

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

OUT RAGE, LLC,

Plaintiff,

v.

NEW ARCHERY PRODUCTS CORP.,

Defendant.

OPINION AND ORDER

11-cv-701-bbc

In this civil action, plaintiff Out Rage, LLC alleges, among other things, that defendant New Archery Products Corp.'s mechanical arrowheads infringed plaintiff's United States Patent No. 6,626,776 ('776 patent). Defendant filed counterclaims for infringement and unfair competition in this court, as well as a request with the United States Patent and Trademark Office for inter partes reexamination of the '776 patent under 35 U.S.C. § 315. The examiner granted defendant's petition for reexamination of seven of the eight claims in the '776 patent and rejected each of those claims as unpatentable in light of prior art. Plaintiff must now re prosecute those seven claims. 35 U.S.C. § 312, 314.

The case is before the court on defendant's motion to stay plaintiff's infringement claims pending the outcome of the reexamination of plaintiff's '776 patent. Dkt. #42. After

reviewing the pleadings and the materials that the parties submitted relating to the ongoing reexamination, I will grant defendant's motion for a partial stay of all claims and counterclaims relating to the '776 patent.

BACKGROUND

On October 12, 2011, plaintiff filed its initial complaint, alleging a single count of infringement of the '776 patent. Dkt. #1. The '776 patent concerns a mechanical arrowhead with blades that expand after striking its target. It includes eight claims, of which claim 1 is the only independent claim.

On December 14, 2011, defendant filed the request for inter partes reexamination of all eight claims in the '776 patent. Dkt. #44-2. Defendant identified five examples of prior art, four of which were not referred to in the prosecution of the '776 patent. The next day, defendant filed its answer, asserting twelve counterclaims, including requests for declaratory judgment of non-infringement, invalidity and equitable estoppel relating to the '776 patent; a claim to correct inventorship of the '776 patent; claims for patent infringement regarding three of defendant's patents relating to mechanical arrowheads; claims for trademark infringement, unfair competition and false advertising under the Lanham Act; and claims for unfair competition under Illinois law. Dkt. #17.

On January 13, 2012, Magistrate Judge Stephen Crocker entered the preliminary

pretrial conference order, setting the deadline to amend the pleadings as March 16, 2012, the dispositive motion deadline as October 9, 2012, and the trial date as April 8, 2013.

On February 1, the patent examiner granted defendant's petition for inter partes reexamination of claims 1 through 5, 7 and 8 of the '776 patent and rejected each as unpatentable in light of prior art. He declined to reexamine claim 6. He told plaintiff that it had two months to respond or file a petition for an extension of time.

On February 2, 2012, pursuant to the court's scheduling order, plaintiff submitted its infringement contentions, claiming that three of defendant's products infringed claims 1 through 7 of the '776 patent and a fourth product infringed claims 1, 2, 3, 7 and 8. On February 14, defendant filed its motion for a partial stay of this litigation with respect to plaintiff's '776 infringement claim or, in the alternative, for a stay of the entire case.

Plaintiff filed its first amended complaint on March 2, 2012, within the allotted time to amend the pleadings. Dkt. #50. The amended complaint includes the same allegations about the '776 patent and adds 17 new claims, including infringement of two additional patents relating to mechanical arrowheads, United States Patents No. 6,669,586 ('586 patent) and No. 6,942,588 ('588 patent). Plaintiff seeks declaratory judgments of non-infringement, invalidity and equitable estoppel as to each of defendant's three asserted patents and declaratory judgments that plaintiff has not engaged in trademark infringement, unfair competition, deceptive trade practices or false advertising under the Lanham Act or

Illinois law.

OPINION

The inter partes reexamination procedure allows third parties to ask the Patent and Trademark Office to reconsider the validity of a patent in light of prior art. 35 U.S.C. § 315. The patent examiner grants reexamination if the requester shows that there is “a reasonable likelihood that the requester would prevail,” and the examiner may accompany its reexamination order with an initial action on the merits of the reexamination. 35 U.S.C. § 313. The reexamination then proceeds according to the procedures for an initial examination, 35 U.S.C. § 313(a), although the statute directs the patent office to perform reexaminations and appeals with “special dispatch.” 35 U.S.C. § 313(c).

It is within the court’s inherent power to stay proceedings pending reexamination of an asserted patent, in the interests of efficiency for the litigants, counsel and the court. Cherokee Nation of Oklahoma v. United States, 124 F.3d 1413, 1416 (Fed. Cir. 1997) (citing Landis v. North American Co., 299 U.S. 248, 254-55 (1936)). When considering whether to impose a stay, the court must “balance interests favoring a stay against interests frustrated by the action,” Cherokee Nation, 124 F.3d at 1416, while keeping in mind the “virtually unflagging obligation of federal courts to exercise jurisdiction” in cases properly before them, absent “exceptional circumstances.” Colorado River Water Conservation Dist.

v. United States, 424 U.S. 800, 817 (1976); R.R. Street & Co. v. Vulcan Materials Co., 569 F.3d 711, 715 (7th Cir. 2009). As I explained in Grice Engineering, Inc. v. JG Innovations, Inc., 691 F. Supp. 2d 915 (W.D. Wis. 2010), courts analyzing this balance often consider

(1) whether the litigation is at an early stage; (2) whether a stay will unduly prejudice or tactically disadvantage the non-moving party; (3) whether a stay will simplify the issues in question and streamline the trial; and (4) whether a stay will reduce the burden of litigation on the parties and on the court.

Id. at 920 (citations omitted). As the moving party, defendant has the burden to show that circumstances justify a stay. Nken v. Holder, 129 S. Ct. 1749, 1761 (2009).

This case has been pending for four months but the parties' disagreement about the proper forum delayed its progress. Plaintiff filed its reply to the counterclaims on April 2, 2012. Discovery has only just begun, and no dispositive motions have been filed. The nascent status favors a stay.

The reexamination of the '776 patent will not resolve this case, because the case also involves five other patent infringement claims, a trademark claim and unfair competition claims under state and federal law. However, reexamination will simplify issues in this case. Whatever its outcome, it will facilitate resolution of plaintiff's claim for infringement of the '776 patent and defendant's invalidity counterclaim. As the Court of Appeals for the Federal Circuit has recognized,

[o]ne purpose of the reexamination procedure is to eliminate trial of [the issue of patent claim validity] (when the claim is canceled) or to facilitate trial of that issue

by providing the district court with the expert view of the PTO (when a claim survives the reexamination proceeding).

Gould v. Control Laser Corp., 705 F.2d 1340, 1342 (Fed. Cir. 1983). Congress intended reexamination as an efficient and inexpensive alternative for resolving validity issues, even after infringement litigation begins. Id. (citing H.R. Rep. No. 1307 (1980), reprinted in 1980 U.S.C.C.A.N., 6460, 6463 (acknowledging desirability of courts using their inherent power to stay infringement cases pending reexamination)). Shifting validity issues to the Patent and Trademark Office has several advantages, including: (1) the benefit to the court of the examiner's expert analysis of the prior art; (2) the possibility that the outcome of the reexamination will encourage settlement; (3) the limitation of issues, defenses and evidence following reexamination; and (4) the likely reduction of costs for the parties and the court. Emhart Industries, Inc. v. Sankyo Seiki Manufacturing Co., 3 U.S.P.Q.2d 1889, 1890 (N.D. Ill. 1987). Furthermore, the results of the reexamination proceeding will be binding on defendant in this litigation. 35 U.S.C. § 315 ("A third-party requester . . . is estopped from asserting . . . the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the inter partes reexamination proceedings."). I do not find persuasive plaintiff's conclusory assertion that another round of litigation on the '776 claim will involve burdensome overlapping discovery.

In contrast, allowing plaintiff to pursue its ‘776 claims while the reexamination procedure proceeds may substantially increase the burdens of this litigation. The examiner has granted the request for reexamination and made an initial determination that seven claims in the ‘776 patent are invalid. These seven claims are likely to change during the reexamination. In the last quarter of 2011, only 11% of inter partes reexaminations resulted in a certificate confirming all claims, but 44% resulted in the cancellation of all claims and 45% resulted in amended claims. USPTO Inter Partes Reexamination Filing Data, dkt. #44-13. It would be a waste of this court’s and the parties’ time and resources if the case proceeded through claims construction and summary judgment on the ‘776 claims, only to have the plaintiff amend the claims or the examiner determine the claims are invalid.

Even if these seven claims do not change, plaintiff may make prosecution disclaimers that bear on the construction of the ‘776 claims. Krippelz v. Ford Motor Co., 667 F.3d 1261, 1266 (Fed. Cir. 2012) (proper to construe claims in light of patentee’s statements during reexamination that was initiated and completed while case was pending). The sole remaining claim, claim 6, is a dependent claim and shares a term in common with two of the claims under examination.

Finally, a partial stay of the ‘776 claims case will not unduly prejudice or tactically disadvantage plaintiff. A partial stay will permit plaintiff to assert its remaining two patents and resolve the question of its liability for patent and trademark infringement. Admittedly,

a partial stay will delay plaintiff's recovery for any of defendant's alleged infringement of the '776 claims, and the average pendency of an inter partes reexamination is 36.2 months. However, the claims in the '776 patent do not appear particularly complex, the reexamination involves only five prior art references and the examiner has been efficient so far. If the examiner were to confirm the claims as patentable without "substantive changes," plaintiff can recover any damages caused by defendant's ongoing manufacture of infringing products. Marine Polymer Technologies, Inc. v. HemCon, Inc., -- F.3d --, 2012 WL 858700 at **9-10 (Fed. Cir. 2012). Plaintiff is not likely to suffer irreparable harm while the '776 claims are stayed; the accused products have been on the market for several years and plaintiff has not requested a preliminary injunction. In the meantime, the partial stay will permit a speedy resolution of the parties' remaining patent, trademark and unfair competition claims, which are properly before the court.

Because the reexamination procedure will advance judicial economy by simplifying or resolving issues in this case and because a partial stay would not unduly prejudice plaintiff, I will grant defendant's motion for a partial stay of claims relating to the '776 patent, including plaintiff's count 1 and defendant's counterclaims 1 through 4.

ORDER

IT IS ORDERED that the motion to stay plaintiff Out Rage LLC's claims pending

reexamination of the '776 patent, dkt. #42, filed by defendant New Archery Products Corp.'s is GRANTED. Plaintiff's count 1 and defendant's counterclaims 1, 2, 3 and 4 are STAYED. In all other respects, the case will proceed according to the Amended Scheduling Order entered March 21, 2012.

Entered this 9th day of April, 2012.

BY THE COURT:

/s/

BARBARA B. CRABB

District Judge