

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

_____	)	
NETWORK-1 SECURITY SOLUTIONS, INC.	)	
	)	
Plaintiff,	)	Civil Action No.: 6:11-cv-00492-LED-JDL
	)	
v.	)	
	)	
ALCATEL-LUCENT USA, INC., <i>et al.</i> ,	)	
	)	
Defendants.	)	
_____	)	

**DEFENDANTS' MOTION TO STAY PENDING *INTER PARTES* REVIEW**

With the enactment of the America Invents Act, Congress replaced the pre-existing *inter partes* reexamination procedure (“IPX”) with an improved *inter partes* review procedure (“IPR”).<sup>1</sup> Congress’s intent was to provide a “faster, less costly alternative[] to civil litigation to challenge patents.”<sup>2</sup> To date, the only federal court known to rule on a motion to stay pending an IPR granted the motion.<sup>3</sup> The *Semiconductor* court based its decision in part on the strengthened IPR provisions, which set a strict timeline for considering validity challenges.<sup>4</sup> While this Court has yet to address the issue, the Court has noted in the context of stays pending *ex parte* reexaminations that it “generally makes sense to await the conclusion of a reexamination before

<sup>1</sup> Pub. L. No. 112-29, § 314(a), 125 Stat. 284 (2011).

<sup>2</sup> 157 CONG. REC. S952 (daily ed. Feb. 28, 2011) (statement by Senator Grassley).

<sup>3</sup> *Semiconductor Energy Lab. Co. v. Chimei Innolux Corp.*, No. 8:12-cv-00021-JST-JPR, ECF No. 116, at 4 (C.D. Cal. Dec. 19, 2012) (reasoning, *inter alia*, that the “amended standards for granting *inter partes* review probably results in an even higher likelihood than under the prior standard that the issues in this action will be simplified by [review]”) (Exhibit A).

<sup>4</sup> *Id.*, at 6 (noting that the timing is “significantly less than the delay caused by the old [IPX] procedure”).

resuming litigation.”<sup>5</sup> As discussed herein and as reflected in the *Semiconductor* opinion, the same logic applies with greater force due to inherent safeguards and emphasis on speed in the new IPR procedure.

Taking advantage of this new procedure, Defendants Avaya Inc. (“Avaya”), Sony Corporation of America (“Sony”), and Axis Communications AB and Axis Communications Inc. (collectively “Axis”) have collectively filed two IPR petitions with the United States Patent and Trademark Office (“PTO”) challenging the validity of U.S. Patent No. 6,218,930 (“the ’930 patent”), the only patent asserted by Plaintiff Network-1 Security Solutions, Inc. (“Network-1”) in this case. The IPR petitions, one filed on December 5, 2012 and the other filed on December 19, 2012, each set forth bases for the cancellation of claims 6 and 9 (the only two claims asserted by Network-1) of the ’930 patent.<sup>6</sup> Prior art asserted in the petitions is highly relevant, invalidates claims 6 and 9, and was not considered by the PTO during the original examination of the ’930 patent application. Also, once the PTO grants either IPR petition,<sup>7</sup> the PTO will rule that the petitions have a reasonable likelihood of success, a higher standard than the prior IPX standard. The PTO will then face an obligation under 35 U.S.C. § 316(a)(11) to issue a final determination within one year.

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<sup>5</sup> *Spa Syspatronic, AG v. VeriFone, Inc.*, No. 2:07-CV-00416-JDL, 2008 WL 1886020, at \*1 (E.D. Tex. Apr. 25, 2008) (Love, J.).

<sup>6</sup> The petition filed by Sony and Axis also seeks the cancellation of claim 8 of the ’930 patent.

<sup>7</sup> The PTO has yet to grant either petition, and thus has not initiated either IPR. Defendants have moved now to have this motion fully briefed by the time the PTO grants the IPRs. See *Spa Syspatronic, AG v. VeriFone, Inc.*, No. 2:07-CV-00416-JDL, Order, ECF No. 79 (E.D. Tex. Apr. 2, 2008) (Love, J.) (taking under advisement motion that was fully briefed before the PTO granted an *ex parte* reexamination) (Exhibit B). Alternatively, the Court could also grant the motion before the PTO grants the IPRs. See *Semiconductor*, No. 8:12-cv-00021-JST-JPR, ECF No. 116, at 4 (granting stay before PTO granted the IPR based on reasoning that “if the [PTO] rejects the inter partes requests, the stay will be relatively short”).

Courts “generally look favorably on granting stays pending reexamination” if the stay is unlikely to prejudice the plaintiff and the motion is filed early in the case.<sup>8</sup> With respect to prejudice, patent holding companies—such as Network-1—cannot suffer material prejudice as a result of a stay, for they can be adequately compensated by monetary damages. Moreover, there is no chance of undue prejudice due to delay given the one-year statutory timeline for IPRs, which is far less than the average pendency for IPX or *ex parte* reexaminations.<sup>9</sup> With respect to the stage of this lawsuit, the case is still in its infancy, with neither side having served any written discovery and the *Markman* hearing and trial dates set for September 2013 and December 2014, respectively. Avaya, Axis, Sony, Sony Corporation, Sony Electronics Inc., Alcatel-Lucent USA Inc., Alcatel-Lucent Holdings Inc., Dell Inc., Hewlett-Packard Company, Polycom, Inc., ShoreTel, Inc., and Juniper Networks, Inc. (collectively, “Defendants”) therefore move for such a stay pending the IPR proceedings.

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<sup>8</sup> *Spa Syspatronic*, 2008 WL 1886020, at \*1.

<sup>9</sup> The average pendency for IPX and *ex parte* reexaminations are 36.1 months and 25.4 months, respectively. U.S. Patent and Trademark Office, “*Inter Partes* Reexamination Filing Data – June 30, 2012” (June 30, 2012) (Exhibit C).; U.S. Patent and Trademark Office, “*Ex Parte* Reexamination Filing Data - June 30, 2012” (June 30, 2012) (Exhibit D).

## BACKGROUND

### A. Network-1 Does Not Offer Products that Compete with the Defendants' Products

Network-1 is an “intellectual property licensing company” that “focuses on the acquisition, development, licensing and protection of intellectual property assets.”<sup>10</sup> Network-1 has no products (let alone products that compete with Defendants) and its entire revenue stream is based on the royalties for the '930 patent.<sup>11</sup>

### B. The Case is in its Infancy Due to Delays Caused by Network-1

On September 15, 2011, Network-1 filed suit against Defendants alleging infringement of the '930 patent. Through a series of events brought about by Network-1, this case is still in its infancy. Network-1 took over three months to effectuate service on all Defendants. Returns of Service, ECF Nos. 31-46. Network-1 also failed to properly plead its original complaint (*see* ECF No. 145), and the Court ordered Network-1 to amend its complaint on May 23, 2012. Amended Complaint, ECF No. 148. As a result of these delays, this Court did not set the *Markman* hearing and trial dates of September 19, 2013 and December 8, 2014, respectively, until September 7, 2012, almost one year from the filing of the original complaint. Docket Control Order, ECF No. 237. The parties have begun to exchange disclosures under the Patent Rules, and in particular Network-1 has asserted just two claims (claims 6 and 9) of the '930

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<sup>10</sup> *No Longer a Security Software Company, Network-1 Security Solutions, Inc. is Helping Other Companies Monetize Their Intellectual Property – the First Being a Patent Covering Power Over Ethernet, Which is a New Solution to Bringing Operating Power to Network Devices*, CFOCEO Magazine (January 28, 2011 Issue), available at <http://www.ceocfointerviews.com/interviews/NSSI-Network-111.htm> (“CFOCEO Article”) (Exhibit E).

<sup>11</sup> *Form 10-Q*, Network-1 Security Solutions, Inc. (Nov. 14, 2012) (Exhibit F).

patent in its September 20, 2012 Patent Rule 3-1 disclosures.<sup>12</sup> Neither side has served any discovery requests, including interrogatories, requests for admission, or deposition notices or subpoenas.

**C. The Sparse Original Prosecution History Does Not Help to Simplify the Issues**

The prosecution history of the '930 patent is virtually non-existent. Without a single rejection or objection of any pending claim, the Examiner allowed the application and stated that “no prior art reference utilizes the an [sic] apparatus for remotely powering access equipment in a data network” with all of the limitations of claim 1.” Notice of Allowability, at 2 (Exhibit H). The Examiner’s search uncovered only 5 references, none of which were applied against the claims and none of which correspond to the prior art cited in the IPR petitions. Notice of References Cited (Exhibit I). The PTO subsequently issued the '930 patent on this thin record.

**D. The Recently-Discovered New Anticipatory Prior Art and IPR Petitions**

On or about October 1, 2012, Avaya discovered a new prior art reference—U.S. Pat. No. 5,754,644 to Akhteruzzaman (“*Akhteruzzaman*”)—that anticipates at least claims 6 and 9 of the '930 patent.<sup>13</sup> Around the same time, Sony and Axis first obtained a full English translation of a second prior art reference—Japanese Unexamined Patent Application No. 6-189535 to Satou (“*Satou*”)—that anticipates claims 6, 8, and 9 of the '930 patent. None of this prior art was considered by the Examiner of the '930 patent application.

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<sup>12</sup> This Court has already invalidated method claims 1-5 in a prior litigation. Mem. Op. and Order, *Network-1 Security Solutions, Inc v. Cisco Systems, Inc., et al.*, No. 6:08-cv-30-LED, ECF No. 251 (E.D. Tex. Feb. 26, 2010) (Exhibit G).

<sup>13</sup> Avaya discloses the fact of when it discovered *Akhteruzzaman* without waiver of any attorney-client, work-product, or common interest privilege concerning other matters.

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