

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
LUFKIN DIVISION**

Blackboard Inc.,)	
)	
Plaintiff,)	
)	
vs.)	Case No. 9:06 CV 155
)	
Desire2Learn Inc.,)	
)	
Defendant.)	
)	
)	ORAL HEARING REQUESTED

**MEMORANDUM OF LAW IN SUPPORT OF DEFENDANT’S MOTION TO STAY
PROCEEDINGS PENDING REEXAMINATION OF
U.S. PATENT NO. 6,988,138 IN THE U.S. PATENT AND TRADEMARK OFFICE**

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The patent on which the plaintiff, Blackboard, Inc. (“Blackboard”) has asserted patent infringement is currently the subject of both an *ex parte* and an *inter partes* reexamination request filed with the United States Patent and Trademark Office (“PTO”). The currently pending *ex parte* request seeks to invalidate the patent-in-suit based on prior art that was never submitted to or considered by the PTO during the six years that the patent was in prosecution. Likewise, the *inter partes* reexamination request, filed by Desire2Learn Inc. (“Desire2Learn”), seeks to invalidate the patent-in-suit not only based on prior art that was not submitted to or considered by the PTO during the prosecution of the patent-in-suit, but also based on prior art that is not part of the pending *ex parte* request.

Because the currently pending *ex parte* reexamination, as well as Desire2Learn’s *inter partes* reexamination request, will likely narrow the issues or eliminate the need for trial and because doing so would conserve resources, Desire2Learn requests that this Court enter an order staying these proceedings pending the completion of the *ex parte* and *inter partes* reexaminations. *EchoStar Technologies Corp. v. TiVo, Inc.*, 2006 WL 2501494, at *5 (E.D. Tex. July 14, 2006) (granting motion to stay proceedings pending an *ex parte* and *inter partes* reexamination).

I. INTRODUCTION

On July 26, 2006, plaintiff, Blackboard sued Desire2Learn for infringement of U.S. Patent No. 6,988,138 (“the ’138 patent”). Desire2Learn answered the Complaint on September 14, 2006, denying the infringement allegations and counterclaiming for a declaratory judgment that the ’138 patent was invalid and unenforceable. The Rule 16(b) conference is scheduled for December 8, 2006. The parties have yet to conduct discovery.

On November 17, 2006, a request was filed with the PTO to conduct an *ex parte* reexamination of the '138 patent. (Ex. 1, Request for *Ex Parte* Reexamination of U.S. Patent No. 6,988,138, filed November 17, 2006). On December 1, 2006, Desire2Learn filed a request with the PTO to conduct an *inter partes* reexamination of the '138 patent. (Ex. 2, Request for *Inter Partes* Reexamination of U.S. Patent No. 6,988,138, filed December 1, 2006). At the early stages of litigation, courts routinely stay litigation concerning patents submitted to the PTO for reexamination. The reasons are simple – the PTO will provide its expertise in determining patentability of the claims at issue in the litigation and whether these claims must be narrowed or canceled in light of the prior art. Staying the litigation until this determination is made conserves judicial and party resources. For these reasons, Desire2Learn moves for a stay of all matters in this litigation, pending the outcome of the PTO's *ex parte* and *inter partes* reexamination of the '138 patent.

II. BACKGROUND ON EX PARTE AND INTER PARTES REEXAMINATION

The Patent Statute permits any person to request the PTO to reexamine an issued patent. An *ex parte* request can be made by “[a]ny person at any time,” 35 U.S.C. § 302, while an *inter partes* request can be made by “a third-party requester at any time.” 35 U.S.C. § 311(a). The PTO must grant a request for reexamination if the PTO determines that “a substantial new question of patentability affecting any claim of the patent” is raised by a request. 35 U.S.C. §§ 304 and 312. During reexamination, the PTO reexamines the patent in view of printed publications and issued patents. *Id.* at §§ 305 and 311(a). Patent owners may amend the patent claims or add new claims, as long as they do not broaden the scope of the original claims. 35 U.S.C. §§ 305 and 314(a). While there are minimal differences between an *ex parte* and *inter partes* reexamination request, one difference is that each time the patent owner files a response to

an office action during an *inter partes* reexamination, a third-party requester may file “written comments” addressing issues raised by the office action or the patent owner’s response thereto, within thirty days from the date of service of the patent owner’s response. 35 U.S.C. § 314(b)(2). At the conclusion of either an *ex parte* or *inter partes* reexamination proceeding, the PTO issues a reexamination certificate canceling any claim determined to be unpatentable, confirming patentable claims, and incorporating any amended or new claims. 35 U.S.C. § 307.

The intent of a reexamination procedure “is to ‘start over’ in the PTO . . . and to *re-examine* the [original] claims, and to *examine* new or amended claims, as they would have been considered if they had been originally examined in light of all the prior art of record in the reexamination proceeding.” *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) (citations omitted; emphasis in original).

On the basis of published PTO statistics, indicating the number of *ex parte* requests considered and the number of requests granted, over 95% of all requests for *ex parte* reexamination considered from 2002 through the close of fiscal 2006, have been granted by the PTO.¹ In fiscal year 2006, the PTO made 453 determinations on *ex parte* reexamination requests and granted 422, or 93.2%, of the requests.² The published PTO statistics also indicate that over 94% of *inter partes* reexaminations considered from 2002 through the close of fiscal year 2006 have been granted by the PTO.³ In fiscal year 2006, the PTO made 47 determinations on *inter*

¹ Ex. 3, “USPTO Performance and Accountability Report for Fiscal Year 2006,” <http://www.uspto.gov/web/offices/com/annual/2006/2006annualreport-2.pdf>, at p. 133.

² *Id.*

³ *Id.*

partes reexamination requests and granted 43, or 91.5% of the requests.⁴ Thus, there is a very high probability that both the *ex parte* and *inter partes* requests for reexamination will be granted and the PTO will undertake the examination of this patent.

III. ARGUMENT

A. Stays Are Liberally Granted Pending The Outcome Of PTO Reexamination Proceedings

A district court has the inherent power to control and manage its docket, “including the authority to order a stay pending conclusion of a PTO reexamination.” *Id.* at 1426-27; *EchoStar Technologies Corp.*, 2006 WL 2501494, at *1. In exercising this authority, courts commonly stay patent litigation when the patent-in-suit undergoes reexamination in the PTO. *See, e.g., Slip Tract Sys., Inc. v. Metal Lite, Inc.*, 159 F.3d 1337, 1340 (Fed. Cir. 1998); *EchoStar*, 2006 WL 2501494, at *1; *ASCII Corp. v. STD Entm’t USA, Inc.*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994) (“[T]here is a liberal policy in favor of granting motions to stay proceedings pending the outcome of USPTO reexamination . . . proceedings.”).

In evaluating a motion to stay, courts have considered: (1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay would simplify the issues in question and the trial of the case; and (3) whether discovery is complete and whether a trial date has been set. *EchoStar*, 2006 WL 2501494, at *1; *Perricone v. Unimed Nutritional Services, Inc.*, 2002 WL 31075868 at *1 (D. Conn. 2002) (citing *Xerox Corp. v. 3Com Corp.*, 69 F. Supp. 2d 404, 406 (W.D.N.Y. 1999)); *Softview Computer Products Corp. v. Ergo View Tech. Corp.*, 2000 WL 1134471, at *2 (S.D.N.Y. 2000); accord *Gioello*

⁴ *Id.*

Enter. Ltd. v. Mattel, Inc., 2001 WL 125340 at, *1 (D. Del. 2001). Consideration of these factors in this case militates in favor of granting a stay.

Moreover, in the case of an *inter partes* reexamination request, the Patent Statute itself contemplates that litigation should be stayed pending its outcome. Specifically, Section 318 provides that “[o]nce an order for *inter partes* reexamination of a patent has been issued under section 313, the patent owner may obtain a stay of any pending litigation which involves an issue of patentability of any claim of the patent which are the subject of the *inter partes* reexamination order.” 35 U.S.C. § 318. While this provision describes requests for stay by the patent owner, it nevertheless illustrates Congressional intent to stay litigation on the patent at issue until the PTO has resolved patentability.

Furthermore, the Patent Act prevents a third-party requestor, such as Desire2Learn, from later litigating validity based on prior art that was available to it and could have been considered by the PTO and from seeking review of the factual determinations made in the reexamination. 35 U.S.C. § 315; *Middleton, Inc. v. Minn. Mining and Mfg. Co.*, 2004 WL 1968669, at *10 (S.D. Iowa 2004). [A]n *inter partes* reexamination can have no other effect but to streamline ongoing litigation. For these reasons, courts have an even more compelling reason to grant a stay when an *inter partes* reexamination is proceeding with the same parties.” *EchoStar*, 2006 WL 2501494, at *3.

B. Blackboard Will Not Be Prejudiced or Disadvantaged By Staying the Litigation

Blackboard will not suffer injury or prejudice if the litigation is stayed. *First*, the litigation is in its infancy. Defendant answered the Complaint on September 14, 2006, asserting counterclaims and Blackboard filed its Answer to these Counterclaims on September 19, 2006.

The parties have not exchanged initial disclosures under Rule 26(a)(1) and they have yet to provide any discovery responses. Plainly, this is not an eleventh-hour move by Desire2Learn.

Second, Blackboard's legal expenses will be significantly less in reexamination versus litigation because there is no discovery and there are limited grounds (publications and prior art patents) upon which to reexamine the '138 patent. *See Target Therapeutics, Inc. v. Scimed Life Sys., Inc.*, 1995 WL 20470 at *2 (N.D. Cal. 1995). If any of the claims of the '138 patent are canceled or narrowed as a result of the reexamination, Blackboard will certainly not be prejudiced. To the contrary, in the absence of a stay, Blackboard, Desire2Learn, and the Court may needlessly exhaust significant time and money litigating canceled or narrowed claims. *EchoStar*, 2006 WL 2501494, at *4 ("It would be an egregious waste of both the parties' and the Court's resources if the *Markman* and summary judgment proceedings went forward and the claims were subsequently declared invalid or were amended as a result of the reexamination proceeding.").

Third, the PTO's decision to grant reexamination will be issued soon. The PTO must decide whether to grant or deny the reexamination within three months of the request being filed. 35 U.S.C. §§ 303(a) and 312. Thus, the stay will only be in effect for about three months, *unless* the PTO finds that the prior art submitted in one or both of the petitions demonstrates that there is a substantial question of patentability. Furthermore, prosecution of the reexamination should be concluded quickly because such proceedings are conducted "with special dispatch" in the PTO. 37 C.F.R. § 1.937(a); 35 U.S.C. §§ 305 and 314(c); *The Manual of Patent Examining Procedure* ("MPEP") § 2686.4 (8th ed., Aug. 2006 rev.) (Where the "litigation is stayed for the purpose of reexamination, all aspects of the proceeding will be expedited to the extent

possible.”). Thus, there should be a relatively expedient decision by the PTO on key issues in this litigation.

C. Staying This Case Will Simplify Issues and Conserve Judicial and Party Resources

Staying patent litigation pending conclusion of PTO reexamination proceedings conserves judicial resources, simplifies issues for trial and avoids the potential of duplicate proceedings in the event the claims are revised in the reexamination certificate. *See Bausch & Lomb Inc. v. Alcon Lab., Inc.*, 914 F. Supp. 951, 953 (W.D.N.Y. 1996) (“If this Court were to deny the stay and proceed to trial, it is possible that the time, resources, and significant efforts of all those involved in such a trial would be wasted.”). As one court held, “in the interests of judicial economy it does not make sense . . . to proceed with the infringement suit when the patent on which it is based could be altered after the PTO reexamines it.” *Clintec Nutrition Co. v. Abbott Laboratories*, 1995 WL 228988, at *3 (N.D. Ill. 1995). These reasons for granting a stay are particularly powerful early in a litigation, before discovery has been conducted. *See ASCII*, 844 F. Supp. at 1381; *Clintec Nutrition*, 1995 WL 228988, at *3. That is the situation here – the litigation is in its infancy and the parties have not conducted discovery, or even exchanged Rule 26(a)(1) initial disclosures.

In *Perricone*, the district court set out at least seven distinct advantages to staying litigation pending a PTO proceeding:

1. The prior art presented to the Court will have been first considered by the PTO with its particular expertise;
2. Many discovery problems relating to prior art can be alleviated by PTO examination;
3. In those cases resulting in effective invalidity of the patent, the suit will likely be dismissed;

4. The outcome of the reexamination may encourage a settlement without further use of the Court;
5. The record of examination would likely be entered at trial, thereby reducing the complexity and length of the litigation;
6. Issues, defenses, and evidence will be more easily limited in pre-trial conferences after reexamination; and
7. The cost will likely be reduced for both parties and the Court.

Perricone, 2002 WL 31075868, at *1.⁵ The above-identified advantages apply in the present case.

1. PTO Has Special Expertise In Patent Examination and Patentability

The PTO is the expert on patents and judging patentability. The PTO has special technical expertise for examining patent applications and determining validity of patent claims that courts rely on to simplify issues for trial. *Lentek Int'l, Inc. v. Sharper Image Corp.*, 169 F. Supp. 2d 1360, 1363 (M.D. Fla. 2001). “The patent reexamination procedure was intended to provide the federal courts with the additional expertise of the PTO.” *Perricone*, 2002 WL 31075868, at *2. Consequently, courts routinely stay litigation pending a PTO proceeding to gain the benefit of the PTO’s expertise. *Id.*; *EchoStar*, 2006 WL 2501494, at *4 (reasoning that a stay will simplify issues and court will have benefit of PTO’s expert analysis of prior art); *Bausch & Lomb*, 914 F. Supp. at 953 (“Because the PTO is considered to have expertise in deciding issues of patentability, many courts have preferred to postpone making final decisions on infringement until the PTO rules on issues before it.”).

⁵ These seven factors originated in *Fisher Controls Co. v. Control Components, Inc.*, 443 F. Supp. 581, 582 (S.D. Iowa 1977) and have been quoted often in subsequent cases. *See also*, e.g., *Echostar*, 2006 WL 2501494, at *2; *Gioello*, 2001 WL 125340 at *1); *Softview*, 2000 WL 1134471 at *2); *Clintec*, 1995 WL 228988 at *2; *Hamilton Indus. v. Midwest Folding Prod. Mfg.*, 1990 WL 37642 (N.D. Ill. 1990).

Staying the litigation until the PTO completes the reexamination of the '138 patent is particularly appropriate here because Blackboard failed to submit a single item of prior art to the PTO over the course of the nearly six years that it engaged in prosecution of the '138 patent. The references cited by the PTO examiner during the examination of the application were limited to United States Patents that were only tangentially related to the subject matter of the application. However, a substantial body of prior art consisting of papers, and literature describing competitive products was in existence prior to the June 30, 1999 filing date of Blackboard's provisional application, to which the '138 patent purports to claim the benefit of priority. The PTO did not have an opportunity to consider these references during its original examination of the Blackboard application.

Desire2Learn believes that all of the claims of the '138 patent are anticipated by and/or are obvious in light of the references that have been submitted to the PTO. As discussed in detail in the attached *ex parte* reexamination request, (Ex. 1, Request for *Ex Parte* Reexamination of U.S. Patent No. 6,988,138, filed November 17, 2006), and the attached *inter partes* reexamination request, (Ex. 2, Request for *Inter Partes* Reexamination of U.S. Patent No. 6,988,138, filed December 1, 2006), each of the 44 claims were anticipated by and/or obvious in view of a significant number of printed publications and patents that were not before the examiner during the examination of the application that matured in to the '138 patent. Thus, by staying these proceedings, the Court will receive the benefit of the PTO's expert examination of these prior art references that have not been considered by the PTO and that may well invalidate the claims of the '138 patent.

2. PTO Examination Will Clarify or Eliminate Validity Issues For Trial

“One purpose of the reexamination procedure is to eliminate trial of that issue (when the claim is cancelled) 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) (dismissing appeal of a stay pending PTO patent reexamination proceeding); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 602 (Fed. Cir. 1985) (“The bill’s proponents foresaw three principal benefits. First, the new procedure could settle validity disputes more quickly and less expensively than the often protracted litigation involved in such cases.”). The PTO reexamination of the ’138 patent will directly clarify the issues in this litigation.

In light of the Blackboard’s failure to submit any prior art during the prosecution of the ’138 patent and the reference submitted for the reexamination proceeding, there is a significant likelihood that a number of issues will be clarified, if not eliminated for trial. Obviously, any claims cancelled in the PTO proceeding will be removed from this case. Because the record of the PTO proceeding may be introduced at trial, the fact finder will benefit from the PTO’s special expertise in addressing validity of the patent claims regardless of the outcome of the proceeding. *See EchoStar*, 2006 WL 2501494, at *4 (“[T]o the extent the reexamination proceeding reaffirm the claims at issue, the Court will then have the benefit of the PTO’s expert analysis of the prior art that allegedly invalidates or limits the claims.”).

Permitting the PTO reexamination to conclude before lifting the stay will focus subsequent discovery, dispositive motions and trial on any claims that are certified by the PTO, thereby saving this Court and the parties time, effort and cost. Further, the reexamination “will

likely inform the Court's determination of the validity of the ['138 patent].” *Perricone*, 2002 WL 31075868, at *2.

3. PTO Reexamination May Facilitate Settlement

Many courts have recognized the settlement-inducing effect of reexamination proceedings. *See, e.g., Sulzer Inc. v. Black Clawson Co.*, 1995 WL 363440, at *1 (S.D.N.Y. 1995). The PTO reexamination proceeding is likely to spur settlement by the parties for at least two reasons. *First*, the PTO will consider the prior art and challenges to validity raised by the petitions for reexamination, thereby clarifying questions of patent validity. Either the presumption of validity to which every issued patent is entitled will be reinforced, or certain patent claims may be found unpatentable. *Second*, if patent claims are held unpatentable by the PTO, the liability issues in this dispute will be clarified. Either way, the PTO proceeding will clarify the issues such that each side's prospects will be more predictable, and the parties may then quickly resolve the dispute without requiring further Court assistance.

4. A Stay Will Preclude An Extended Trial or A Second Trial If The Reexamination Proceeding Yields Changed Claims

Desire2Learn expects that the claims of the '138 patent will be narrowed and/or declared invalid during the PTO reexamination proceeding. *See* Exhibits 1 and 2. Consequently, proceeding with discovery and trial in parallel with reexamination risks expending efforts on construing and litigating claims that may be cancelled or amended, while not addressing other claims that may issue from the PTO proceeding. Courts have recognized this potential for wasted effort as justification for staying litigation pending PTO proceedings. *See, e.g., EchoStar*, 2006 WL 2501494, at *4; *Softview Computer*, 2000 WL 1134471, at *3); *Target Therapeutics*, 1995 WL 20470 at, *2 (“Absent a stay, the parties may end up conducting a significantly wider scope of discovery than necessary, and the court may waste time examining

the validity of claims which are modified or eliminated altogether during reexamination.”). There is no reason for the parties to expend hundreds of thousands, or even millions, of dollars in taking this case to trial without first addressing the full scope of the ’138 patent claims.

D. Courts Routinely Stay Proceedings When Reexamination Proceedings Are Initiated Early In Litigation As Is The Case Here

Courts routinely stay litigation pending patent reexamination proceedings when the stay is requested early in the litigation before the parties and the Court have expended significant efforts. *See, e.g., EchoStar*, 2006 WL 2501494, at *3-4 (granting stay while parties were engaged in discovery and following claim construction hearing); *Snyder Seed Corp. v. Scrypton Sys., Inc.*, 1999 WL 605701, at *3 (W.D.N.Y. 1999) (granting stay even though motion could have been brought earlier because the case was still in the pleading stage); *Purolite Int’l, Ltd. v. Rohm and Haas Co.*, 1992 WL 142018, at *3 (E.D. Pa. 1992); *United Merchants and Mfrs. v. Henderson*, 495 F. Supp. 444, 447 (N.D. Ga. 1980) (“Grant of a stay is particularly appropriate in this case, as the lawsuit is in its earliest stages.”).

In general, the instances in which courts have denied motions for a stay pending a reexamination occur when they are made late in the litigation, after considerable time and effort has been expended in discovery and the trial date is approaching. *See, e.g., Sovereign Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d. 660, 662 (E.D. Tex. 2005) (denying a stay where defendant had waited one year to move for stay, parties had produced hundreds of thousands of pages of documents; and the court had held a *Markman* hearing); *Perricone*, 2002 WL 31075868, at *3; *Xerox Corp. v. 3Com Corp.*, 69 F. Supp. 2d 404, 407 (W.D.N.Y. 1999) (denying a stay because the case had been pending for two years, parties engaged in substantial discovery and dispositive motions and case nearly ready for trial).

Even when deciding a late-filed motion, courts consider how much cost and effort the PTO proceeding will save. *See Gioello*, 2001 WL 125340, at *1-2 (granting stay less than three months before trial in part because PTO reexamination could render summary judgment motions moot); *Softview Computer*, 2000 WL 1134471, at *3 (granting stay after substantial discovery because “much remains to be done before the case is ready for trial”).

The present case is still in its infancy, as the parties just recently completed the filing of answers, counterclaims, replies, and no discovery responses have come due. No dispositive motions on the issues of claim construction, infringement, validity, or enforceability have been filed or are likely for some time. Further, as this motion is being filed before the first Scheduling Conference, dates for trial and other litigation milestones have yet to be firmly established. Thus, the case is in a posture that judicial and party savings will be maximized by a stay while the PTO resolves and/or clarifies numerous issues for trial. A majority of courts have determined that “[t]he most cost effective and efficient means of pursuing the present litigation [is] to await the results of the [PTO] proceeding.” *Sulzer*, 1995 WL 363440, at *1.

IV. CONCLUSION

This motion for a stay is made early in this litigation such that the Court and the parties’ stand to gain maximum benefit from permitting the PTO to simplify the issues of patent validity. For all of the above stated reasons, the Court should grant Desire2Learn’s motion for a stay.

Dated: December 1, 2006

Respectfully submitted,

/s/ Jonathan R. Spivey
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Certificate of Service

The undersigned certifies that a true and correct copy of **Desire2Learn's Memorandum of Law In Support of Defendant's Motion to Stay Proceedings Pending Reexamination of U.S. Patent No. 6,988,138 In the U.S. Patent and Trademark Office** was filed electronically in compliance with Local Rule CV-5(a). As such, this document was served on all counsel who have consented to electronic service.

Dated: December 1, 2006.

/s/ Jonathan R. Spivey

Jonathan R. Spivey

Certificate of Conference

Pursuant to Local Rule CV-7(h), the undersigned certifies that counsel has conferred with opposing counsel in a good faith attempt to resolve the matter without court intervention; however, the parties were unable to reach an agreement. Opposing counsel has informed counsel that the motion is opposed.

Dated: December 1, 2006.

/s/ Jonathan R. Spivey
Jonathan R. Spivey