

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

BLAZEK SKLO PODEBRADY
s.r.o. et al.,

CIVIL NO. 08-2354 (RHK/JSM)

Plaintiffs,

v.

ORDER

BURTON INTERNATIONAL et al.,

Defendants.

JANIE S. MAYERON, U.S. Magistrate Judge

The above matter came on before the undersigned upon Defendants' Motion to Stay Pending Patent Reexamination [Docket No. 87]. Anthony Zeuli, Esq. appeared on behalf of plaintiffs and Daniel Rasmus appeared on behalf of defendants.

The Court, being duly advised in the premises, upon all of the files, records, and proceedings herein, now makes and enters the following Order.

IT IS HEREBY ORDERED:

Defendants' Motion to Stay Pending Patent Reexamination [Docket No. 87] is

DENIED.

Dated: June 11, 2010

s/ Janie S. Mayeron
JANIE S. MAYERON
United States Magistrate Judge

MEMORANDUM

I. FACTUAL BACKGROUND

This case involves plaintiffs Blazek Glass s.r.o and Dalibor Blazek's (collectively "Blazek") two counts of patent infringement against defendants for their alleged infringement of United States Patent No. 6,488,034 ("034 patent") and United States Patent No. 6,694,988 ("988 patent"). The '034 patent dealt with a glass nail file invention. See Declaration of Dan Rasmus ("Rasmus Decl."), Ex. 3 ('034 patent file wrapper).

On July 9, 1998, Blazek received a patent from the Czech Republic, Utility Model No. 6492 ("the 6492 Patent"), with a priority date of July 10, 1997, dealing with a similar nail file invention that is the subject of the '034 patent. Id., Ex. 4.

On or about April 14, 1999, the patent application for the '034 patent was filed with the United States Patent and Trademark Office ("USPTO"). Id., Ex. 3.

On December 11, 2001, Czech authorities deleted or invalidated the 6492 patent because of a 1943 Swiss Patent No. 237277 (the '277 patent) that was almost identical to Blazek's "new" invention, as it used a glass body. Id., Ex. 5. Blazek appealed the Czech decision to invalidate the 6492 patent, and on December 1, 2005, the appeal was denied and the 6492 patent was permanently deleted. Id., Ex. 6.

On June 21, 2002, Blazek file a continuation application for the '034 patent—the '988 patent. Id., Ex. 9. On December 3, 2002, the '034 patent was issued by the USPTO. Id., Ex. 3. On February 24, 2004, the '988 patent was issued by the USPTO. Id., Ex. 9.

On June 16, 2008, Blazek filed the initial Complaint in this case. See Docket No 1. On January 22, 2009, Blazek filed the Amended Complaint. See Docket No. 25. On January 29, 2009, defendants filed a Statement of Defense. See Docket No. 26. After Blazek made a motion to strike the Statement of Defense [Docket No 27], defendants filed their Joint Answer to the Amended Complaint [Docket No. 29] on February 11, 2009. The Joint Answer to the Amended Complaint, made no mention of invalidity based on prior art.

This Court's operative Pretrial Scheduling Order [Docket No. 42] set May 4, 2009, as the deadline for Blazek's claim chart. Defendants' responsive claim chart was due on June 3, 2009. Id. Blazek served its claim chart, but defendants never responded to it. On June 4, 2009, defendants were required to serve Blazek with a prior art statement that disclosed and explained in detail how any prior art invalidated the patents at issue, however, defendants never served Blazek with a prior art statement. Id. Defendants also failed to identify any experts, to submit any expert reports by the January 1, 2010 deadline, to identify rebuttal experts or to submit any reports from rebuttal experts by the February 1, 2010 deadline.

On February 26, 2010, defendants filed their requests for Ex Parte Reexamination of the '034 and '988 patents with the USPTO on the grounds that the patents were invalid based on published prior art including: United States Patent No. 2,450,207, issued in 1945, United States Patent No. 3,616,098, issued in 1971; the Swiss '277 patent issued in 1945; and United States Patent No. 3,874,977, issued in 1975. See Rasmus Decl., Exs. 1-2 (Requests for Ex Parte Reexamination).

On March 1, 2010, fact discovery closed in this case. Defendants conducted no fact discovery. Expert discovery ended on May 1, 2010, and the case is to be trial ready as of December 1, 2010.

Defendants' have now requested a stay of the present litigation pending the reexamination of the '034 and '988 patents by the USPTO. The motion was heard on March 15, 2009.

II. ANALYSIS

A motion to stay the proceedings is not found in the Federal Rules of Civil Procedure. However, courts have the ability to stay proceedings based on inherent power of the district court to control its own docket and to ensure that each matter is handled "with economy of time and effort for itself, for counsel, and for litigants." See Landis v. North American Co., 299 U.S. 248, 254-255 (1936) (citations omitted); Lunde v. Helms, 898 F.2d 1343, 1345 (8th Cir. 1990) ("district court did not clearly abuse its discretion in staying the federal case pending resolution of the on-going state proceedings. In our view, this is a matter of docket management.") (citations omitted); Webb v. R. Rowland & Co., Inc., 800 F.2d 803 (8th Cir. 1986) (citing Contracting Northwest, Inc. v. City of Fredericksburg, 713 F.2d 382, 387 (8th Cir. 1983)) ("The district court also has the inherent power to grant a stay in order to control its docket, conserve judicial resources, and provide for a just determination of the cases pending before it.") (citation omitted).

When evaluating a request to stay litigation pending a patent reexamination, district courts generally consider three factors:

- (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 the litigation and facilitate the trial of that case; and (3) whether discovery is complete and a trial date is set.

Regalo Intern., LLC v. DEX Products, Inc., Civil No. 08-4206 ADM/AJB, 2009 WL 2951107 at *1 (D. Minn. Sept. 09, 2009) (citations omitted); see also 3M Innovative Properties Co. v. Dupont Dow Elastomers LLC, No. 03-3364, 2005 WL 2216317 at *1 (D. Minn. Sept. 8, 2005) (same factors) (citation omitted); TimeBase Pty Ltd. v. The Thomson Corp., NO. CIV. 07-1687 (JNE/JJG), CIV. 07-4551 (JNE/JJG), 2008 WL 1959061 at *1 (D. Minn. May 06, 2008) (same factors) (citation omitted).

Based on these factors, this Court finds that a stay of the patent infringement litigation is not warranted.

A. Prejudice and Tactical Advantage

Defendants argued that a stay of the infringement action will not prejudice Blazek or put it at a tactical disadvantage to the extent infringement is found, given that it can be fully redressed by money damages.¹ See Memorandum of Law in Support of Motion to Stay Pending Patent Reexamination (“Defs.’ Mem.”) at pp. 12-13. Further, defendants maintained that they were not pursuing reexamination to delay this case, trial is nearly a year away, expert depositions have yet to be taken and not much money has been expended to date on discovery. Id. at p. 13.

Blazek countered that defendants were a reseller of their nail files who then decided to compete against Blazek by selling their own nail files, which has caused

¹ Defendants also argued that not granting a stay would prejudice their interests, particularly if they have to defend a case with an obvious invalidity issue. See Defs.’ Mem. at pp. 10-11. However, prejudice to the requesting party is not relevant to this Court’s determination, especially where as here, the party seeking the stay has failed to abide by the pretrial scheduling order’s deadlines for discovery and for setting forth invalidity defenses.

Blazek to lose sales and market share. See Plaintiffs' Memorandum of Law Opposing Defendants' Motion to Stay Pending Patent Litigation ("Pls.' Mem.") at pp. 7-8. Blazek also submitted that the delay may result in the loss of witnesses and evidence. In particular, Blazek asserted that the inventor of the patents at issue is 79 years old and in poor health. Finally, Blazek argued that granting the stay of the patent litigation would give defendants an unfair tactical advantage over it because fact discovery is now closed and defendants have conducted no discovery and put forth no defenses. See Pls.' Mem. at p. 8. Blazek fears that after the stay is lifted, defendants will seek to have the scheduling order amended to make a "back door" attempt to bring in non-infringement, invalidity and non-willful infringement defenses, none of which are presently in this case. Id. at pp. 8-9.

In response to these arguments, defendants maintained that if Blazek were truly worried about loss of sales and market share, it would have and should have sought injunctive relief, which it has not done. See Defendants' Memorandum in Reply to Plaintiffs' Memorandum Opposing Motion to Stay ("Defs.' Reply") at p. 2. Further, defendants claimed that Blazek and this Court have been aware since at least November 5, 2009, that defendants intended to challenge the validity of the patents at issue through reexamination and were refraining from asserting any in non-infringement, invalidity and a non-willful infringement defenses until the completion of the reexaminations. Id. at p. 3. Defendants represented at the hearing and in their moving papers that they have not engaged in discovery or pursued defenses in this case, because they instead sought to deal with the infringement in the reexamination process, as a way to save them money. Id.

The average pendency for ex parte reexamination is 36.1 months. See Fresenius USA, Inc., v. Baxter Int'l, Inc., 582 F.3d 1288, 1305-06 (Fed. Cir. 2009). Thus, it is conceivable that the reexamination of the '034 and '988 patents will not be completed until 2013. However, the "availability of monetary damages can ameliorate potential undue prejudice or tactical disadvantage in some situations, especially where the non-moving party has not explained why money damages are not an adequate remedy." American Medical Systems, Inc et al v. Laser Peripherals, LLC, 08-cv-04798 (JNE/FLN) at p. 4, (citing Vdata, LLC v. Aetna, Inc., Case No. 06-1701, 2006 WL 3392889 at *5 (D. Minn. Nov. 21, 2006)). Defendants have not denied that they became a manufacturer and supplier of a product they once distributed on behalf of Blazek. Nevertheless, Blazek did not provide any evidence that it has lost sales, profits or market share based on the actions of defendants. Thus, this Court has no basis for concluding that Blazek would be prejudiced by a potential loss of market share or sales if it were to stay the litigation while the re-examination is pending.

On the other hand, the Court does find that a delay of three years or more would prejudice Blazek and that a stay would put it at a tactical disadvantage.

First, the patents at issue in this case date back to 1999, and the inventor is nearly 80 years old and ailing. Waiting more than three years to resume this case could very likely result in the loss of critical evidence, if not a very important witness.

Second, in determining whether the motion to stay creates a clear tactical disadvantage to the non-moving party, "courts have denied motions to stay when 'there is an inexplicable or unjustified delay in seeking re-examination' or when it appears that a stay 'will serve simply to delay proceedings.'" Regalo Intern., LLC., 2009 WL 2951107

at *2 (quoting Ecolab, Inc. v. FMC Corp., No. 05-CV-831, 2007 WL 1582677 at *1 (D. Minn. May 30, 2007)); see also Ecolab, Inc., 2007 WL 1582677 at *2 (concluding that the request for a stay was likely tactical because the requesting party did not immediately seek a reexamination after they discovered the prior art, and only moved for reexamination after their motion for summary judgment was denied).

Here, although the Court does not know when defendants first learned about the 1945 Swiss patent and the other prior art at issue, it does know that defendants were obligated to investigate and disclose any prior art by June 4, 2009, pursuant to the Pretrial Scheduling Order and did not do so. Further, by their own admission, by on November 5, 2009 defendants knew, and indeed, represented to this Court and Blazek that they intended to “imminently bring” a request for a reexamination (see letter from Rasmus to Court dated November 5, 2009), yet they then waited almost four months (February 26, 2010) and on the eve of the close of fact discovery, to file the request for a reexamination. See Rasmus Decl., ¶ 17. Most tellingly, defendants acknowledged that they believed that addressing the validity of the ‘034 and ‘988 patents as part of the reexamination process was more cost effective than dealing with the present litigation, which is evident by their failure to meaningfully engage in discovery. This conduct and strategy leads this Court to conclude that defendants have sought the stay for tactical reasons, so as to either delay trial or to enable them to assert an invalidity defense (or other defenses) that should have been raised long ago, all to the disadvantage of Blazek. Defendants cannot “have their cake and eat it too.”

In sum, this Court finds that a stay of Blazek’s infringement claim would unduly prejudice it in terms of possible lost evidence, put Blazek at a clear tactical

disadvantage, and provide defendants with an undeserved tactical advantage. Therefore, the Court concludes that the first factor weighs in favor of denying the stay.

B. Simplification of the Issues in This Litigation

The benefits of the PTO reexamination, include that:

- (1) all prior art presented to the Court will have been first considered by the PTO, with its particular expertise;
- (2) many discovery problems related to the prior art can be alleviated by the PTO examination;
- (3) in those cases resulting in effective invalidity of the patent, the suit will likely be dismissed;
- (4) the outcome of the re-examination may encourage a settlement without the further use of the Court;
- (5) the record of re-examination would likely be entered at trial, thereby reducing the complexity and length of the litigation;
- (6) issues, defenses and evidence will be more easily limited in pre-trial conferences after a reexamination;
- (7) the cost will likely be reduced both for the parties and the Court.

Ecolab, Inc., 2007 WL 1582677 at *2 (quoting Card Techn. Corp., 2007 WL 551615 at *3) (“common sense counsels that it is usually prudent for a court to await the PTO’s reassessment of the patents at issue before resuming litigation over the validity.”); see also 3M Innovative Properties Co., 2005 WL 2216317 at *2 (“Granting a stay will promote judicial economy by ‘maximiz[ing] the likelihood that neither the Court nor the parties expend their assets addressing invalid claims.’”) (quoting Softview Computer Prods. Corp. v. Haworth, Inc., 56 U.S.P.Q.2d 1633, 1636 (S.D.N.Y. 2000)).

Defendants argued that the patent reexamination will provide the Court with an expert opinion concerning the validity of the patents, and that given the existence of the prior art, the USPTO “could very well invalidate or narrow” the patents at issue. See Def.’s Mem. at p. 15. Defendants point to statistics that almost 92% of reexamination requests are granted, and out of those, 13% of all of the patent claims are cancelled, and in 61% of the cases some of the claims are amended or cancelled. See Defs.’ Reply at p. 5 (citing Zeuli Decl., Ex. G (*Ex Parte* Reexamination Filing Data)). In response, Blazek asserted that a stay pending reexamination will not streamline the issues in this case since defendants have not put forward an invalidity defense. See Pls.’ Mem. at p. 13.

As it relates to the second factor, the Court finds that the case would not be streamlined by a PTO reexamination because defendants never alleged invalidity as a defense in their Answer nor did they disclose such any prior art by June 4, 2009, as required by the Pretrial Scheduling Order. In other words, there is nothing to streamline where invalidity is not an issue in this case. Further, despite the statistics relied upon by defendants, this Court will not speculate on whether the request for reexamination will be granted or will be successful at eliminating or amending any of the patents’ claims in its determination of whether reexamination will simplify the issues in this case.² See Regalo, 2009 WL 2951107 at *2. This factor also weighs against a stay.

² This Court notes that it was disclosed at the hearing that defendants’ requests for reexamination were denied by the USPTO based on a technicality, and that defendants have one chance to correct and resubmit their requests for reexamination.

C. Status of the Case

“[C]ourts which have denied stays pending reexamination proceedings have generally done so where the request for reexamination came late in the litigation, after extensive discovery or trial preparation.” Vdata, LLC., 2006 WL 3392889 at *8. With regards to the third factor, Blazek represented that it served detail claim charts, conducted and completed discovery, hired an expert who completed an expert report, and is preparing a motion for summary judgment. See Pls.’ Mem. at pp. 2-3. On the other hand, defendants argued that discovery with respect to experts is still open, no Markman hearing has been held, and trial is not scheduled until December 2010. See Defs.’ Mem. at p. 15.

While it is true that the deadline for completion of expert depositions was not until May 1, 2010 and the trial is seven months away, the fact is that this case is ready for dispositive motions.³ Fact discovery is closed, the deadline for disclosure of experts and opinions has passed, and there will be no Markman hearing. As the court noted in Ecolab, “the case has progressed through the bulk of pre-trial proceedings” and the case is ripe for disposition. See Ecolab, Inc., 2007 WL 1582677 at *2. As such, this Court finds that this factor does not weigh in favor of a stay.

D. Conclusion

In sum, while under certain circumstances a stay might be appropriate, here a stay is not appropriate based on the following evidence:

- defendants filed their requests for reexamination at the eleventh hour;

³ Indeed, Blazek has scheduled the hearing on its motion for summary judgment for September 3, 2010. See Docket Nos. 103, 104.

- defendants have not provided this Court with good reasons for waiting until the eleventh hour to file their requests for reexamination;
- defendants have done no fact or expert discovery during the pendency of the case;
- defendants have submitted no evidence bearing on claims construction and no prior art during the pendency of the case, nor requested an extension from this Court to disclose their responsive claims construction or prior art statement;
- defendants have failed to provide any real explanation, other than statistics, about the success for reexamination, and even then as it is impossible to guess how the USPTO will rule, this speculative benefit is not worth the delay; and
- the case is now ripe for disposition through a motion for summary judgment.

Where as here “there is an inexplicable or unjustified delay in seeking re-examination” and “it appears that a stay ‘will serve simply to delay proceedings,’” the motion for stay is denied. Regalo Intern., 2009 WL 2951107 at *2.

J.S.M.