

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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POPSOCKETS LLC,

Plaintiff,

-against-

QUEST USA CORP. and ISAAC SROUR,

Defendants.

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POLLAK, United States Magistrate Judge:

**REPORT AND
RECOMMENDATION
17 CV 3653 (FB) (CLP)**

On June 16, 2017, plaintiff PopSockets LLC (“PopSockets”) filed a Complaint against defendants Quest USA Corp. (“Quest”) and Isaac Srour, alleging claims of patent and copyright infringement, as well as violations of the Lanham Act and various state law unfair competition claims.

Currently before this Court are two motions: 1) defendants’ motion for leave to amend its counterclaims to add claims for tortious interference of business relationship and unfair competition; and 2) defendants’ motion for a stay pending *inter partes* review by the Patent Trial and Appeal Board (the “First IPR Petition”). For the reasons stated below, it is respectfully recommended that defendants’ motion for a stay be granted and defendants’ motion for leave to amend be held in abeyance until the stay is lifted.

PROCEDURAL BACKGROUND

On June 16, 2017, PopSockets commenced this action against defendants Quest and Srour, alleging that defendants had infringed Popsockets’ patent, U.S. Patent No. 8,560,031 (the “’031 Patent”), and alleging claims of copyright infringement. (Compl. at 5).¹ Plaintiff filed its

¹ Citations to “Compl.” refer to plaintiff’s Complaint filed with the Court on June 16, 2017, ECF No. 1.

Amended Complaint on September 1, 2017, adding trademark infringement and state law claims. (Am. Compl. at 8, 17).²

On December 8, 2017, PopSockets served its initial Infringement Contentions, asserting that defendants had infringed Claims 9-11, 16 and 17 of the '031 Patent. (Pl.'s Infringement Contentions).³ Thereafter, on January 15, 2018, defendants filed a petition with the Patent Trial and Appeal Board ("PTAB") seeking *inter partes* review to invalidate all of plaintiff's originally asserted patent claims ("First IPR Petition") (Defs.' Mot. to Strike at 1).⁴ On January 22, 2018, defendants filed their motion for permission to amend their counterclaims. (Defs.' Mot. to Am.).⁵

On January 31, 2018, PopSockets served its Supplemental Infringement Contentions in which it asserted new patent claims. (Id.; see Pl.'s Supp. Infringement Contentions⁶). By letter motion dated February 28, 2018, defendants moved to strike plaintiff's Supplemental Infringement Contentions. (2/28/18 Defs.' Ltr.).⁷

On May 15, 2018, defendants filed a motion to stay the litigation pending a decision from

² Citations to "Am. Compl." refer to plaintiff's Amended Complaint, filed with the Court on September 1, 2017, ECF No. 24.

³ Citations to "Pl.'s Infringement Contentions" refer to plaintiff's infringement contentions dated December 8, 2017, ECF No. 58-2, Ex. A. to Auvil Decl. Citations to "Auvil Decl." refer to the Declaration of Steven M. Auvil, dated February 28, 2018, ECF No. 58-1 (attached as unnumbered exhibit to Defs.' Mot. to Strike).

⁴ Citations to "Defs.' Mot. to Strike" refer to defendants' Motion to Strike, filed with the Court on February 28, 2018, ECF No. 58.

⁵ Citations to "Defs.' Mot. To Amend" refer to defendants' Memorandum of Law in Support of Motion for Leave to File Amended Counterclaims, filed on January 22, 2018, ECF No. 50.

⁶ Citations to "Pl.'s Supp. Infringement Contentions" refer to plaintiff's supplemental infringement contentions dated January 31, 2018, ECF No. 58-3, Ex. B. to Auvil Decl. Although defendants' motion refers to "Amended Infringement Contentions," the document at issue, which is attached as Exhibit B to the Auvil Declaration, is actually titled "Plaintiff's Supplemental Infringement Contentions." (Compare Defs.' Mot. to Strike at 1 (referring to plaintiff's "Amended Infringement Contentions"), with Auvil Decl. ¶ 3 (referring to "Plaintiff's Supplemental Infringement Contentions") and Ex. B. to id. at 1 (same)). Substance, rather than label, controls, but the Court refers to "Supplemental Infringement Contentions" for the sake of consistency.

⁷ Citations to "2/28/18 Defs.' Ltr." refer to defendants' letter Motion to Strike Amended Infringement Contentions, filed with the Court on February 28, 2018, ECF No. 58.

the PTAB on the First IPR Petition. (Defs.’ Stay Mot.).⁸ While the motion to stay was pending, on June 7, 2018, this Court issued its Memorandum and Order, denying the defendants’ motion to strike the Supplemental Infringement Contentions. (6/7/18 Mem. and Order).⁹

Shortly thereafter, on June 21, 2018, defendants filed a second *Inter Partes* Review Petition with the PTAB (the “Second IPR Petition”), seeking to cancel claims 1-3 and 6 of the ‘031 Patent in view of certain prior art not previously before the PTAB. (Defs.’ Notice of Filing).¹⁰

On August 13, 2018, the PTAB instituted an *inter partes* review of the claims challenged in the First IPR Petition – namely, claims 9-11, 16 and 17 of the ‘031 Patent. (PTAB Order).¹¹ In a 39-page decision, the PTAB reviewed the issues raised in the Petition and concluded that “[p]etitioner has demonstrated a reasonable likelihood of success in showing the unpatentability of at least one challenged claim of the ‘031 Patent.” (*Id.* at 39). The PTAB then ordered that a trial on the issues would commence pursuant to 35 U.S.C. § 314(c) and 37 C.F.R. § 42.4. (*Id.*) The Second IPR Petition remains pending.

DISCUSSION

I. *Inter Partes* Review

The PTAB may institute *inter partes* review of one or more claims in a patent if it determines that there is “reasonable likelihood” that the petitioner will prevail with respect to one of the challenged claims. 35 U.S.C. § 314(a). This Court has the authority to stay the proceedings pending the outcome of the *inter partes* review. See *Murata Mach. USA v. Daifuku*

⁸ Citations to “Defs.’ Stay Mot.” refer to defendants’ Motion to Stay Pending *Inter Partes* Review filed with the Court on May 15, 2018, ECF No. 64.

⁹ Citations to “6/7/18 Mem. and Order” refer to this Court’s June 7, 2018 Memorandum and Order, ECF No. 77.

¹⁰ Citations to “Defs.’ Notice of Filing” refer to defendants’ Notice of Filing of Second *Inter Partes* Review, filed with the Court on June 27, 2018, ECF No. 78.

¹¹ Citations to “PTAB Order” refer to the Decision to Institute *Inter Partes* Review entered by the PTAB on August 13, 2018, filed with the Court on August 14, 2018, ECF No. 80-1.

Corp., 830 F.3d 1357, 1361 (Fed. Cir. 2016); Goodman v. Samsung Elecs. Am., Inc., No. 17 CV 5539, 2017 U.S. Dist. LEXIS 193588, at *4 (S.D.N.Y. Nov. 22, 2017). The factors that courts should consider in deciding whether to stay an action pending *inter partes* review are: 1) whether staying the action pending review will “simplify the issues in question and trial of the case;” 2) “how far the litigation has already progressed;” and 3) whether there will be prejudice to the nonmoving party if a stay is issued. Lavagear Inc. v. Okamoto USA, Inc., No. 12 CV 2317, 2013 U.S. Dist. LEXIS 5346, at * 3 (E.D.N.Y. Jan. 14, 2013); see also Rovi Guides, Inc. v. Comcast Corp., No. 16 CV 9278, 2017 U.S. Dist. LEXIS178856, at *3 (S.D.N.Y. Oct. 27, 2017).

A. Review Will Simplify the Issues in the Case

Defendants argue that allowing the PTAB to complete its review will simplify the issues for trial and may even eliminate the need for a trial on the patent claims completely. (Def.’ Mem. at 5).¹² Defendants argued in their first request for *inter partes* review that the asserted claims 9-11, 16 and 17 in the ‘031 Patent were invalid in light of numerous prior art references not considered by the PTO. (Id.) Even if the PTAB does not find any of the claims to be invalid, defendants argue that the PTAB’s analysis will simplify issues for this Court in that 1) the PTAB will have first considered the question of prior art; 2) the need for discovery as to prior art will be reduced; 3) the record created by the PTAB after a trial would be helpful; 4) issues, defenses and evidence will be streamlined; and 5) the decision may encourage the parties to settle. (Id. at 6). More critically, if the PTAB determines that all of the asserted claims are invalid, then this patent action would be mooted. (Id.); see Evolutionary Intelligence LLC v. Yelp Inc., No. 13 CV 3587, 2013 WL 6672451, at *6 (N.D.Cal. Dec. 18, 2013). As defendants note, the Supreme Court has

¹² Citations to “Def.’ Mem.” refer to defendants Memorandum of Law in support of their Motion to Stay filed with the Court on May 15, 2018, ECF No. 64.

held that once the PTAB institutes review for any claim, it “must address every claim the petitioner has challenged” and thus decide the patentability of all of the claims the petitioner has challenged. SAS Institute Inc. v. Iancu, 138 S.Ct. 1348, 1354 (2018). In doing so, the PTAB will provide a more robust record that considers the scope and meaning of the claims, clarifies claim construction issues, and is preclusive on issues of patent validity. See 35 U.S.C. § 315(e); see also AngleFix Tech, LLC v. Smith & Nephew, Inc., No. 13 CV 2281, 2014 U.S. Dist. LEXIS 184519, at *6 (W.D. Tenn. May 1, 2014).

Plaintiff disputes the defendants’ claim that a stay will simplify the issues, arguing that Quest’s petition is unlikely to be considered by the PTAB and it is unlikely that the outcome will find the challenged claims unpatentable. (Pl.’s Resp.¹³ at 20). Since plaintiff’s response was submitted before the PTAB issued its recent decision finding that Quest established a reasonable likelihood of success, this argument relies largely on general statistics relating to cases before the PTAB. (Id.) Given that the PTAB has now considered the request for *inter partes* review and decided to proceed with a trial, the Court finds that there is a significant likelihood that the PTAB’s ultimate determination as to the challenged claims will simplify matters to be decided by this Court.

Plaintiff also contends that despite defendants’ argument that the PTAB’s determination will simplify issues, the parties will still have to return to the Court to deal with the claims in the complaint – namely, plaintiff’s claims for copyright infringement and unfair competition. (Pl.’s Resp. at 22 (citing cases)). While plaintiffs are correct that these claims will not be before the PTAB, the fact that other claims exist in the Complaint does not preclude a stay. See, e.g., Am.

¹³ Citations to “Pl.’s Resp.” refers to Plaintiff’s Response to Defendants’ Motion to Stay Pending *Inter Partes* Review, dated May 29, 2018.

GNC Corp. v. LG Elecs., Inc., No. 17 CV 1090, 2018 U.S. Dist. LEXIS 40240, at *10 (S.D.Cal. Mar. 12, 2018); Audio MPEG, Inc. v. Hewlett-Packard Com., 15 CV 73, 2015 U.S. Dist. LEXIS 126014, at *8-9 (E.D.Va. Sept. 15, 2015). As defendants note in their Reply Memorandum, the core patent infringement claims are likely to require the most investment of time in discovery and in ultimately trying the matter. (Defs.' Reply¹⁴ at 5).

The Court agrees that a stay of the matter pending the outcome of the PTAB's review of the claims will be of "invaluable assistance" to the Court. Transocean Offshore Deepwater Drilling, Inc. v. Seadrill Ams., Inc., No. H-15-144, 2015 U.S. Dist. LEXIS 143855, at *9 (S.D. Tex. Oct. 22, 2015); see also Armor All/STP Prods. Co. v. Aero. Commc'ns. Holdings Co., 15 CV 781, 2016 U.S. Dist. LEXIS 149561, at *10 (E.D. Tex. Oct. 28 2016) (discussing the "significant benefit" of the PTAB's simplification of the patent issues).

B. Stage of Proceedings and Prejudice

Defendants also contend that the other two factors to consider are that the case is still in its early stages and there will not be unfair prejudice to the plaintiff if a stay is entered. (Defs.' Mem. at 9-11). The parties have engaged in limited discovery to date; there have been no claims construction proceedings scheduled; and no trial date in sight. Defendants argue that the PTAB generally has a year to issue a final decision on the merits and it would be inefficient for the parties to expend resources on discovery or in a claims construction proceeding while the *inter partes* review may render many of the issues moot. (*Id.* at 10 (citing Am. GNC Corp. v. LG Elecs., Inc., No. 17 CV 1090, 2018 U.S. Dist. LEXIS 40240 (S.D.Cal. Mar. 12, 2018))).

As for the prejudice to PopSockets if the Court issues a stay, courts have held that "mere

¹⁴ Citations to "Defs.' Reply" refer to Defendants' Reply Memorandum in Support of Their Motion to Stay Pending *Inter Partes* Review, filed June 6, 2018, ECF No. 75.

delay in the litigation does not establish undue prejudice.” Rovi Guides, Inc. v. Comcast Corp., 2017 U.S. Dist. LEXIS178856, at *10-11. Defendants contend that the Court should consider: 1) the timing of the request for *inter partes* review; 2) the timing of the stay request; 3) the status of the review proceedings; 4) the relationship of the parties. (Defs.’ Mem. at 10 (citing Rovi Guides, Inc. v. Comcast Corp., 2017 U.S. Dist. LEXIS178856, at *10-11)).

Plaintiff contends that the stay should be denied because PopSockets will suffer significant prejudice if a stay is not granted. (Pl.’s Resp. at 13). PopSockets and Quest are direct competitors, and a stay will “enable Quest’s continued transgressions against PopSockets” allowing for a loss of market share, customer confusion and the erosion of PopSockets’ good will. (Id.) Plaintiff contends that Quest is “promoting market confusion, actively misrepresenting PopSockets grip use with use of its copycat product.” (Id. at 14). Plaintiffs further allege that Quest misleads retailers into believing that it is related to PopSockets, has made misleading statements at the Consumer Electronics trade show, and has allowed Quest’s market share to grow, eroding plaintiff’s pricing, good will and having a truly prejudicial impact on plaintiffs. (Id. at 15-18).

Defendants contend that while plaintiff argues that a stay should be denied because Quest has been causing customer confusion and eroding PopSockets’ brand, plaintiff has not provided the Court with anything other than unsupported assertions; there is no “evidence” to support the claim of prejudice. (Defs.’ Reply at 8 (citing Garmin Switz. GMBH v. FLIR Syst., No. 17 CV 1147, 2017 U.S. Dist. LEXIS 207435, at * 14 (D.Or. Dec. 18, 2017)). Defendants contend that they market their product as “SpinPop,” and there has been no evidence showing that defendants have attempted to engender confusion in the marketplace.¹⁵

¹⁵ Defendants note that plaintiff never moved for a preliminary injunction, thus questioning whether the plaintiff is

While the plaintiff may be experiencing a decrease in sales or diminished market position as a result of defendants' competing product, defendants correctly point out that the case is still in the midst of the initial stages of litigation and the parties have not conducted party depositions or produced all of the documents, including emails, that defendants assert are needed in the case before depositions can proceed. (Id. at 2). While the IPR proceedings are likely to take some time, especially since the Second IPR Petition was filed just recently, the fact that the PTAB determined that a trial was necessary to resolve the First IPR Petition suggests that whatever is decided will provide guidance to this Court as to the issues raised with respect to the Patent, and inevitably will save both the parties and ultimately this Court in terms of discovery and claims construction proceedings. Once the issues raised by the two Petitions are resolved, it is hoped that discovery will proceed quickly, as will resolution of the matter.

Having taken into account the PTAB's recent Order setting this down for a trial, the defendants' challenge to other claims in the Second IPR Petition, the early stages of discovery, and the efficiencies to be achieved if the parties first obtain a ruling, the Court respectfully recommends that a stay of all proceedings enter pending the outcome of the two petitions before the PTAB.

II. Defendants' Motion to Amend its Counterclaims

Also pending before the Court is defendants' motion to add claims against plaintiff for tortious interference and unfair competition under New York state law. (Defs.' Mot. to Am.). The proposed Amended Counterclaims allege that PopSockets, in bad faith, tortiously and unlawfully contacted Quest's customers to interfere with Quest's business relationships. (Id. at 5-7).

really suffering irreparable harm. (Defs.' Reply at 10; see also Defs.' Mem. at 12).

Plaintiffs oppose the addition of these counterclaims, raising a number of arguments: 1) the amendments are futile under the Noerr-Pennington doctrine; 2) the counterclaims would be preempted by federal law; 3) the motion is untimely and would be prejudicial. (2/5/18 Pl.'s Resp.).¹⁶

Since the Court has recommended that the entire action be stayed pending the outcome of the proceedings before the PTAB, it is respectfully recommended that the defendants' motion to amend their counterclaims be denied without prejudice to renew once the stay is lifted.

CONCLUSION

For the foregoing reasons, the Court respectfully recommends that defendants' motion to stay the proceedings pending *inter partes* review be granted, and that defendants' motion to amend their counterclaims be denied without prejudice in light of the stay of proceedings.

Any objections to this Report and Recommendation must be filed with the Clerk of the Court within fourteen (14) days. See 28 U.S.C. § 636(b)(1); Fed. R. Civ. P. 72(b)(2); see also Fed. R. Civ. P. 6(a), (e) (providing the method for computing time). Failure to file objections within the specified time waives the right to appeal the District Court's order. See, e.g., Caidor v. Onondaga Cty., 517 F.3d 601, 604 (2d Cir. 2008) (explaining that "failure to object timely to a . . . report [and recommendation] operates as a waiver of any further judicial review of the magistrate [judge's] decision").

¹⁶ Citations to "2/5/18 Pl.'s Resp." refer to plaintiff PopSockets' Response to Defendants' Motion to Amend Counterclaims filed with the Court on February 5, 2018, ECF No. 55.

The Clerk is directed to send copies of this Order to the parties either electronically through the Electronic Case Filing (ECF) system or by mail.

SO ORDERED.

Dated: Brooklyn, New York
September 12, 2018

 /s/ Cheryl Pollak

Cheryl A. Pollak
United States Magistrate Judge
Eastern District of New York