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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

SMART MODULAR TECHNOLOGIES,
INC.,

Plaintiff and
Counterdefendant,

v.

NETLIST, INC.,

Defendant and
Counterclaimant.

No. 2:12-cv-02319-TLN-EFB

**ORDER DENYING DEFENDANT'S
MOTION TO REINSTITUTE STAY**

This matter is before the Court pursuant to Defendant and Counterclaimant Netlist, Inc.'s ("Defendant") Motion to Reinstitute Stay. (ECF No. 176.) Plaintiff and Counterdefendant Smart Modular Technologies, Inc. ("Plaintiff") filed an opposition (ECF No. 177), and Defendant has replied (ECF No. 179). For the reasons set forth below, the Court hereby DENIES Defendant's Motion to Reinstitute Stay. (ECF No. 176.)

I. FACTUAL AND PROCEDURAL BACKGROUND

Plaintiff is the assignee and owner of all rights, title, and interest in U.S. Patent Number 8,250,295 ("the '295 Patent") entitled "Multi-Rank Memory Module That Emulates A Memory Module Having A Different Number of Ranks." (ECF No. 1 at 7.) The '295 Patent was issued on August 21, 2012, by the United States Patent and Trademark Office ("PTO"). The Patent

1 involves a memory module with rank multiplication capability. It enables a memory module to
2 provide a given memory capacity using greater numbers of lower-capacity, lower-cost Dynamic
3 Random Access Memory (“DRAM”) devices, as opposed to using lower numbers of higher-
4 capacity, higher-cost-DRAM devices that would otherwise be imposed by memory controller
5 limitations. (See Compl., ECF No. 1.) The ’295 Patent is composed of eight claims. (ECF No. 1
6 at 7.) Plaintiff alleges that Defendant’s Hypercloud memory module products infringe at least
7 one of the ’295 Patent’s seven claims. (ECF No. 22 at 6.) Infringement of at least one of the
8 claims means that the entire patent is being infringed. Thus, Plaintiff alleges that Defendant is
9 infringing upon Plaintiff’s exclusive right to exclude others from making, using, offering to sell,
10 and selling articles covered by the ’295 Patent. Defendant brought counterclaims alleging that the
11 ’295 Patent is invalid. (See Answer and Countercl., ECF No. 49.)

12 On September 15, 2012, Defendant filed an inter partes reexamination (“IPR”) request
13 with the Patent and Trade Office (hereinafter “PTO”) proposing claims 1 through 7 of the ’295
14 Patent be rejected on six different combinations of prior art. (ECF No. 107.) On December 7,
15 2012, the PTO granted Defendant’s request and ordered reexamination. (Transmittal of
16 Communication to Third Party Requester IPR, ECF No. 107-3.)

17 On December 13, 2012, Defendant filed a Motion to Stay Pending Patent Reexamination.
18 (ECF No. 107.) On May 30, 2013, this Court ordered the case stayed. (ECF No. 154.) In its
19 order to stay, the Court noted: (1) the litigation was in its early stages; (2) the PTO proceedings
20 would simplify issues for trial; and (3) Plaintiff would not be unduly prejudiced by the stay.
21 (ECF No. 154.) Thereafter, on April 29, 2014, the PTO examiner issued an Action Closing
22 Prosecution (“ACP”) upholding the patentability of all seven challenged claims. (ECF No. 165.)
23 On August 4, 2015, the PTO examiner issued a Right of Appeal Notice (“RAN”) concluding the
24 reexamination and allowing Defendant to appeal to the Patent Trial and Appeal Board (“PTAB”).
25 (ECF No. 165.)

26 On November 4, 2015, Defendant filed its opening appellate brief. (ECF No. 165.)
27 Shortly thereafter, on February 25, 2016, the PTO examiner issued an answer to Defendant’s brief
28 in which the examiner incorporated the RAN and determined that there were no new grounds to

1 reject the claims of the '295 Patent. (ECF No. 165.) On May 5, 2016, Plaintiff filed a Motion to
2 Lift Stay. (ECF No. 165.) On September 20, 2016, the Court ordered the stay lifted. (ECF No.
3 173.) In its decision to lift the stay, the Court considered three factors and found the PTAB's
4 confirmation of Plaintiff's patent shifted the analysis to weigh in favor of lifting the stay.

5 On March 23, 2017, Defendant filed a Motion to Reinstitute Stay because the PTAB
6 "reversed the patent examiner's inter partes reexamination decision and rejected" claims 1
7 through 7 of the '295 Patent. (ECF No. 176 at 1.) Defendant argues because the PTAB "rejected
8 all of the asserted claims as unpatentable over the prior art," the '295 Patent should not be
9 subjected to litigation at this time to conserve the Court's and parties' resources. (ECF No. 176 at
10 2-5.)

11 II. STANDARD OF LAW

12 When patentability is at issue, 35 U.S.C. § 318 allows a party to request a stay of litigation
13 upon an order of inter partes reexamination of the patent. See *Proctor & Gamble*, 549 F.3d 842,
14 848 (Fed. Cir. 2008). "Congress instituted the reexamination process to shift the burden of
15 reexamination of patent validity from the courts to the PTO." H.R. Rep. No. 1307, 96th Cong.,
16 2d Sess., pt. 7 at 4 (1980), reprinted in 1980 U.S.C.C.A.N. 6460. Patent validity is a commonly
17 asserted defense in litigation and courts are cognizant of Congress's intention of utilizing the
18 PTO's specialized expertise to reduce costly and timely litigation." *Canady v. Erbe*
19 *Elektromedizin GmbH*, 271 F. Supp. 2d 64, 78 (D.D.C. 2002). Thus, courts have the authority to
20 order a stay pending conclusion of a PTO reexamination. *Ethicon, Inc. v. Quigg*, 849 F.2d 1422,
21 1426-27 (Fed. Cir. 1988); see also *Landis v. N. Am. Co.*, 299 U.S. 248, 254-55 (1936) (holding
22 the court's power to stay proceedings secondary to the inherent power the court has to control its
23 docket). "While courts are not required to stay judicial proceedings pending reexamination of a
24 patent, a stay for purposes of reexamination is within the district court's discretion." *Telemac*
25 *Corp. v. Teledigital, Inc.*, 450 F. Supp. 2d 1107, 1110 (N.D. Cal. 2007); see also *Medichem, S.A.*
26 *v. Rolabo, S.L.*, 353 F.3d 928, 936 (Fed. Cir. 2003) (holding a stay of proceedings in the district
27 court pending the outcome of the parallel proceedings in the PTO remains an option within the
28 district court's discretion).

1 Some courts have noted that there is a “liberal policy in favor of granting motions to stay
2 proceedings pending the outcome of USPTO reexamination.” ASCII Corp. v. STD Entm’t USA,
3 Inc., 844 F. Supp. 1378, 1381 (N.D. Cal. 1994). Other courts have recognized that a stay pending
4 reexamination must be approached with caution because it can prolong the proceeding without
5 achieving sufficient benefits. See Eakin Enters. v. Specialty Sales LLC, Civ. No. 11-02008 LJO
6 SKO, 2012 WL 2445154, at *10 (E.D. Cal. June 26, 2012). “In determining whether to stay [a]
7 case pending reexamination, the [c]ourt considers the following factors: (1) whether discovery is
8 complete and whether a trial date has been set; (2) whether a stay will simplify the issues in
9 question and trial of the case; and (3) whether a stay would unduly prejudice or present a clear
10 tactical disadvantage to the nonmoving party.” Telemac, 450 F. Supp. 2d at 1110 (citations
11 omitted).

12 III. ANALYSIS

13 Defendant argues the stay should be reinstated because the reasons for lifting the stay are
14 no longer applicable since the PTAB “reversed the patent examiner’s . . . decision and rejected all
15 asserted claims” of the ’295 Patent. (ECF No. 176 at 1.) Defendant argues the stay is necessary
16 to conserve the Court’s and parties’ resources until the PTAB makes a final ruling on the ’295
17 Patent. (ECF No. 176 at 3.) Plaintiff argues the stay should not be reinstated because the PTAB
18 has not released a final decision, thus Plaintiff “should not be precluded from enforcing its valid
19 patent against an infringing competitor.” (ECF No. 177 at 1.) Plaintiff argues the longer
20 litigation is postponed the more difficult it will be to recover redress from Defendant’s
21 infringement, thus the stay should not be reinstated to avoid prejudice to Plaintiff. (ECF No.
22 177 at 5.) The Court considers the aforementioned three Telemac factors when determining
23 whether to reinstate the stay pending reexamination. Telemac, 450 F. Supp. 2d at 1111.

24 A. Whether Discovery is Complete and Whether a Trial Date Has Been Set

25 First, the Court considers the stage of the trial and the amount of discovery conducted by
26 both parties. Defendant argues the Parties should not devote time and resources to discovery
27 when the PTAB is still reviewing the ’295 Patent’s validity. (ECF No. 176 at 3.) Because the
28 case has been stayed for over three and a half years, the case is still in its infancy and minimal

1 discovery has occurred. (Order, ECF No. 173, at 4–5; ECF No. 176 at 4.) This factor typically
2 favors granting the stay. See *AT&T Intellectual Prop. I v. Tivo, Inc.*, 744 F. Supp. 2d 1049, 1052
3 (N.D. Cal. 2011); *Target Therapeutics, Inc. v. SciMed Life Sys., Inc.*, 33 U.S.P.Q.2d 2022, 2023
4 (N.D. Cal. 1995); *ASCII Corp. v. STF Entm't USA, Inc.*, 844 F. Supp. 1378, 1381 (N.D. Cal.
5 1994). When granting a stay, the Court “must weigh competing interest and maintain an even
6 balance” between the hardship of Plaintiff and Defendant. *Landis*, 299 U.S. at 254–55.

7 Defendant strongly contends the Court should grant the stay to preserve resources and
8 time while the PTAB makes a final ruling on the ‘295 Patent. (ECF No. 176 at 3.) Unlike the
9 parties in *Telemac*, the parties here are not close to the completion of fact discovery and have
10 only undergone limited discovery for the previous motions. (ECF No. 173 at 4); *Telemac*, 450 F.
11 Supp. 2d at 1111. Plaintiff argues the length of the previous stay has only made this case more
12 complicated and as more time passes, “witnesses’ recollections will continue to fade,
13 documentary evidence possessed by the parties will require continued storage, and evidence in
14 the possession of non-parties may potentially be lost.” (ECF No. 177 at 3.) Both parties provided
15 valid considerations the Court must weigh when making this decision. *Landis*, 299 U.S. at 254–
16 55. The reasons are evenly matched such that the Court finds this factor to be neutral.

17 B. Whether a Stay Will Simplify the Issues in Question and Trial of the Case

18 The second factor asks whether a stay will allow the PTAB’s final decision to simplify the
19 issues in the case by concluding the status of the ‘295 Patent. *Telemac Corp.*, 450 F. Supp. 2d at
20 1111. Defendant argues the PTAB’s reversal of the examiner’s decision proves the PTAB’s final
21 ruling on the seven claims will determine the outcome of this case . (ECF No. 179 at 2.) The
22 PTAB concluded the original patent examiner “erred in confirming” claims 1 through 7. (ECF
23 No. 176-1, Ex. A at 31.) The PTAB presented Plaintiff with time to respond to their decision by
24 either reopening prosecution or requesting a rehearing. (ECF No. 176-1, Ex. A at 31–32.)
25 Plaintiff chose to reopen prosecution. (ECF No. 176-1, Ex. C.) Plaintiff argues they have
26 “submitted the applicable evidence and addressed the PTAB’s concerns.” (ECF No. 177 at 1.)
27 Defendant responds by arguing Plaintiff is ignoring or downplaying “the critical fact that all of
28 the claims asserted against Netlist have once again been rejected on appeal.” (ECF No. 179 at 1.)

1 In the previous order lifting the stay, the Court noted the PTAB affirms the PTO
2 examiner’s decision in a majority of cases. (ECF No. 173 at 5.) Defendant argues because “the
3 PTAB reversed the examiner’s decision” for all claims the Court’s prediction was incorrect and
4 the stay should be reinstated. (ECF No. 176 at 3.) The Court can grant a stay when
5 reexamination will “eliminate trial of that issue (when the claim is canceled) or to facilitate trial
6 of that issue by providing the district court with the expert view of the PTO (when a claim
7 survives the reexamination proceeding).” *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342
8 (Fed. Cir. 1983). Here, claims 1 through 7 are heavily contested by both parties and based on the
9 procedural history of the ’295 Patent it is difficult to determine which party will prevail during
10 the IPR. (See ECF No. 177 at 2; ECF No. 179 at 1.) The uncertainty of the claims weighs in
11 favor of granting the reinstatement of the stay. *Telemac Corp.*, 450 F. Supp. 2d at 1110–11.

12 C. Whether a Stay Would Unduly Prejudice or Present a Clear Tactical Disadvantage to
13 Plaintiff

14 Finally, the Court must consider whether the Plaintiff is unduly prejudiced if the stay is
15 reinstated. *Telemac*, 450 F. Supp. 2d at 1111. Plaintiff emphasizes the three and a half year
16 delay to the litigation and the upcoming expiration date of the ’295 patent in 2024. (ECF No. 177
17 at 5.) Defendant argues the delay is irrelevant if the ’295 Patent is deemed invalid and if the
18 patent is valid, Plaintiff can collect money damages for patent infringement. (ECF No. 179 at 3–
19 4.)

20 In the order lifting the stay, the Court addressed the difficulty in calculating money
21 damages for patent infringement. (ECF No. 173 at 6) (citing *Avago Techs. Fiber IP (Singapore)*
22 *Pte. Ltd. v. IPtronics Inc.*, No. 10-CV-02863-EJD, 2011 WL 3267768, at *5 (N.D. Cal., July 28,
23 2011).); see *Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1326–27 (Fed. Cir. 2008) (explaining
24 money damages are not always sufficient because “[t]he essential attribute of a patent grant is that
25 it provides a right to exclude competitors from infringing the patent”). Nothing in Defendant’s
26 argument changes the Court’s view of damages. Additionally, Plaintiff argues Defendant sold,
27 shipped, and profited from their HyperCloud product shortly after this litigation was filed. (ECF
28 No. 177 at 5.) “Staying a case while such harm is ongoing usually prejudices the patentee that

1 seeks timely enforcement of its right to exclude.” Avago, 2011 WL 3267768 at *5. Since money
2 damages are not always sufficient to remedy a plaintiff’s harm, the Court will consider this factor
3 in favor of not reinstating the stay.

4 Plaintiff argues only one argument remains pending before the Patent Office because
5 Defendant raised the argument “for the first time on a de novo appeal.” (ECF No. 177 at 4.) In
6 Telemac, the District Court found the defendants to be “taking tactical advantage of opportunities
7 for delay,” which appears to mirror what is happening here. Telemac, 450 F. Supp. 2d at 1111.
8 Plaintiff claims they have submitted the evidence to clear the argument brought by Defendant,
9 however, the delay will cause Plaintiff further harm. (ECF No. 177 at 4.) As Defendant
10 continues to capitalize on the contested patent, a stay will only further bar Plaintiff from
11 recovering their potential earnings. Considering this additional delay tactic the prejudice to
12 Plaintiff outweighs the Court’s desire to simplify the issues at trial. Accordingly, the factors
13 when weighed favor denying the motion to reinstate the stay.

14 **IV. CONCLUSION**

15 For the foregoing reasons, the Court finds the factors, on balance, weigh in favor of
16 denying Defendant’s Motion to Reinstate Stay. The PTAB’s decision regarding the ’295 Patent
17 will be beneficial to simplify the contested patent, however, Plaintiff is unduly prejudiced by the
18 immense delay of the litigation. Thus, Defendant’s Motion to Reinstate Stay (ECF No. 176) is
19 hereby DENIED.

20 **IT IS SO ORDERED.**

21 Dated: June 26, 2017

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24 Troy L. Nunley
25 United States District Judge
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