

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
TYLER DIVISION**

|                                    |   |                        |
|------------------------------------|---|------------------------|
| <b>EON CORP. IP HOLDINGS, LLC,</b> | § |                        |
|                                    | § |                        |
| <b>v.</b>                          | § | <b>NO. 6:09-cv-116</b> |
|                                    | § |                        |
| <b>SENSUS USA INC, et al.</b>      | § |                        |

**MEMORANDUM OPINION & ORDER**

Before the Court is Defendant Bell Industries, Inc.’s (“Bell”) Motion to Stay Plaintiff EON Corp. IP Holdings, LLC’s (“EON”) claims against Bell pending *ex parte* reexamination of United States Patent Nos. 5,388,101 and 5,481,546 (“the patents-in-suit”) (Doc. No. 63). EON filed a response (Doc. No. 73) and Bell filed a reply (Doc. No. 79). The remaining co-defendants, Sensus USA Inc. f/k/a Sensus Metering Systems, Inc. and Vehicle Manufacturers, Inc.<sup>1</sup> have not joined in this motion. Having considered the parties’ submissions, the Court **DENIES** Bell’s motion.

**BACKGROUND**

EON previously filed suit for infringement of the patents-in-suit in September 2008. *See EON Corp. IP Holdings, LLC v. Verizon Clinton Center Drive Corp.*, No. 6:08-cv-385 (E.D. Tex). A defendant in that suit, USA Mobility, Inc. (“Mobility”), petitioned for, and the U.S. Patent and Trademark Office (“the PTO”) granted, reexamination of all claims of the patents-in-suit. Mobility moved this Court to stay that litigation pending the outcome of the reexaminations (Case No. 6:08-cv-385 Doc. No. 82). The Court denied the motion (Case No. 6:08-cv-385 Doc. No. 177). The Court found a stay would prejudice and tactically disadvantage EON while providing little benefit

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<sup>1</sup> To this point, Defendant Vehicle Manufacturers Inc. has not answered EON’s complaint or otherwise appeared before the Court. On October 30, 2009, the Clerk of the Court entered an Entry of Default against Vehicle Manufacturers Inc.

in the form of simplifying issues for trial. *Id.*

EON subsequently filed the present suit against several defendants, including Bell, in June 2009. In August 2009, the PTO rejected all of the claims of the patent-in-suit. Bell has moved the Court to stay EON's claims. In support of its motion, Bell offered to stipulate it will not challenge the validity of the patents-in-suit based on prior art considered during reexamination. Bell also offered to stipulate it will abide by the Court's claim construction order in the *Verizon* case, provided that construction is contested.

### **PARTIES' CONTENTIONS**

Bell contends a stay will not prejudice EON and will simplify issues for trial. Bell argues it no longer operates the allegedly infringing service and thus EON would not be entitled to a preliminary injunction. Similarly, Bell contends the claims against it will be eliminated if EON substantively amends the patents-in-suit during reexamination. Bell further argues its voluntary stipulations will simplify issues if the patents-in-suit survive reexamination. Finally, Bell states a stay is favored because the present case is still in its infancy and Bell did not request the reexamination as a dilatory tactic.

EON contends staying its case against Bell would necessitate an unwarranted severance and prejudice EON. EON argues severance is judicially inefficient. It further argues a stay is inappropriate because it would be indefinite and lengthy, would place EON at a tactical disadvantage, and would fail to simplify the case. Finally, EON argues the present case is no longer in its infancy.

### **LEGAL STANDARD**

“[T]he 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.” *Landis v. N. Am. Co.*, 299 U.S. 248, 254 (1936). “In deciding whether to stay litigation pending reexamination, courts typically consider: (1) whether a stay will 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.” *Soverain Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005). A “motion to stay pending reexamination filed in this Court is considered on a case-by-case basis with each cause of action presenting distinct circumstances; there exists no policy in this Court to routinely grant such motions.” *Datatreasury Corp. v. Wells Fargo & Co.*, 490 F. Supp. 2d 749, 755 (E.D. Tex. 2006).

### **DISCUSSION**

Stipulations such as the one offered by Bell have been considered in several cases. In *Premier Int’l Assocs. LLC v. Hewlett-Packard Co.*, 534 F. Supp. 2d 717 (E.D. Tex. 2008), the Court stayed the case with respect to each defendant that agreed to sign a stipulation precluding it from challenging validity based on prior art considered during the reexaminations. Likewise, in *Constellation IP, LLC v. Allstate Corp.*, No. 5:07-cv-132, 2008 U.S. Dist. LEXIS 46820, at \*16 (E.D. Tex. May 12, 2008), the Court stayed the case where the defendants had offered a similar stipulation. In a related case, *Constellation IP, LLC v. Avis Budget Group, Inc.*, No. 5:07-cv-038 (E.D. Tex. May 12, 2008), the Court denied the defendants’ motion for a stay, despite the offer of a stipulation, where the request was brought after claim construction and the close of discovery. *See also Cooper Techs. Co. v. Thomas & Betts Corp.*, No. 2:06-cv-242 (E.D. Tex. July 23, 2008) (denying motion to stay where stipulation was narrower than *inter partes* estoppel). Although a

stipulation is not a condition precedent to staying litigation, *see Spa Syspatronic, AG v. Verifone, Inc.*, No. 2:07-cv-416, 2008 U.S. Dist. LEXIS 34223, at \*14 (E.D. Tex. Apr. 24, 2008) (granting stay pending *ex parte* reexamination without requiring a stipulation); *DDR Holdings, LLC v. Hotels.Com, L.P.*, No. 2:06-cv-042 (E.D. Tex. Dec. 19, 2006) (same), they are viewed favorably by the Court. *Compare Datatresury Corp.*, 490 F. Supp. 2d at 756 (granting stay conditioned on signing of stipulation); *Antor Media Corp. v. Nokia, Inc.*, No. 2:05-cv-186, 2006 U.S. Dist. LEXIS 96777, at \*21 (E.D. Tex. Sept. 27, 2006) (same) *with Nidec Corp. v. LG Innotek Co.*, No. 6:07-cv-108, 2009 U.S. Dist. LEXIS 46123, at \*22 (E.D. Tex. Apr. 3, 2009) (denying stay in absence of a stipulation); *Cooper Techs. Co. v. Thomas & Betts Corp.*, No. 2:06-cv-242, 2008 U.S. Dist. LEXIS 25938, at \*6 (E.D. Tex. Mar. 31, 2008) (same); *Ariba, Inc. v. Emptoris, Inc.*, No. 9:07-cv-090, 2007 U.S. Dist. LEXIS 78857, at \*5 (E.D. Tex. Oct. 23, 2007) (same); *PureChoice, Inc. v. Honeywell Int'l, Inc.*, No. 2:06-cv-244, 2007 U.S. Dist. LEXIS 95706, at \*4 (E.D. Tex. Apr. 20, 2007) (same); *Biax Corp. v. Fujitsu Computer Sys. Corp.*, No. 2:06-cv-364, 2007 U.S. Dist. LEXIS 12973, at \*6 (E.D. Tex. Feb. 26, 2007) (same).

Stipulations are favored because they reduce prejudice to a plaintiff and advance the goal of simplifying issues for trial. Absent a stipulation, a defendant can reargue issues of invalidity that were considered during reexamination because an *ex parte* reexamination does not have an estoppel effect. *See Nidec*, 2009 U.S. Dist LEXIS 78857 at \*14-15. Thus, staying a case pending an *ex parte* reexamination could prejudice a plaintiff by allowing a defendant to “have two bites at the [invalidity] apple.” *Datatresury*, 490 F. Supp. 2d at 755. Furthermore, the issues before the Court would not be simplified because the Court could be burdened with considering issues that had been raised to the PTO. *Id.* Stipulations alleviate, though do not eliminate, these concerns.

Here, despite Bell's offer of a stipulation, the Court finds a stay inappropriate. Although some "delay inherent to the reexamination process does not constitute, by itself, undue prejudice," *Photoflex Products, Inc. v. Circa 3 LLC*, No. C 04-03715, 2006 WL 1440363 at \*2 (N.D. Cal. May 24, 2006), a lengthy delay can contribute to prejudice and place a plaintiff at a tactical disadvantage.<sup>2</sup> This prejudice is not wholly offset by a potential simplification of issues or a reduction in costs for the parties or the Court, and therefore a stay is unwarranted.

A stay would prejudice EON and place it at a tactical disadvantage. Despite the directive that reexaminations "be conducted with special dispatch," 35 U.S.C. § 305, an average reexamination takes over two years to complete. *EX PARTE REEXAMINATION FILING DATA - DECEMBER 31, 2008*, PL.'S EX. C. If the outcome is adverse to EON, appellate review of the decision could further delay the progress of this case. *See Orion IP, LLC v. Mercedes-Benz USA, LLC*, No. 6:05-cv-322, 2008 WL 5378040, at \*8 (E.D. Tex. Dec. 22, 2008) (noting the reexamination "process could take years.") On the other hand, if the defendants in this and the related case are not pleased with the outcome, they could subject EON to serial filings of *ex parte* reexamination requests. *See Affinity Labs of Texas v. BMW North America, LLC*, No. 9:08-cv-164 (E.D. Tex. Feb. 20, 2009) (explaining "if things do not go well at the PTO, each Defendant in turn can file a request for *ex parte* reexamination"). These delays are particularly significant in this case because Bell has alleged it is no longer involved in the allegedly infringing service. Bell has little incentive to maintain documents and employees relating to its alleged infringement, thus there is a greater concern that "witnesses may become unavailable, their memories may fade, and evidence may be lost while the

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<sup>2</sup> At some point, the delay inherent in the reexamination process may be so lengthy as to constitute prejudice by itself.

PTO proceedings take place.” *Gladish v. Tyco Toys, Inc.*, No. S-92-1666WBS/JFM, 1993 WL 625509, at \*2 (E.D. Cal. Sept. 15, 1993). These factors convince the Court that Bell’s motion would cause EON undue prejudice which weighs against granting a stay.

Furthermore, a stay is not likely to simplify the issues in this case or create any judicial efficiencies. The Court is unmoved by the fact that the PTO has initially rejected all of the claims of the patents-in-suit. “It is not uncommon for claims to be initially rejected in the re-examination process.” *Orion IP*, 2008 WL 5378040 at \*8. At the final action, all claims of a patent have been cancelled in only 11% of *ex parte* reexaminations; it is more than twice as likely that all claims will be confirmed. See *EX PARTE REEXAMINATION FILING DATA - DECEMBER 31, 2008*, PL.’S EX. C. Thus, there is a significantly probability that some or all of the claims will survive the reexamination. Although Bell’s stipulation would avoid reconsidering the same invalidity arguments as to Bell, it would not eliminate the need for the Court to consider its inequitable conduct and laches defenses. See *Enprotech Corp. v. Autotech Corp.*, 15 U.S.P.Q. 1319, 1320 (N.D. Ill. Mar. 16, 1990) (denying stay partly because the PTO would not consider inequitable conduct). Moreover, the remaining defendants in this and the related case will still confront the Court with the invalidity issues Bell’s stipulation avoids. A stipulation by and a stay of the case against only Bell does not reduce the burdens on the Court or the other parties. While a stay would presumably result in cost savings to Bell, the fact that a stay would not in a practical sense simplify the issues in this case weighs against granting a stay.

Although this case is in its early stages, it is not early as to weigh in favor of a stay. EON’s complaint against Bell was initially filed six months ago. Despite being served with a summons in June 2009, Bell did not answer until August 31, after EON had agreed to and the Court had granted

four extensions of time. The parties in this case have begun the discovery process and EON has completed its P.R. 3-1 and 3-2 disclosures. Thus, while the stage of this litigation does not weigh against granting a stay, it does not weigh in favor either.

Therefore, the Court finds the undue prejudice to EON and the absence of significant simplification of issues weigh against granting a stay. Although the third factor is neutral, on balance a stay is not appropriate.

**CONCLUSION**

For the foregoing reasons, the Court **DENIES** Bell's motion.

**So ORDERED and SIGNED this 18th day of December, 2009.**

  
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JOHN D. LOVE  
UNITED STATES MAGISTRATE JUDGE