

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

Intellectual Ventures II LLC,

Plaintiff,

v.

Kemper Corporation et al.,

Defendants.

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Case No. 6:16-cv-0081

MEMORANDUM OPINION AND ORDER

Before the Court is Defendant Kemper Corporation’s Motion to Stay (Dkt. No. 35, the “Motion”). The Court held oral argument on the Motion on September 27, 2016. Having carefully considered the parties’ submissions and oral arguments, the Court is of the opinion that the Motion should be **DENIED**.

I. Background

On February 23, 2016, Intellectual Ventures II LLC (“IV”) filed this action against Kemper Corporation and other Kemper related entities. The Complaint alleges that Defendants infringe two patents, U.S. Patent No. 6,516,442 (“the ’442 patent”) and U.S. Patent No. 7,516,177 (“the ’177 patent”).

In the Motion, the Defendants urge a stay of the entire case covering both the ’442 and ’177 patents. The ’442 patent is also being asserted by IV against EMC Corporation (“EMC”) in the related case *Intellectual Ventures I, LLC v. Lenovo Group Ltd.*, No. 1:16-cv-10860 (D. Mass.) (“the EMC case”) in the District of Massachusetts. In the EMC case, IV asserts that EMC infringes the ’442 patent by making, using, offering for sale and/or selling in the United

States certain products and/or services, including without limitation VMAX storage arrays. According to the Defendants, the Court should stay proceedings pursuant to the customer-suit exception because it would be more efficient for the concurrent litigation against EMC, the manufacturer of the accused product, to proceed first. (Dkt. No. 35 at 8–14.)

Regarding the '177 patent, Defendants argue that the Court should implement a stay in light of an instituted *Inter Partes* Review (“IPR”) petitions. IV also asserts the '177 patent against BITCO in the related case *Intellectual Ventures II LLC v. BITCO Gen. Ins. Corp.*, 6:15-cv-59 (E.D. Tex.) (“the BITCO case”). The BITCO Defendants filed four petitions for *inter partes* review of claims 11-20 of the '177 patent. On February 9, 2016, the United States Patent Office (“PTO”) instituted review on two of the IPR petitions covering claims 11-13 and 15-20 of the '177 patent. Claim 14 survived each attempt. As a result of these pending IPR proceedings, the Court ordered a stay in the BITCO case. See *Intellectual Ventures II LLC v. BITCO Gen. Ins. Corp.*, No. 6:15-cv-59, Dkt. No. 145 (E.D. Tex. May 12, 2016). Notably, in its briefing, Defendants agree to a “limited estoppel,” *i.e.*, to be estopped by the BITCO IPRs as well as all other pending IPRs as a condition of the stay “only so far as Kemper will not be permitted to raise in litigation for each challenged claim the specific ground(s) upon which those IPRs were instituted to cover each challenged claim.” (Dkt. No. 51 at 2.)

The Court previously considered Defendant’s Motion. After hearing oral argument from the parties and carefully considering the written submissions of the parties, the Court (1) severed all claims against Defendants concerning the '442 patent into a separate cause of action in the interest of judicial economy; (2) carried the remainder of the Motion; (3) and ordered a joint status conference to be held on Monday, October 17, 2016 at 3:00 p.m. in Marshall, Texas to discuss coordination of this case and the related case *Intellectual Ventures I LLC v. HCC*

Insurance Holdings, Inc. et al., No. 6:15-cv-660-JRG-KNM (the “HCC case”). (See Dkt. No. 55) Shortly after the status conference, HCC filed an Unopposed Motion to Stay Pending *Inter Partes* review in which HCC agreed to be fully bound by the outcome of the BITCO IPR proceedings. Defendants have not agreed to be fully bound in the same way, but have agreed to be bound only through the limited estoppel it proposes in their briefing. On October 26, 2016, Magistrate Judge Mitchell granted that motion staying the *HCC* case pending final written decisions from the PTAB on BITCO’s IPR petitions. (Dkt. No. 126, HCC case)

The remainder of the Motion—whether a stay of this case is warranted absent an agreement from Defendants to be fully bound by the BITCO IPR proceedings—is the issue to which the Court now turns.

II. Analysis

The decision to implement a stay lies within the clear and sound discretion of the District Court. A district court has the inherent power to control its own docket, including the power to stay proceedings before it. See *Clinton v. Jones*, 520 U.S. 681, 706 (1997) (“The District Court has broad discretion to stay proceedings as an incident to its power to control its own docket.”); *Murata Mach. USA v. Daifuku Co.*, No. 2015-2094, 2016 WL 4073320, at *3 (Fed. Cir. Aug. 1, 2016) (“The ability to stay cases is an exercise of a court's inherent power to manage its own docket.”). District courts typically consider three factors when determining whether to grant a stay: (1) whether the stay will unduly prejudice or present a tactical disadvantage to the nonmoving party, (2) the stage of the proceedings, including whether discovery is complete and a trial date has been set, and (3) whether the stay will likely simplify the issues before the court. See *Murata Mach.*, 2016 WL 4073320 at *3; *Lennon Image Techs., LLC v. Macy's Retail Holdings, Inc.*, 2014 WL 4652117, at *2 (E.D. Tex. Sept. 17, 2014). The Court may also

balance considerations outside of those captured in the three-factor stay test. *Murata Mach. USA v. Daifuku Co.*, No. 2015-2094, 2016 WL 4073320, at *4.

Any party other than the patent owner may file a petition to institute IPR to establish that patent claims are invalid under 35 U.S.C. §§ 102 and/or 103. 35 U.S.C. §§ 311(a)–(b). In filing a petition, the petitioner may only rely only on prior art “patents or printed publications.” 35 U.S.C. § 311(b). However, 35 U.S.C. § 315 estops only the petitioner from again raising prior art before the PTO. With respect to a stay pending an instituted third-party IPR, the Court has the inherent power to condition a stay on agreement to be bound as if the proponent of the stay had filed the IPR. *See Tire Hanger Corp. v. My Car Guy Concierge Servs. Inc.*, No. 5:14-CV-00549-ODW, 2015 WL 857888, at *3 (C.D. Cal. Feb. 27, 2015)

1. Issue Simplification

Often, “the most important factor bearing on whether to grant a stay in this case is the prospect that the *inter partes* review proceeding will result in simplification of issues before the Court.” *NFC Techs. LLC v. HTC America, Inc.*, 2015 WL 1069111, at *4 (E.D. Tex.) (Bryson, J.). In the case of a stay pending an instituted IPR, the benefits of a stay directly relate to the degree and effect an estoppel would have on subsequent litigation in the district court. “When IPR is instituted on all asserted claims and when all defendants are bound by the estoppel provisions of 35 U.S.C. § 315, this factor generally favors a stay.” *SSL Servs., LLC v. Cisco Sys., Inc.*, No. 2:15-CV-433-JRG-RSP, 2016 WL 3523871, at *3 (E.D. Tex. June 28, 2016).

In this case, the Patent Office (“PTO”) has not instituted review on all of the asserted claims nor have defendants agreed to be bound by the estoppel provisions of 35 U.S.C. § 315 as would the petitioner. Here, the question is whether an instituted IPR covering *some* asserted

claims and an agreement to a *limited* estoppel meaningfully simplifies the issues before the Court.

District courts have approached this issue of a conditioning a stay on an estoppel differently. Some courts, under a first approach, have not required that parties abide to any sort of estoppel as a condition of a stay. *See, e.g., Intellectual Ventures II LLC v. Huntington Bancshares Inc.*, 2014 WL 2589420, *4 (S.D. Ohio 2014); *Intellectual Ventures II LLC v. SunTrust Banks, Inc.*, 2014 WL 5019911, at *2–3 (N.D. Ga. Oct. 7, 2014). Other courts, under a second approach, will stay a case conditioned on an estoppel more limited than that provided by 35 U.S.C. § 315(e), akin to the limited estoppel Defendants will agree to in this case. *See, e.g., E.Digital Corporation v. Arcsoft, Inc.*, 2016 WL 452152, *2 (S.D. Cal. 2016). Finally, other courts have required that an accused infringer seeking to obtain the benefit of a stay should agree to be bound by the estoppel effect of 35 U.S.C. § 315(e). *See, e.g., In re CTP Innovations, LLC*, 2015 WL 317149, *2 (D. Md. 2015) (“If a Defendant believes its counsel can do a better job of advocacy than the Manufacturers, it should forego the benefit of a stay and have its own counsel exercise their skills to re-litigate issues that the Manufacturers may have lost in the PTAB.”); *PersonalWeb Techs., LLC v. Facebook, Inc.*, 2014 WL 116340, at *6 (N.D. Cal. Jan. 13, 2014) (“This grant is contingent on each defendant’s agreement to be bound by the same estoppel that limits IPR petitioners as set forth by 35 U.S.C. § 315(e).”).

This Court agrees with the last approach. The Court also notes that the limited estoppel proposed by Defendants may not actually simplify the issues at all. Petitioners may use only patents or printed publications in IPR proceedings. Therefore, regardless of any estoppel, defendants have considerable latitude in using prior art systems (for example, software) embodying the same patents or printed publications placed before the PTO in IPR proceedings.

See 01 Communique Lab., Inc. v. Citrix Sys., Inc., 151 F. Supp. 3d 778, 797–99 (N.D. Ohio 2015) (discussing limitations of 35 U.S.C. § 315(c)); *ACCO Brands, Inc. v. PC Guardian Anti-Theft Prods., Inc.*, 592 F. Supp. 2d 1208, 1217–18 (N.D. Cal. 2008) (same). This ability to raise such prior art systems in a subsequent district court litigation is always present. However, barring an estoppel agreement commensurate with that of the statute, defendants can go one step farther. Parties would be free to rehash many of the same invalidity arguments based on references already considered by the PTO in the IPR proceedings. For example, under the limited estoppel proposed here, Defendants could raise new obvious combinations using old prior art the PTO considered, provided at least one new (perhaps inane) reference not previously considered by the PTO is used to meet one claim element. This would not simplify the case; rather, it very well might complicate the case, by precipitating a dispute as to whether such a combination fell within the carefully worded limited estoppel, *i.e.*, whether such combination fell within “a specific ground(s) upon which those IPRs were instituted.” Such a dispute would either add to the issues before the Court or render the estoppel effect meaningless. Either way, a full statutory estoppel would avoid such disputes, but, as some have called it, “estoppel light” would not. The absence of a full statutory estoppel not only increases the ability of litigants to “game the system” and devise an unfair second bite at the apple, it also has the potential to increase rather than reduce the complexity of the validity issues that may come before the Court.

In sum, Defendants have not shown the Court that a limited estoppel—the most they will agree to—will greatly and necessarily simplify the issues in this litigation. Such is their burden. Moreover, since the PTO has expressly declined to institute IPR proceedings on claim 14 of the ’177 patent, the litigation here is likely to proceed regardless of the outcome before the PTAB.

On balance, absent a stronger estoppel provision, this factor is neutral or weighs slightly against a stay.

2. Undue Prejudice

Plaintiff argues, as it did in the *BITCO* case, that a stay would cause it prejudice because it would delay enforcement of its patents. (Dkt. No. 49 at 9.) Plaintiff is a licensing entity and only seeks a monetary remedy for infringement. A delay in enforcing Plaintiff's patent rights, however long, would only serve to defer a potential damages award. As this Court stated in the *BITCO* case, "while a delay in enforcement of patent rights is certainly an interest entitled to weight, 'that factor is present in every case in which a patentee resists a stay, and it is therefore not sufficient, standing alone, to defeat a stay motion.'" (Dkt. No. 145 at 4, *BITCO* case (quoting *NFC Techs.*, 2015 WL 1069111, at *2)).

However, as Plaintiff points out, there is an additional prejudice present in this case which was not present in the *BITCO* case: the lack of a statutory estoppel. Plaintiff argues that the lack of statutory estoppel tips the prejudice factor against a stay, because without an estoppel binding Kemper to the full extent of 35 U.S.C. § 315, Kemper could retain the right to present a nearly full-blown prior art case for the Asserted Patents after the stay lifts. (Dkt. No. 49 at 10.) The Court agrees, for the reasons explained above. This factor weighs against a stay.

3. The Stage Of The Proceedings

Kemper filed its motion to stay promptly on June 22, 2016, eight days before the scheduling conference in this case. Thus, at the time Defendants filed the Motion, few deadlines had been reached in this case. This factor weighs in favor of a stay.


III. Conclusion

"The party requesting a stay bears the burden of showing that the circumstances justify an exercise of that discretion." *Nken v. Holder*, 556 U.S. 418, 433–34 (2009). On balance, the

factors are either neutral or weigh slightly against a stay. Defendants have failed to meet their burden, and given the totality of the above, the Court is not persuaded that it should exercise its discretion to stay this proceeding.

Accordingly, Kemper's Motion to Stay should be and is hereby **DENIED**.

So ORDERED and SIGNED this 7th day of November, 2016.



RODNEY GILSTRAP
UNITED STATES DISTRICT JUDGE