defendants Wal-Mart Stores, Inc. and Wal-Mart Stores Texas, LLC’s (collectively, “Walmart”) motion to stay proceedings pending *inter partes* review [76]. The Court denies the motions.

I. THE PATENT DISPUTE

In April 2014, Plaintiff LakeSouth Holdings, LLC (“LakeSouth”) initiated this lawsuit against Ace Evert alleging that Ace Evert infringed on U.S. Patent No. 6,612,713 (“the ‘713 Patent”). LakeSouth asserted the same patent against Walmart in May 2014, and that suit was subsequently consolidated into this action.

On April 1, 2015, Ace Evert filed a petition for *inter partes* review (“IPR”) of the ‘713 Patent with the U.S. Patent and Trademark Office (“PTO”). Defendants now ask the court to stay this case pending IPR.

II. THE COURT WILL NOT STAY THE CASE

The Court generally weighs three factors in deciding whether to stay litigation pending examination by the PTO:

1) whether a stay will unduly prejudice or present clear tactical disadvantage to the nonmoving party, 2) whether a stay will simplify the issues in question and the trial of the case, and 3) whether discovery is complete and whether a trial date has been set.

BarTex Research, LLC v. FedEx Corp., 611 F. Supp. 2d 647, 649–650 (E.D. Tex. 2009). As the moving parties, Defendants bear the burden of demonstrating that a stay is appropriate. *DSS Tech. Mgmt., Inc. v. Apple, Inc.*, 2015 WL 1967878, at *2 (N.D. Cal. 2015). The Court finds that, on balance, these factors favor denying the stay request.

A. A Stay Will Prejudice LakeSouth and Presents a Tactical Disadvantage

First, a stay will cause prejudice to LakeSouth. LakeSouth maintains that it will be prejudiced because the *inter partes* review process will take several years.¹ A delay caused by the *inter partes* review process, without more, does not justify denial of a stay. *See, e.g., E-Watch, Inc. v. Lorex Canada, Inc.*, 2013 WL 5425298, at *2 (S.D. Tex. 2013); *Semiconductor Energy Lab. Co., Ltd. v. Chimei Innolux Corp.*, 2012 WL 7170593, at *3 (C.D. Cal. 2012); *Tierravision, Inc. v. Google, Inc.*, 2012 WL 559993, at *3 (S.D. Cal. 2012). Rather, the *inter partes* review was designed to create efficiencies and “proceed in a timely fashion.” *Lorex Canada*, 2013 WL 5425298, at *2. Thus, the length of the *inter partes*

¹LakeSouth also maintains that it will suffer prejudice because witnesses, evidence, and memories will be less readily available due to delay. But this statement is speculative and does not show prejudice. *See Evolutionary Intelligence LLC v. Sprint Nextel Corp.*, 2014 WL 819277, at *4 (N.D. Cal. Feb. 2014).

review alone does not establish prejudice. Here, however, the delay is compounded by the fact that the '713 Patent already had reexamination for eight years.

Defendants argue that LakeSouth will not be prejudiced by a stay because it “is a shell company that is not in competition with any Defendant.” AceEvert’s Mot. Stay 5. “[C]ourts have consistently found that where . . . the parties are not competitors, Plaintiff does not risk irreparable harm by [Defendant’s] continued use of the accused technology and can be fully restored to the *status quo ante* with monetary relief.” *DSS Tech. Mgmt.*, 2015 WL 1967878, at *4 (alternation in original) (internal quotation marks omitted). Defendants ignore, however, that they have added World Factory as a party to this matter. World Factory, an affiliate company with common ownership to LakeSouth, has a license to the '713 Patent and has sold products and competed with Defendants. *See* Pl.’s Resp. 8. This fact indicates that some prejudice might result from a stay.

The timing of the stay request also indicates a tactical disadvantage. LakeSouth takes issue with Ace Evert having waited almost a year after the filing of the case before requesting IPR. Ace Evert asserts that it “diligently prepared and filed its IPR petition after the Court denied [its] Motion to Dismiss.” AceEvert Mot. Dismiss 6. It is unclear, however, why AceEvert felt compelled to wait for adjudication of its motion, considering the motion was, in fact, only for *partial* dismissal and would have left claims remaining even if granted. Equally unclear is why it took an additional four months after denial of the motion (and 8 months after LakeSouth disclosed its asserted claims and preliminary infringement

contentions) to file the IPR petition. The Court concludes that on the facts of this case, Ace Evert's nearly one-year-long delay was unreasonable.

The Court concludes that the first factor weighs against a stay.

B. A Stay May Not Simplify the Issues in the Case

As many courts have noted, a stay may simplify the issues in the case by, for example, “rendering some or all of Plaintiff’s infringement claims moot, estopping Defendant from asserting any arguments it raised or reasonably could have raised in the IPR, and providing the Court with PTAB’s expert opinion on the claims at issue.” *DSS Tech. Mgmt.*, 2015 WL 1967878, at *3; *accord Semiconductor*, 2012 WL 7170593, at *4 (C.D. Cal. 2012) (“[W]aiting for the outcome of the reexamination could eliminate the need for trial if the claims are cancelled or, if the claims survive, facilitate trial by providing the court with expert opinion of the [US]PTO and clarifying the scope of the claims.” (alterations in original) (quoting *Target Therapeutics, Inc. v. SciMed Life Sys., Inc.*, 1995 WL 20470, at *2 (N.D. Cal. 1995))). “Although there is a chance the patent claims will emerge from the reexamination process unchanged, the statistics indicate that is unlikely.” *Tierravision*, 2012 WL 559993, at *2. If the PTO grants Ace Evert’s petition, continuing this litigation will result in the unnecessary duplication of effort and expenses to resolve the same issues. If the PTO denies the petition, however, the stay will be relatively short.

LakeSouth maintains that the issues will not be simplified because Walmart, who is not a party to the IPR petition, will not be bound by the PTO’s determinations of patent validity. *See* 35 U.S.C. § 315(e)(2). The Court concurs with the Northern District of

California that “[t]his is a real concern.” *Capella Photonics, Inc. v. Cisco Sys., Inc.*, 2015 WL 1006582, at *2 (N.D. Cal. 2015). In *Capella*, the Court explained that

the typical “benefit of a stay pending IPR is contingent in part upon the IPR proceeding’s estoppel effect, *i.e.*, the prohibition that the [IPR] petitioner is precluded from relitigating the same issues that were raised or reasonably could have been raised during the IPR proceeding.” . . . [I]n multiple defendant cases like this one, where certain defendants “are not parties to the pending IPRs, the fact that the patent infringement defendants are not automatically estopped jeopardizes the IPRs’ critical intended effects on any subsequent district court action.” “Indeed, should any claims survive the pending IPRs ... the expected efficiencies would be eviscerated should Defendants go on to bring invalidity arguments in this court that were raised or could have been raised before the PTAB.”

Id. at *2 (internal citations omitted); *see also Smartflash LLC v. Apple, Inc.*, 2014 WL 3366661, at *3 (E.D. Tex. 2014) (“District courts have recognized the benefit of a stay is reduced when issues are likely to remain after PTO review.”). And unlike in *Capella*, here the non-IPR defendant has not agreed to be bound by estoppel.² There are likely to be invalidity issues remaining unless all claims are invalid. The Court is mindful, however, that this factor does not require all issues to be eliminated, merely that some issues be simplified. *See Evolutionary Intelligence, LLC v. Sprint Nextel Corp.*, 2014 WL 819277, at *4 (N.D. Cal. 2014).

Accordingly, upon consideration of the facts of this case, the Court finds this factor weights slightly toward denying the stay request.

²The Court notes that Walmart’s ability to contest validity in this proceeding also presents a tactical disadvantage to LakeSouth under the first factor.

C. The Case Has Advanced Past the Early Stages of Litigation

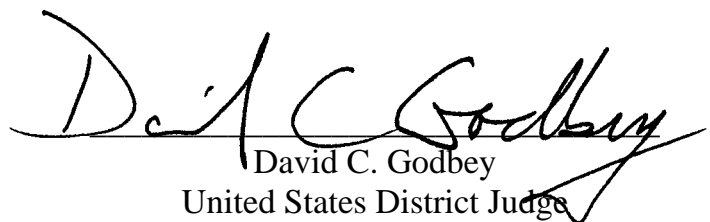
The third factor – the status of the case – weighs slightly in favor of a denial. “A case need not be in its infancy to warrant a stay. Courts often find the stage of litigation weighs in favor of a stay if there remains a significant amount of work ahead for the parties and the court, even when the parties and/or the court have already devoted substantial resources to the litigation.” *Destination Maternity Corp. v. Target Corp.*, 12 F. Supp. 3d 762, 770 (E.D. Pa. 2014). Specifically, when examining this factor courts consider “whether discovery is complete and whether a trial date has been set.” *Evolutionary Intelligence, LLC v. Facebook, Inc.*, 2014 WL 261837, at *2 (N.D. Cal. 2014).

According to the scheduling order for this matter, the case “will be set for trial by January 2016.” Patent Scheduling Order 5, Nov. 4, 2015 [27]. Moreover, the parties have been engaged in discovery, although it is not complete. Finally, the parties have filed their claim constructions briefs. On the facts of this case, this factor weighs in favor of denying the stay request, albeit only slightly.

CONCLUSION

As each of the three factors supports denial of the stay, the Court denies Defendants’ motions.

Signed June 17, 2015.


David C. Godbey
United States District Judge