

**PLAINTIFF'S RESPONSE TO DEFENDANT PINNACLE COMMUNICATIONS
INTERNATIONAL, INC.'S MOTION TO DISMISS SOURCE, INC.'S
COMPLAINT OR, ALTERNATIVELY, MOTION TO STAY LITIGATION (Dk. 71)**

I. INTRODUCTION

Plaintiff Source, Inc. ("Source") responds to Defendant Pinnacle Communications International, Inc.'s ("Pinnacle") Motion to Dismiss Source, Inc.'s Complaint Pursuant to Federal Rules of Civil Procedure 12(b)(4) and 12(b)(5) or Alternatively, Motion to Stay Litigation (Docket Entry No. 71).¹ Pursuant to Federal Rules of Civil Procedure 4(m), "the court shall extend the time for service" if plaintiff shows "good cause" for the failure to serve within 120 days of filing an action. Pinnacle's motion should be denied because Source has good cause for the delay.

II. RESPONSE TO MOTION TO DISMISS

Pursuant to Rule 4(m) the court shall extend the time for service if the plaintiff shows good cause for failure to serve within the 120-day period. Good cause entails, "good faith on the part of the party seeking an enlargement and some reasonable basis for noncompliance within the time specified." *Winters v. Teledyne Movable Offshore, Inc.*, 776 F.2d 1304, 1306 (5th Cir. 1985). Good faith settlement negotiations constitute good cause under Fed. R. Civ. 4(j). See *Assad v. Liberty Chevrolet, Inc.*, 124 F.R.D. 31 (D.R.I. 1989).

Source's primary goal has been to quickly and efficiently resolve its patent infringement claims with as many of the defendants as possible, especially before significant time and money is spent in discovery and on other pre-trial matters. To that end, Source made an effort to contact all defendants to determine whether a settlement

¹ Defendant 77Blue L.L.C. has joined in Defendant Pinnacle Communications International, Inc.'s motion to dismiss, or in the alternative, motion to stay (Dk. 74). This response is intended to cover 77Blue's joinder.

could be reached at the outset of this case. In this endeavor, Plaintiff Source has had success. Of the original 38 defendants, Source has now reduced that number significantly (approximately ten remaining defendants with active discussions still continuing with a number of those).

The technical nature of the claims and the number of parties has made the settlement process more time consuming than initially anticipated. Nevertheless, Plaintiff Source believes that the effort has been worthwhile. Source's reasonable delay in service has allowed Source to narrow the issues and parties and only bring before the Court those disputes that cannot be resolved after a legitimate effort to do so.

Plaintiff Source has made a good faith, reasonable effort to achieve greater efficiency in this lawsuit. As a result of that effort, it has in fact achieved greater efficiency in this lawsuit. The reduction in the number of defendants benefits all parties and reduces the burden on the Court. Source believes that those circumstances constitute good cause for an extension of the service deadline.

Finally, the relief requested in the defendant's motion is not in the interest of judicial economy. Source could dismiss and refile the case against Pinnacle, which is essentially what Pinnacle seeks, but that would constitute an inefficient use of the parties' and the Court's resources.

III. RESPONSE TO PINNACLE'S MOTION TO STAY

Source opposes Defendant Pinnacle's motion to stay this case because a stay will neither conserve judicial or party resources, nor further simplify the issues in this case. Source is asserting claims that have been confirmed in the reexamination process. For example, claims 19 and 30 (among others) are claims that were confirmed during the reexamination process. Thus, the parties will still

have a dispute over those confirmed claims and the defendants will have to address their infringement of those claims, regardless of the outcome of the pending appeal of rejected claims.

The parties will have to devote substantially the same amount of resources to the discovery phase of the litigation; the outcome of the appeal will not affect the number of infringing activities and the scope of discovery related to these infringing acts. The patent in suit here has previously been the subject of litigation in this Court, and the Court has conducted a *Markman* hearing, construing the salient terms of this patent.² As a result, there should be minimal dispute over claim construction.

As the movant has pointed out, the Patent-in-Suit expired in January 2009. Delay serves no legitimate purpose. Staying this case will not facilitate its resolution. Therefore, Source urges the Court to deny the defendant's motion.

A. Legal Analysis

The district court has the inherent power to control its own docket, including the power to stay proceedings. *Landis v. N. Am. Co.*, 299 U.S. 248, 254 (1936); *Soverain Software LLC v. Amazon.com, Inc.*, 365 F.Supp. 2d 660, 662 (E.D. Tex. 2005). Courts consider a number of factors in determining whether to stay litigation proceedings pending PTO reexamination including: (1) whether a stay will simplify the issues; (2) whether a stay would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and (3) whether discovery is complete and whether a trial date has been set. *Soverain Software LLC*, 356 F.Supp. 2d at 662.

² Case No. 2-05-CV-364, *Source, Inc. v. American Express Co.*, in the United States District Court for the Eastern District of Texas, Marshall Division.

There is no general rule that requires a court to stay litigation pending a reexamination or appeal of the reexamination process. *Viskase Corp. v. Am. Nat'l Can Co.*, 261 F.3d 1316, 1328 (Fed. Cir. 2001); see *Slip Track Sys., Inc. v. Brady*, 159 F.3d 1337, 1341 (Fed. Cir. 1998). In fact, the Federal Circuit has noted that a stay is not warranted where the copending actions in the district court and the PTO are neither duplicative, nor dependent on one another. *Slip Track Sys., Inc.*, 159 F.3d at 1341.

If a stay would more likely than not delay the district court proceedings without gaining any countervailing benefit, the court should proceed with the merits of the case without the benefit of the outcome of the reexamination or appeal thereof. *Agar Corp. v. Multi-Fluid, Inc.*, 983 F.Supp. 1126, 1127-28 (S.D. Tex. 1997), *aff'd per curiam*, 215 F.3d 1340 (Fed. Cir. 1999). This is especially true if the outcome will not produce results that would affect the remaining patent infringement claims. *Id.*

B. Extending the Stay Will Neither Conserve Resources nor Simplify the Issues

Proceeding with litigation will not waste the resources of this Court or of the parties. The time and effort both parties and the Court will devote to prosecuting this case will be substantially the same regardless of the outcome of the pending reexaminations. This is true because the case will go forward on the confirmed claims even if all of the examiners' rejections are affirmed by the appeals' board.

Moreover, the scope of discovery both parties will undertake will not be affected by the outcome of the reexamination appeal. For example, the confirmed claims will be asserted against the infringing program the defendant offers; these

confirmed claims will remain the same regardless of the outcome of the pending reexaminations. Also, damages associated with the infringing program do not depend on the outcome in the reexaminations. For these reasons alone, this Court should deny the defendant's motion to stay.

C. Delay Will Unduly Prejudice Source

Source's patents expired in January 2009. For each day that this case is delayed, Source is deprived of its ability to gain the benefit of its patents. A lengthy stay in this case will further harm Source because a stay undermines Source's ability to seek recourse from infringers, postponing the resolution of this dispute indefinitely.

As shown above, a lengthy delay will not serve to increase efficiency or reduce cost. In fact, it is likely to have the opposite effect. Source has been able to resolve its disputes with a significant number of the defendants because there is active litigation. With a stay, the parties are encouraged to do nothing. Firm trial settings resolve cases and reduce litigation costs; whereas a stay can discourage efficiency. See *Soverain Software LLC*, 356 F.Supp. 2d at 662-663. As a policy matter, a stay under these circumstances would invite parties to unilaterally frustrate timely patent case resolution through reexamination proceedings, regardless of the impact the reexamination might have on the proceedings. See *id.* It would also encourage defendants to delay the reexamination proceeding as much as possible.

IV. CONCLUSION

For the foregoing reasons, Plaintiff requests that the Court deny Defendant Pinnacle Communications International, Inc.'s Motion to Dismiss Source, Inc.'s Complaint Pursuant to Federal Rules of Civil Procedure 12(b)(4) and 12(b)(5) or Alternatively, Motion to Stay Litigation (Docket Entry No. 71).

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing instrument was served upon all counsel of record pursuant to the Federal Rules of Civil Procedure via the Court's CM/ECF on this 4th day of February, 2009, as follows:

/s/ David K. Anderson

David K. Anderson

ORDER

This Court has considered Defendant Pinnacle Communications International, Inc.'s Motion to Dismiss Source, Inc.'s Complaint Pursuant to Federal Rules of Civil Procedure 12(b)(4) and 12(b)(5) or Alternatively, Motion to Stay Litigation, Plaintiff's response, and arguments of counsel, and is of the opinion that the motion should be denied. It is, therefore,

ORDERED that Defendant Pinnacle Communications International, Inc.'s Motion to Dismiss Source, Inc.'s Complaint Pursuant to Federal Rules of Civil Procedure 12(b)(4) and 12(b)(5) or Alternatively, Motion to Stay Litigation is DENIED.