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5 **NOT FOR PUBLICATION**
6 **IN THE UNITED STATES DISTRICT COURT**
7 **FOR THE NORTHERN DISTRICT OF CALIFORNIA**
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9 AKEENA SOLAR INC.,

10 Plaintiff,

11 v.

12 ZEP SOLAR INC.,

13 Defendants.
14 _____/

No. C 09-05040 JSW

**ORDER DENYING PLAINTIFF'S
MOTION TO LIFT STAY**

15 **INTRODUCTION**

16 Now before the Court is Plaintiff Akeena Solar Inc.'s ("Akeena") motion to lift stay.
17 Having considered the parties' pleadings and the relevant legal authority, the Court finds the
18 matter suitable for disposition without oral argument. *See* N.D. Civ. L.R. 7-1(b). The hearing
19 set for July 8, 2011 is VACATED, and the Court HEREBY DENIES Akeena's motion.

20 **BACKGROUND**

21 On October 22, 2009, Akeena brought this action for patent infringement of U.S. Patent
22 7,406,800 (the "'800 Patent") and for a declaratory judgment of non-infringement of Defendant
23 Zep Solar, Inc.'s ("Zep") U.S. Patent No. 7,592,537 (the "'537 Patent"). On December 14,
24 2009, Zep and High Sun Technology, Inc. filed a motion to dismiss the declaratory judgement
25 claim. The Court granted the motion to dismiss on February 9, 2010, leaving only the '800
26 Patent at issue.

27 On January 27, 2010, Zep filed a petition with the U.S. Patent and Trademark Office
28 ("PTO") for *inter partes* reexamination of the '800 Patent. (Declaration of Larry Johnson in

1 Support of Defendants' Opposition to Plaintiffs' Motion to Lift Stay ("Johnson Decl."), Ex. A.)
2 The petition requested reexamination of ten of the twelve claims of the '800 Patent, including
3 the only independent claim, and was based on eleven references that Zep alleged raised
4 substantial new questions of patentability for the '800 Patent. (*Id.*) On the same day, Zep filed
5 the motion to stay. The Court granted the motion to stay litigation, pending reexamination of
6 the '800 Patent, on April 14, 2010.

7 On April 16, 2010, the PTO approved reexamination of claims 1-4, 7-9 and 11-12 of the
8 '800 Patent, but it declined to reexamine claim 10. (Declaration of Meghan Whyman Olesek in
9 Support of Plaintiff's Motion to Lift Stay ("Olesek Decl."), Ex. A.) In its first Office Action,
10 the PTO rejected claims 1-4. (*Id.*, Ex. B.) Based on subsequently filed references to the Nagao
11 prior art, the PTO rejected all nine claims of the '800 Patent under reexamination in its second
12 Office Action. (*Id.*, Ex. E.) Akeena submitted amended claims to the PTO, which the PTO
13 rejected on February 2, 2011. (*Id.*, Exs. I, K.) Neither side appealed, and the PTO issued a
14 notice of intent to Issue Reexamination Certificate on April 4, 2011, cancelling all claims under
15 reexamination. (*Id.*, Ex. L.) In light of the issuance of certification, Akeena moves to lift the
16 stay and proceed with litigation.

17 On June 7, 2011, after Akeena filed this motion, Zep filed a second request for
18 reexamination of claims 5, 6, and 10 of the '800 Patent based on the Nagao reference and seven
19 other newly submitted references. (Johnson Decl., Ex. C.) Akeena has asserted that Zep
20 infringes claim 10, but it has not asserted that Zep infringed claims 5 or 6. (Reply Br. at 3.)
21 The PTO must rule on Zep's second request within three months of Zep's June 7, 2011
22 submission. *See* 35 U.S.C. § 312(a).

23 The litigation history is brief. Prior to the initial motion to stay, the parties held a rule
24 26(f) conference, selected a method of ADR, and exchanged initial disclosures. There have
25 been no claim construction briefings filed, nor have dates been set for a Markman hearing or
26 trial. Since the Court stayed the case, the parties have filed three joint status reports.

27 The Court shall discuss additional facts as necessary in the analysis.
28

ANALYSIS

A. Legal Standards Applicable to a Motion to Lift Stay Pending Further Reexamination Proceedings.

“The same court that imposes a stay of litigation has the inherent power and discretion to lift the stay.” *Canady v. Erbe Elektromedizin GmbH*, 271 F. Supp. 2d 64, 74 (D.D.C. 2002) “When circumstances have changed such that the court’s reasons for imposing the stay no longer exist or are inappropriate, the court may lift the stay.” *Id.* When granting the stay, this Court considered the following factors: (1) the stage of the litigation, including whether discovery was completed and whether the matter had been marked for trial; (2) whether a stay would unduly prejudice or tactically disadvantage the nonmoving party; and (3) whether a stay would simplify the issues in question and streamline the trial, thereby reducing the burden of litigation on the parties and on the court. *See Methode Elecs., Inc. v. Infineon Techs. Corp.*, No. 99-21142, 2000 U.S. Dist. LEXIS 20689, at *5-6 (N.D. Cal. Aug 7, 2000). 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 Entertainment*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994).

B. Lifting the Stay is Premature.

Akeena argues that the circumstances of this case changed significantly when the PTO issued a reexamination certificate, and thus a further stay is premature unless and until the PTO grants Zep’s second reexamination request. “[T]he court may abandon its imposed stay of litigation if the circumstances that persuaded the court to impose the stay in the first place have changed *significantly*.” *See Canady* 271 F. Supp. 2d at 75 (emphasis added). A court need not wait for the PTO to issue a reexamination order to grant a stay. *See Ho Keung Tse v. Apple Inc.*, 2007 U.S. Dist. LEXIS 76521 at *5 (N.D. Cal. Oct. 4, 2007); *ASCII*, 844 F. Supp. at 1380 (granting stay even when defendant had not yet filed a request for reexamination). Although some courts have granted a motion to lift stay despite a pending reexamination request, *see Ohio Willow Wood Co. v. Alps South Corp.*, 2008 WL 4683222, at *3-4 (S.D. Ohio Oct. 21, 2008) (lifting stay after four years of litigation despite pending reexamination request); *Staples*

1 *v. Johns Manville, Inc.*, 2009 WL 2337105, at *2 (E.D. Mo. July 29, 2009) (lifting stay despite
2 a pending reexamination request because initial reexamination upheld the validity of the
3 majority of patent claims), a court is not required to lift a stay merely because the PTO has
4 decided to issue a reexamination certificate, *see Canady* 271 F. Supp. 2d at 75-76. Here,
5 litigation is still in its early stages, and the pending reexamination request may eliminate the
6 need for trial completely. Thus lifting the stay would be premature, because the circumstances
7 that led this Court to grant the stay have not changed significantly.

8 Additionally, *Ohio Willow Wood Co.* and *Staples* are distinguishable from the present
9 case because significant changes had occurred in those cases. In *Ohio Willow Wood Co.*, the
10 court lifted a stay after four years had passed, even though a reexamination request was
11 pending. 2008 WL 4683222, at *3-4. However, this case has been pending just over eighteen
12 months, and remains in its early stages. In *Staples*, the PTO upheld the validity of thirteen
13 patent claims at issue in the initial reexamination, and thus success in a subsequent
14 reexamination proceeding was less likely. 2009 WL 2337105, at *2. Here, the PTO rejected all
15 nine claims under reexamination, leaving only one claim in controversy.

16 Because the circumstances in this case do not show the kind of significant changes
17 present in *Ohio Willow Wood Co.* and *Staples*, the Court concludes it would not be appropriate
18 to lift the stay. In addition, as discussed below, the factors that initially persuaded the Court to
19 grant a stay still weigh in favor of continuing the stay.

20 **C. The Early Stage of Litigation Favors a Stay of the Patent Claim.**

21 Akeena “does not dispute the early status of this case, which has not changed
22 [significantly] during the stay.” *See Ho Keung Tse v. Apple Inc.*, 2010 WL 1838691, at *2
23 (N.D. Cal. May 3, 2010). The early stage of litigation weighs in favor of granting a stay
24 pending reexamination. *See ASCII Corp.*, 844 F. Supp. at 1381 (granting stay where parties had
25 undertaken little or no discovery and the case had not yet been set for trial); *see also Atl.*
26 *Constr. Fabrics, Inc. v. Metrochem, Inc.*, 2007 U.S. Dist. LEXIS 77205, at *5 (W.D. Wash. Oct.
27 9, 2007) (denying motion to lift stay where “no substantive events had occurred since the
28 institution of the stay”). When the initial stay was granted, no dates had been set for trial and

1 the parties had not conducted discovery beyond their initial disclosures. Over the course of the
2 stay the parties filed three joint status reports, (Docket Nos. 57-59), and the PTO rejected all
3 nine claims under reexamination, (Olesek Decl., Ex. H). However, “no briefing on claim
4 construction has been filed and no Markman hearing date or trial date has been set.” *See Ho*
5 *Keung Tse*, 2010 WL 1838691, at *2. In sum, no substantive changes have occurred over the
6 course of the stay that suggest the litigation has progressed beyond the early stages.

7 **D. A Stay Will Not Unduly Prejudice Akeena.**

8 Akeena argues that it has endured lengthy delay and continues to suffer economic harm,
9 because Zep is a direct competitor that continues to infringe on Akeena’s patent. “Patent
10 validity is a commonly asserted defense in litigation and courts are cognizant of Congress’s
11 intention of utilizing the PTO’s specialized expertise to reduce costly and timely litigation.”
12 *Canady*, 271 F. Supp. 2d at 78. Where litigation is stayed pending a decision by the PTO,
13 reexamination proceedings will be expedited to the extent possible. 37 C.F.R. § 1.535.
14 “[C]ourts have found that the delay inherent in the reexamination process does not constitute,
15 by itself, undue prejudice.” *Esco Corp. v. Berkeley Forge & Tool, Inc.*, 2009 WL 3078463, at
16 *3 (N.D. Cal. Sept. 28, 2009). Akeena’s claim that it has endured lengthy delay and continued
17 infringement applies to almost every case where reexamination is sought. *See Id.* However,
18 this is not a case where litigation has been stayed for four years pending several reexamination
19 proceedings. *See Ohio Willow Wood Co.*, 2008 WL 4683222, at *3-4. Rather it is a case where
20 one successful reexamination proceeding eliminated 90% of the claims at issue in just over
21 eighteen months, and a second proceeding might eliminate the need for litigation entirely. *See*
22 *Ho Keung Tse*, 2010 WL 1838691, at *4 (discounting prejudice where “Plaintiff . . . fails to
23 address the obvious fact that the PTO rejected all but one of his claims . . .”). Because Akeena
24 has not alleged prejudice beyond the delay inherent in the reexamination proceedings, its
25 argument is unpersuasive.
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1 Akeena also argues that Zep's second request for reexamination is dilatory and tactical.¹
2 Courts consider evidence of dilatory motives, such as when a party unduly delays in seeking
3 reexamination of a patent, to ensure that the non-moving party is not subject to clear tactical
4 disadvantage or undue prejudice. *See Methode Elecs., Inc.*, 2000 U.S. Dist. LEXIS 20689, at
5 *7. The success of an initial reexamination is given some weight when considering whether
6 subsequent requests are reasonable. *See Canady*, 271 F. Supp. 2d at 77 (noting that because
7 defendant's first request was valid, a subsequent request seemed reasonable). With respect to
8 the timing of Zep's second request, "once an order for . . . reexamination of a patent has been
9 issued," a party must wait until a reexamination certificate issues before filing a subsequent
10 request. 35 U.S.C. § 317(a). The PTO issued a Reexamination Certificate on June 7, 2011, and
11 Zep filed its second *inter partes* request later that day, the earliest date possible. (Johnson
12 Decl., Ex. C.) Given the success of the first reexamination proceeding and Zep's expeditious
13 filing of its subsequent request, it is reasonable to conclude that Zep's second request was filed
14 for substantive as opposed to dilatory or tactical purposes.

15 Additionally, Akeena argues the stay should be lifted because Zep's second
16 reexamination request is barred by statute and, thus, will be denied. "If a final decision in an
17 *inter partes* reexamination proceeding . . . is favorable to the patentability of any original . . .
18 claim of the patent, then neither that party nor its privies may thereafter request an *inter partes*
19 reexamination of any such patent claim on the basis of issues which that party or its privies
20 raised or could have raised" 35 U.S.C. § 317(b). While the patent examiner has the full
21 discretion to include any claims from the patent in reexamination, "the existence of a substantial
22 new question of patentability is not precluded by the fact that a patent . . . was previously cited
23 by or to the Office or considered by the Office." 35 U.S.C. § 303(a).

24 Here, the PTO denied Zep's initial request to reexamine claim 10 of the '800 Patent.
25 However, the PTO could not have considered the Nagao prior art when it declined to reexamine
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27 ¹ Akeena argues that Zep's opposition brief "hijacked" their motion to lift the
28 stay. (Reply Br. at 2.) Assuming *arguendo* that Zep's opposition brief is actually a cross-
motion for a new stay, Akeena has not demonstrated it could not adequately respond to Zep's
arguments within the time period in which its reply was due.

claim 10 because the Nagao reference had not been translated at that point. (*See* Olesek Decl., Ex. A.) Furthermore, the PTO's ability to consider claim 10 in light of the Nagao reference, once submitted, was merely discretionary. Even though the PTO has the exclusive authority to grant or deny Zep's second reexamination request, the argument that 35 U.S.C. § 317(b) compels the PTO to deny Zep's second *inter partes* request is not adequately supported by evidence from the record. Because Zep's second reexamination request is potentially viable, Akeena's argument is unpersuasive.

E. A Stay Will Simplify the Issues, Streamline the Trial, and Reduce the Burden of Litigation on Both the Parties and the Court.

Zep argues that if the second reexamination request is approved, further patent prosecution will simplify the issues and possibly eliminate the need for litigation entirely. The benefits of granting a stay pending reexamination include potentially narrowing the issues, reducing the complexity and length of trial, alleviating discovery problems related to prior art, and encouraging settlement or even dismissal if the patent is declared invalid. *Pegasus Dev. Corp. v. DirecTV, Inc.*, 2003 WL 21105073, at *1-2 (D. Del. May 14, 2003). Zep's record of success in reexamination suggests the possibility that the only remaining "claims involved in this litigation will either be changed or cancelled." *See Ohio Willow Wood Co.*, 2008 U.S. Dist. LEXIS 99392, at *9. Even if claim 10 survives reexamination, the PTO's expertise will narrow the scope of any remaining issues, promote settlement, and expedite further proceedings.

The Court finds that continuing the stay will further simplify the issues and streamline trial, thereby preserving the resources of the parties and the Court. If the PTO denies the petition to reexamine claim 10 of the '800 Patent, the parties may move to lift the stay.

CONCLUSION

For the foregoing reasons, the Court DENIES Akeena's motion to lift stay. The Court HEREBY ORDERS the parties to submit a joint status report regarding the status of reexamination proceedings every 120 days, or sooner if the PTO issues a final decision with

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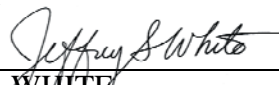
United States District Court

For the Northern District of California

respect to the '800 Patent, until the stay is lifted.

IT IS SO ORDERED.

Dated: July 7, 2011



JEFFREY S. WHITE
UNITED STATES DISTRICT JUDGE