

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
WICHITA FALLS DIVISION

NEWCO ENTERPRISES, LLC,
Plaintiff/Counter-Defendant,

v.

SUPER HEATERS NORTH DAKOTA,
LLC,
Defendant/Counter-Claimant,

SUPER HEATERS, LLC and
HEAT ON-THE-FLY, LLC,
Third-Party Plaintiffs,

v.

RONALD CHANDLER, SUPERTHERM
HEATING SERVICES, LLC, and
CHANDLER MFG., LLC,
Third-Party Defendants.

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Civil Action No. 7:14-cv-00087-O

ORDER

Before the Court are Plaintiff Newco Enterprises, LLC ("Newco") and Third-Party Defendants Ronald Chandler ("Ronald Chandler"), SuperTherm Fluid Heating Services, LLC ("SuperTherm"), and Chandler Mfg., LLC's ("Chandler Mfg.") (collectively, "Chandler Parties") Motion to Stay, or in the Alternative, Motion to Amend Scheduling Order and Brief and Appendix in Support (ECF Nos. 40-42), filed January 6, 2015; Defendant Super Heaters North Dakota, LLC ("SHND") and Third-Party Plaintiffs Super Heaters, LLC ("SH") and Heat On-The-Fly, LLC's

(“HOTF”) (collectively, “Super Heaters Parties”) Response and Appendix in Support (ECF Nos. 46–47), filed January 14, 2015; and Chandler Parties’ Reply (ECF No. 51), filed January 19, 2015. Having considered the motion, related briefing, and applicable law, the Court finds that it should be and is hereby **DENIED**.

I. BACKGROUND

Plaintiff Newco initiated a breach of contract action against Defendant SHND in the District Court for the 30th Judicial District of Wichita County, Texas. *See* Notice Removal Ex. D-1 (Original Pet.), ECF No. 1. According to the Original Petition, both entities agreed, under “The Purchase, Use and License Agreement,” that Newco would sell Oil-Fired Frac Water Heaters exclusively to SHND, that Newco would have the exclusive right to use these water heaters, and that SHND would pay a monthly royalty to Newco. *Id.* at 2–3. Newco alleged that SHND failed to pay royalties due under the contract, and Newco sought damages and declaratory relief. *Id.* at 6.

On July 18, 2014, the Super Heaters Parties filed their Original Counterclaim and Third-Party Petition, alleging breach of contract (Count I) and asserting claims arising under patent law (Counts II–IV). Notice Removal 2–3, ECF No. 1. The Super Heaters Parties asserted claims for correction of inventorship of U.S. Patent No. 8,534,235 (“the ’235 Patent”) under 35 U.S.C. § 256 (Count II); for direct infringement of the ’235 Patent under 35 U.S.C. § 271 (Count III); and for inducing infringement of U.S. Patent No. 8,171,993 (“the ’993 Patent”) under 35 U.S.C. § 271 (Count IV). *See* Notice Removal Ex. D-7 (Original Countercl. & Third-Party Pet.), ECF No. 1. The claims arose from the Chandler Parties’ manufacturing and sale of water heaters to competitors of the Super Heaters Parties in breach of the contract. Notice Removal 3, ECF No. 1.

The action was removed to this Court on July 25, 2014. *See id.* On December 19, 2014, the

Court granted the Super Heaters Parties' motion to amend their Original Counterclaim and Third-Party Petition to add claims for direct and induced patent infringement against Chandler Mfg. and SuperTherm. *See* Order, Dec. 19, 2014, ECF No. 32.

The Chandler Parties now move to stay the case or alternatively to amend the scheduling order. *See* Chandler Parties' Mot. Stay, ECF No. 40; Scheduling Order, Aug. 29, 2014, ECF No. 17. The motion has been fully briefed and is ripe for determination.

I. LEGAL STANDARD

“The district court has the inherent power to control its own docket, including the power to stay proceedings.” *Soverain Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d 660, 662 (E.D. Tex. 2005) (citing *Landis v. N. Am. Co.*, 299 U.S. 248, 254 (1936)). “In the exercise of a sound discretion [the district court] may hold one lawsuit in abeyance to abide the outcome of another, especially where the parties and the issues are the same.” *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 845 (Fed. Cir. 2008) (quoting *Am. Life Ins. Co. v. Stewart*, 300 U.S. 203, 215 (1937)).

A district court also maintains the discretion to stay a proceeding pending an ex parte reexamination of a patent by the United States Patent and Trademark Office (“PTO”). *See Procter & Gamble*, 549 F.3d at 849. “[E]x parte reexamination is a curative proceeding meant to correct or eliminate erroneously granted patents.” *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 721 F.3d 1330, 1338 (Fed. Cir. 2013). The PTO’s reexamination decision may resolve complex, technical issues, thereby simplifying the case or eliminating the need for trial. *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed. Cir. 1983). “On the other hand, permitting an extended stay pending re-examination may prejudice valid patent-holders by preventing them from vindicating their rights” for several years. *ADA Solutions, Inc. v. Engineered Plastics, Inc.*, 826 F. Supp. 2d 348, 350 (D.

Mass. 2011) (citing *Sunbeam Prods. v. Hamilton Beach Brands, Inc.*, No. 3:09cv791, 2010 WL 1946262, at *4 (E.D. Va. May 10, 2010)). “Some courts facing this situation have found a stay inappropriate, while others have found differently.” *Tomco2 Equip. Co. v. Se. Agri-Sys., Inc.*, 542 F. Supp. 2d 1303, 1309 (N.D. Ga. 2008).

To determine whether to stay litigation, a court considers the following three factors: “1) whether discovery is complete and whether a trial date has been set, 2) whether a stay will simplify the issues in question and trial of the case; and 3) whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party.” *Anascape, Ltd. v. Microsoft Corp.*, 475 F. Supp. 2d 612, 615 (E.D. Tex. 2007); *accord Emp’t Law Compliance, Inc. v. Compli, Inc.*, No. 3:13-CV-3574-N, 2014 WL 3739770, at *1 (N.D. Tex. May 27, 2014) (Godbey, J.).

III. ANALYSIS

The Chandler Parties contend that the Court should stay the case or reschedule trial until after the PTO issues a decision in its reexamination of the ‘993 patent or until an action involving the validity of the ‘993 patent (“the North Dakota action”) has concluded.

A. PTO Reexamination

The Court first analyzes whether a stay is appropriate due to the pending PTO reexamination by evaluating the three relevant factors. *Anascape*, 475 F. Supp. 2d at 615.

1. Stage of the Litigation

The first factor to be considered is whether discovery is complete and whether a trial date has been set. *Id.* In this action, the Court has entered a Scheduling Order setting trial on the Court’s four-week docket beginning December 14, 2015. *See* Scheduling Order, Aug. 29, 2014, ECF No. 17. However, because the parties have not yet completed discovery and claim construction briefing has

not yet opened, this action is still in the early stages of litigation. *See Emp't Law Compliance*, 2014 WL 3739770, at *2. Thus, this factor weighs in favor of a stay. *See id.*

2. Likelihood of Simplifying the Issues

The second factor to be considered is whether the reexamination proceedings are likely to simply the issues in the case. *Anascape*, 475 F. Supp. 2d at 615. The Chandler Parties argue that a stay will greatly simplify the issues because a decision by the PTO finding the '993 patent invalid would render several claims in this case moot. Chandler's Br. Supp. Mot. Stay 7, ECF No. 41. Additionally, expert testimony regarding the validity of the patent may not be needed if the patent is invalidated. *Id.*

The Super Heaters Parties contend that it is unlikely the issues here will be settled by the ex parte reexamination process based upon statistics of similar proceedings. Super Heaters' Resp. 3, ECF No. 46; *see also Anascape*, 475 F. Supp. 2d at 616 (Ex parte reexamination "is the form of reexamination less likely to simplify issues."). In addition to the generalized statistics, they add that the '993 patent has previously gone through reexamination proceedings without any amendments to the twelve challenged claims. Super Heaters' Resp. 3, ECF No. 46; Super Heaters' App. Supp. Resp. Ex. G (Reexamination Certificate), App. 185–86, ECF No. 47-1. In *Sunbeam Products*, the court found that there is always a possibility of simplification of the issues in any reexamination, but the PTO's prior examination of the patent at issue makes it "less likely than in other cases that a reexamination would significantly simplify the underlying issues." 2010 WL 1946262, at *3. In the Reply, the Chandler Parties rely upon the *Tomco2* court, which found that "no matter how low the probability, the patent is still subject to nullification, which is an important consideration." 542 F. Supp. 2d at 1309–10.

The Super Heaters Parties further respond that the reexamination will have no impact on the other claims in this case relating to breach of contract or the other patent. *Id.* at 4–5. The Court agrees that unlike many patent infringement cases, the case involves issues beyond the scope of this patent. Even if the PTO declares the patent invalid, several claims and issues remain. Therefore, issuing a stay would delay the resolution of these unrelated claims. *See Sovereign Software*, 356 F. Supp. 2d at 663 (“[T]he Court is of the opinion that the interests of justice will be better served by dealing with that contingency when and if it occurs, rather than putting this case indefinitely on hold.”); Super Heaters’ App. Supp. Resp. Ex. F (PTO Statistics), App. 173, ECF No. 47-1 (stating average and median pendency for ex parte reexamination proceedings is 27.8 months and 20.1 months). In summary, the Court finds that this factor weighs against issuing a stay.

3. Prejudice to the Nonmoving Party

The final factor to be considered is whether a stay would unduly prejudice the nonmoving party. *ADA Solutions*, 826 F. Supp. 2d at 350. The moving party bears the burden of showing that the opposing party will not suffer undue prejudice or be placed at a clear tactical disadvantage by a delay. *Id.*

The Super Heaters Parties contend that they will suffer prejudice because the Chandler Parties directly compete with HOTF and its licensees. Super Heaters’ Resp. 5, ECF No. 46. When parties are direct competitors, courts presume that a stay will prejudice the non-movant. *ADA Solutions*, 826 F. Supp. 2d at 351. The Chandler Parties disagree that the parties are direct competitors, claiming that HOTF, the current owner of the ’993 patent, is merely a “licensing company” rather than a competing merchant. Chandler’s Br. Supp. Mot. Stay 8–9, ECF No. 41. The Super Heaters Parties respond that marketing and licensing of technology places HOTF in direct

competition with SuperTherm as they operate in overlapping markets. Super Heaters' Resp. 5–6, ECF No. 46; Super Heaters' App. Supp. Resp. Ex. H (HOTF Website), App. 187, ECF No. 47-1 (listing companies licensed with HOTF). The Super Heaters Parties assert that continued infringing competition is likely to damage the market share of its licenses and efforts to license in the future. Super Heaters' Resp. 6–7, ECF No. 46. The Chandler Parties reply that there is no evidence that there would be a loss of market share, and, if there were other damages caused by a stay, “the availability of money damages is sufficient to protect plaintiff from prejudice.” *Tomco2*, 542 F. Supp. 2d at 1308. The Chandler Parties cite *Employment Law Compliance* for the proposition that proof that the parties provide similar services is not sufficient to show that they are direct competitors absent specific proof of competition for business. 2014 WL 3739770, at *2. In response, the Super Heaters Parties argue that they should not be required to prove that they have overlapping customers because SuperTherm has not disclosed their customers in any discovery responses. Super Heaters' Resp. 6 n.4, ECF No. 46. The Court finds that Super Heaters' business interests may be prejudiced by a stay, even though the possibility for harm is less clear than in some other patent infringement actions. *See BarTex Research, LLC v. FedEx Corp.*, 611 F. Supp. 2d 647, 651 (E.D. Tex. 2009) (considering interfering with licensing business as a factor in analysis).

The Super Heaters Parties' stronger argument is that they would be prejudiced by the delay in addressing other unrelated claims. Were a stay of one or two years granted while the PTO reexamines the '993 patent, the parties' breach of contract claims as well as HOTF's claim for correction of inventorship of the '235 patent would also be placed on hold. *Tomco2*, 542 F. Supp. 2d at 1308. The Court finds that the moving party has not met its burden of showing that Super Heaters will not suffer undue prejudice. Thus, this factor weighs against a stay.

In conclusion, the Court finds that a stay should not issue because of the pending reexamination proceeding.

B. North Dakota Action

The Chandler Parties next argue that the case should be stayed or the deadlines extended in light of the current patent infringement action involving the '993 patent in North Dakota. Chandler Parties Reply 8, ECF No. 51 (relying on general principle that courts maintain power over the docket and discretion to stay a case). The North Dakota action does not involve all of the same parties. It merely involves similar issues regarding the validity of the patent. If applicable, the Court will look to opinions of the North Dakota court as persuasive. However, the Court declines to find that the case should be stayed on this basis.

IV. CONCLUSION

For the foregoing reasons, the Court **DENIES** the Chandler Parties' Motion to Stay, or in the Alternative, Motion to Amend Scheduling Order (ECF No. 40).

SO ORDERED on this **26th day of January, 2015**.


Reed O'Connor
UNITED STATES DISTRICT JUDGE