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THE UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF NEW YORK

SOFTREND, INC.

Plaintiff,

v.

WEE SQUEAK, SCOTT BEACH, LLC d/b/a
SQUEAKERSHOES.COM, KID SQUEAKERS, LLC

Index No. 07-cv-0411 A (M)

Defendants.

DEFENDANT'S REPLY TO PLAINTIFF'S BRIEF
AND FURTHER SUPPORT OF DEFENDANT'S MOTION TO STAY THE
LITIGATION PENDING THE OUTCOME OF REEXAMINATION PROCEEDINGS

Dated: Buffalo, New York
June 5, 2008

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I. INTRODUCTION

In determining whether to grant a stay of litigation pending a patent reexamination, “courts generally consider the following 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 question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.” Xerox Corp. v. 3Com Corp., 69 F.Supp.2d 404, 406-407 (W.D.N.Y. 1999). As shown in its original moving papers and further supported herein, consideration of these factors weigh strongly in favor of granting such a stay in the instant matter.

Plaintiff opposes such a stay stating that (1) that the reexamination is lengthy and will result in certain harm to the Plaintiff, (2) the reexamination will provide no benefit to the Court or the parties, and (3) the motion to stay is a procedural tactic employed by Defendants to delay, increase costs, and introduced procedural uncertainties. Plaintiff’s arguments fail to show the necessary elements which would weigh the factors against granting a stay. A stay pending reexamination is routinely brought and granted by the courts in patent infringement matters. The purpose of the stay is to prevent the “dual track” which Plaintiff proposes. It would be wasteful to force the parties and the Court to continue to march forward with the litigation as now scheduled when the U.S. Patent and Trademark Office (hereinafter “PTO”) is highly likely to substantially modify or eliminate the claims upon which the litigation is based. Such a waste of resources for both the Courts and the parties would far outweigh any perceived prejudice suffered due to delay. As stated in Anascape, Ltd. v. Microsoft Corp., 475 F.Supp.2d 612, 615 (E.D. Tex. 2007), which Plaintiff cites in its opposition, “Courts need not expend unnecessary judicial resources by attempting to resolve claims which may be amended, eliminated or lucidly narrowed by the patent reexamination process and the expertise of its officers.”

An analysis of the three factors clearly weighs in favor for granting Defendant's motion to stay. First, although a reexamination procedure may be lengthy, "the likely length of reexamination is not, in itself, evidence of undue prejudice." Telemac Corp. v. Teledigital, Inc., 450 F.Supp.2d 1107, 1111 (N.D. Cal. 2006) Second, courts have again and again found that the PTO's expertise provides a great benefit to the court and parties by simplifying the issues in question and trial of the case. *See generally Gould v. Control Laser Corp.*, 705 F.2d 1340 (C.A.Fed. 1983). Third, Defendant did not bring the motion as a procedural tactic on the eve of trial, but rather exercised its right under 35 U.S.C. § 302 to file for a reexamination of U.S. Patent No. 5,640,788 (hereinafter, "the '788 patent"), and did so in a timely manner—six weeks after the close of mediation. *See* 35 U.S.C. § 302 ("Any person at any time may file a request for reexamination by the Office of any claim of a patent..."). Therefore, the court should grant a stay of the instant litigation pending the outcome of the reexamination of the '788 Patent.

II. A STAY WOULD NOT UNDULY PREJUDICE OR PRESENT A CLEAR TACTICAL DISADVANTAGE TO THE PLAINTIFF.

Contrary to Plaintiff's claims, a stay would not unduly prejudice or present a clear tactical disadvantage to the Plaintiff. Plaintiff claims that Defendant's motion is an attempt to hijack the proceedings and Plaintiff's choice of forum and that it is little more than tactical maneuver to undermine plaintiff interest in speedy resolution to this matter. Plaintiff has shown no support for such accusations. Defendant is simply exercising its right under 35 U.S.C. 302 to request a reexamination of a patent which because of its obviousness and non-novelty should never have been granted. When this request has been addressed by the PTO, if the patent claims survive, the instant proceedings will continue in Plaintiff's choice of forum.

Plaintiff's continual claim of prejudice due to its in interest of a "just, speedy and inexpensive" resolution to this matter rings false. Defendant participated in good faith in the

court mandated ADR program. The initial mediation session was held on March 24, 2008 and the parties reached a settlement arrangement by the end of the session. The following morning Plaintiff withdrew all offers and called off all settlement negotiations. As the next logical step in seeking a conclusive and cost effective end to this matter, Defendant filed a request for the reexamination of the patent in suit. There was only a lapse of six weeks between the failed mediation and the filing of the May 9, 2008 PTO request. In no stretch of the imagination could this six week time period be considered unduly lengthy as to constitute a delaying tactic.

Plaintiff mistakenly relies on Telemac Corp. v. Teledigital, Inc., 450 F.Supp.2d 1107 (N.D. Cal. 2006) to state that the delay in procedures weighs strongly against stay. Telemac is readily distinguishable from the matter at hand. The defendants in Telemac requested a stay more eighteen and twenty-seven months after claims were filed against them. Whereas, in this matter, a stay is being requested less than eight months after Defendant received notification of the claims, and a mere six weeks after settlement negotiations ceased. Next, the Telemac defendants' requests were initially rejected by the PTO for failure to comply with filing requirements. In contrast, the PTO has not rejected Defendant's request for reexamination of the '788 Patent. Finally, the Telemac court found that numerous factors¹ contributed to its holding that a "possibly lengthy delay would put Telemac at a clear tactical disadvantage." Id. at 1111. Plaintiff has failed to show that such parallel factors exist in the present matter and thus cannot claim undue prejudice. Further, the Telemac court while holding that a stay was not appropriate in that matter stated that "the likely length of reexamination is not, in itself, evidence of undue

¹ These factors, none of which are present in the instant matter included: defendant's failure to preserve individual records which suggested that further delay could lead to further loss of information; the PTO's finding that defendants requests for reexamination were missing necessary elements; and that defendants interrogatory answers suggested that they may lack the resources to compensate Telemac in the event of a finding of infringement.

prejudice...” Id. Plaintiff’s opposition reveals that its only claim to prejudice in this matter is that of the length of delay which cannot be considered an undue burden.

III. A STAY WILL SIMPLIFY THE ISSUES IN QUESTION AND TRIAL OF THE CASE.

Granting the present motion to stay will promote judicial economy and simplify the issues for trial. Plaintiff opposes this factor by stating that a stay will not promote judicial economy nor will it simplify or streamline the issues in this case. In support of its position, Plaintiff refers the Court to Telemac which states that the PTO cancels all claims in only 12% of reexaminations. Plaintiff fails to provide the Court with the rest of statistics cited in Telemac which are as follows:

According to the PTO’s statistics, the office granted approximately ninety-two percent of requests for reexamination in fiscal year 2004. “Statistical information regarding reexamination indicates that the PTO confirms all claims in approximately 24% of the cases, cancels all claims in approximately 12% of the cases, and changes some claims in approximately 64% of the cases.”

Id. at 1110 (internal citations omitted). Plaintiff’s opposition brief was written in such a manner as to lead the Court to believe that the ‘788 Patent had an 88% chance of emerging from the reexamination process unaltered. If this were true, Plaintiff’s claim of staying the litigation at this time would indeed have some merit. However, as shown above, statistically the PTO only confirms all the claims in a patent in 24% of the cases. This means that **more than three-fourths of the patents submitted to the PTO for reexamination are modified or cancelled.** Therefore, statistically it is highly likely that one or more of the claims of the ‘788 Patent will be altered or cancelled during the reexamination. On the merits of the reexamination request, Defendant set forth strong proof that all the claims of the ‘788 Patent should be cancelled as Plaintiff’s patent is neither novel nor original. Given these statistics and the merits of the reexamination, slating this matter for a “dual track” whereas the Court and the PTO are

examining the same issues at the same time (i.e., those dealing with validity of the patent upon which all other claims in this matter rest) would be a flagrant waste of the time and resources of the Court and of the parties.

The Plaintiff further claims that a stay will not simplify or streamline the issues in this case. In support of its position Plaintiff states that the invention at issue is “simple and straightforward and will present no technical difficulties for the resolution by this Court.” See Docket No. 38, pg 11. Plaintiff then presents two cases in support of its position: Cequent Trailer Products, Inc. v. Diversi-Tech Corp., 2008 U.S. Dist. LEXIS 24063 (N.D.N.Y. 2008) and Rosco, Inc., v. Mirror Lite Company, 2007 U.S. Dist. LEXIS 57222 (E.D.N.Y. 2007). As shown below, the facts and circumstances of both cases are entirely distinguishable from the instant matter.

In Cequent, the matter had been pending for three years, both parties had engaged in extensive discovery and motion practice, and a PTO action had not yet been initiated by the defendants. It was the combination of these circumstances which led the court to state that the possibility of a lengthy at the PTO weighed against granting a stay. These same circumstances are not present in the instant matter: 1) a PTO action was initiated by Defendant shortly after mediation failed to resolve the matter; 2) the case has been pending for less than a year; and 3) discovery is not nearing completion nor have the parties engaged in dispositive motion practice. Plaintiff also notes that the Cequent court states that the Civil Service Reform Act mandates prompt resolution of civil cases. Defendant therefore finds it necessary to note that the PTO is also under a mandate of prompt action. Section 305 states that “[a]ll reexamination proceedings under this section, including any appeal to the Board of Patent Appeals and Interferences, will be conducted with special dispatch within the Office.” 35 U.S.C § 305.

Next, Plaintiff cites the Rosco case as an exemplar where the court deemed itself in just as good position as the PTO to address the issue of validity of the patent. Once again the holding is based upon facts which are wholly incomparable to the issue at hand. In Rosco, the matter had been pending for over ten years. In fact, the matter had been tried by the ruling judge who found that Rosco had infringed the patent in suit. After this finding was issued, the Rosco litigant filed a request for reexamination of the patent with the PTO. After ten years of litigation and a five-day trial, the court found that as it was “already familiar with the outstanding issues in this case, ‘interest in simplifying the proceedings by waiting for the PTO to reexamine the patent[s] is not as strong as it might otherwise be.’” Rosco, Inc., 2007 U.S. Dist. LEXIS 57222 *5. Clearly, these facts do not mirror those before the court today. The matter has only been before court for an initial scheduling conference, has not been tried, and has not been pending for such a lengthy period. Thus, the Court cannot be expected to have the same familiarity and expertise in this matter as the Rosco.

Furthermore, Courts have repeatedly acknowledged the PTO’s expertise and its benefit to the court in determining matters of validity, which in turn will simplify the issues in question and trial of the case. See Bausch & Lomb Inc. v. Alcon Laboratories, Inc., 914 F.Supp. 951, 953 (W.D.N.Y. 1996) (the PTO is considered to have expertise in deciding issues of patentability); Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1426 (Fed. Cir. 1988) (the reexamination process is advantageous because it allows the validity of a patent to be tested under the expertise of the PTO at a reduced cost); Gould, 705 F.2d 1340, 1342 (one purpose of reexamination is to eliminate or assist trial of an issue by providing the district court with the PTO’s expertise); Anascape, Ltd, 475 F.Supp.2d 612 (reexamination of patent validity in the PTO is a useful and necessary alternative for challengers to test the validity of patents in an efficient and relatively

inexpensive manner). Thus, the outcome of the pending reexamination of the '788 Patent will simply the issues for trial and assist to conserve the resources of the Court and the parties.

IV. A STAY IS TIMELY AS DISCOVERY IS NOT NEARING COMPLETION AND A TRIAL DATE HAS NOT BEEN SET.

The stage of the litigation in the current matter is not as far progressed as Plaintiff would lead this Court to believe and, therefore, this motion to stay has been brought in a timely manner. Courts in weighing this factor consider the stage of litigation as to “whether discovery is complete and whether a trial date has been set.” Xerox Corp., 69 F.Supp.2d at 406-407. In fact, in the Western District of New York, the court has granted such a stay when fact discovery was complete and a trial date was set. See Bausch & Lomb Inc., 914 F.Supp. 951.

A careful review of the Court’s Scheduling Order will reveal that in contrast to Plaintiff’s claim, discovery is not nearing completion and the deadline for such is September 29, 2008. Plaintiff states that Defendants have put forth no burden to completing discovery in a dual track during the PTO reexamination. Defendant clearly states now that such a dual track would indeed be burdensome. More particularly, the parties have scheduled the following depositions, all of which involve out-of-state deponents: Deposition of Doug Wike (Texas resident) for Defendant Wee Squeak on June 19, Deposition of Pamela Wike (Texas resident) for Defendant Wee Squeak on June 20; Deposition of Kendra Estrada (Texas resident) for Defendant Wee Squeak on June 26; Deposition of 30(b)(6) witness for Defendant Wee Squeak on June 25; Deposition of Brady McClary (Illinois resident) for Defendant Kid Squeakers on June 30; and Deposition of Maqsood Thange (upon information and belief, New Jersey resident) for Plaintiff on June 27, 2008.

As the PTO reexamination process has been initiated, it would be burdensome and costly to go complete the out-of-state depositions as scheduled, to complete the fact discovery, to set

forth claim construction, to retain experts and technical personnel, to make dispositive motions only to have such efforts be nullified when the PTO revises or invalidates the claims of the '788 Patent. All such efforts would need to be duplicated to reflect the revisions. This would be a waste of time and resources for not only the parties but for the Court as well. Defendant does not deny that it must expend time and resources to complete this litigation, but a duplication of its efforts is unnecessary and could be eliminated by a stay of the litigation pending the PTO's reexamination of the '788 Patent.

As to the court's denial of a stay in Genoa Color Technologies, Ltd. v. Samsung Electronics America, Inc., Slip Copy, 2008 WL 754681 (S.D.N.Y. 2008) as set forth by Plaintiff, the stay was denied without prejudice when the court found that "the prejudice to plaintiff in granting a stay appears ... to be substantial." Id. at *1. The ruling in this case is short (one page) and is void of the facts and circumstances surrounding such a holding that are necessary to compare or contrast it to the case at hand. Plaintiff simply piggybacks on this matter stating that if the Genoa court found that the litigant would be unduly prejudiced, then it would be unduly prejudiced as well. As discovery remains in its initial stages, the motion to stay is timely and will not unduly prejudice the Plaintiff.

V. CONCLUSION

Plaintiff has failed to set forth any facts or circumstances which would outweigh those in favor of granting this stay. Allowing "dual track" proceedings will greatly prejudice the out-of-state Defendants as well as waste the Court's time and resources. Moreover, "there is a liberal policy in favor of granting motions to stay proceedings pending the outcome of USPTO's reexamination or reissuance proceedings." ASCII Corp. v. STD Entertainment USA, Inc., 844 F.Supp. 1378, 1381 (N.D.Cal.1994); *See also* Sorensen ex rel. Sorensen Research and Development Trust v. Black and Decker Corp., Slip Copy, 2007 WL 2696590 (S.D.Cal. 2007);

Braintree Laboratories, Inc. v. Nephro-Tech, Inc., 1997 WL 94237, 1997 U.S. Dist. LEXIS 2372 (D.Kan. 1997); Photoflex Products, Inc. v. Circa 3 LLC, No. C 04-03715 JSW, 2006 U.S. Dist. LEXIS 37743 (N.D.Cal. May 24, 2006); Robert H. Harris Co. v. Metal Mfg. Co., 19 U.S.P.Q.2d 1786, 1788 (E.D.Ark.1991) (“[t]he legislative history surrounding the establishment of the reexamination proceeding evinces congressional approval of district courts liberally granting stays”). The three factors shown above weigh in favor of the court allowing such a stay in the present matter. Therefore, Defendant Wee Squeak respectfully requests that the Court order this case stayed pending completion of the PTO’s ongoing reexamination of the ‘788 Patent.

Dated: Buffalo, New York
June 5, 2008

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Index No. 07-cv-0411 A (M)

Defendants.

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of June, 2008, I electronically filed the foregoing Defendant's Reply to Plaintiff's Brief and Further Support of Defendant's Motion to Stay the Litigation Pending the Outcome of Reexamination Proceedings with the Clerk of the District Court using its CM/ECF system, which would then electronically notify the following CM/ECF participants in this case:

1. Dariush Keyhani, Esq. dkeyhani@meredithkeyhani.com

Dated: Buffalo, New York
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