UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

C.R. LAURENCE CO., INC., a California corporation,

Plaintiff,

v.

FRAMELESS HARDWARE COMPANY LLC, a Delaware limited liability company;
CHRISTOPHER HANSTAD, an individual;
BARRY SUTHERLAND, an individual;
GLASSWERKS LA, INC., a California corporation; and
RANDY STEINBERG, an individual,

Defendants.

Case No. 2:21-cv-01334-JWH-RAO

ORDER GRANTING DEFENDANTS' MOTION TO STAY PENDING COMPLETION OF USPTO *INTER PARTES* REVIEW PROCEEDINGS AND DENYING DEFENDANTS' MOTION TO SEVER NON-PATENT-RELATED CLAIMS [ECF No. 102]

Before the Court is the motion of Defendant Frameless Hardware Company LLC ("FHC") to sever and stay patent-related claims and counterclaims pending completion of U.S. Patent and Trademark Office ("PTO") *Inter Partes* Review ("IPR") proceedings involving U.S. Patent No. 9,074,413 (the "'413 Patent").[1] The Court finds this matter appropriate for resolution without a hearing. *See* Fed. R. Civ. P. 78; L.R. 7-15. After considering the papers filed in support and in opposition,[2] the Court orders that the Motion to stay is **GRANTED** and that the Motion to sever is **DENIED**, as set forth herein.

I. BACKGROUND

A. Procedural History

Plaintiff C.R. Laurence Co., Inc. ("CRL") commenced this action in February 2021. Six months later, the Court granted CRL's motion for a preliminary injunction.[3] In March 2022, CRL filed its operative Third Amended Complaint. FHC filed its first motion to stay in January 2022, which this Court denied in February 2022.[4] FHC submitted the instant Motion to stay and sever in July 2022,[5] and it is fully briefed.

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[1] Defs.' Mot. to Stay and Sever (the "Motion") [ECF No. 102].

[2] The Court considered the documents of record in this action, including the following: (1) Third Am. Compl. (the "Amended Complaint") [ECF No. 85]; (2) Order Regarding Def. Mot. to Dismiss and Mot. to Stay (the "Stay Denial Order") [ECF No. 83]; (3) the Motion (including its attachments); (4) Pl.'s Opp'n to Mot. to Stay and Sever (the "Opposition") (including its attachments) [ECF No. 105]; (5) Defs.' Reply in Supp. of the Mot. to Stay and Sever (the "Reply") [ECF No. 106]; and (6) Pl.'s Sur-Reply in Opp'n to Mot. to Stay and Sever [ECF No. 111].

[3] *See* Order Granting Pl.'s Mot. for Prelim. Inj. [ECF No. 46].

[4] *See* Stay Denial Order.

[5] *See* Motion.

B. Factual Allegations

CRL provides the architectural glass industry with supplies and equipment.[6] In 2019, high-ranking former CRL employees, including Defendant Christopher Hanstad, formed Defendant FHC to compete with CRL.[7] CRL alleges that FHC's entry into the market was based upon products and services that FHC developed through its theft of CRL's property.[8] Specifically, CRL alleges that FHC illegally accessed CRL's "computer systems to use proprietary software programs to design and sell products to compete directly with CRL."[9] CRL further contends that FHC infringed one of CRL's patents, misappropriated other trade secrets and intellectual property, and engaged in unfair competition.[10]

CRL asserts the following 12 claims for relief:

- violation of the Computer Fraud & Abuse Act, 18 U.S.C. §§ 1030, *et seq.*;
- violation of Cal. Penal Code § 502;
- patent infringement under 35 U.S.C. §§ 101, *et seq.*;
- violation of the Defend Trade Secrets Act, 18 U.S.C. §§ 1832, *et seq.*;
- violation of the California Uniform Trade Secret Act, Cal. Civ. Code §§ 3426, *et seq.*;
- violation of the Lanham Act § 43(a), 15 U.S.C. § 1125(a);
- common law unfair competition;
- fraud;
- breach of contract;
- intentional interference with contract;

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[6] Amended Complaint ¶ 2.

[7] *Id.* at ¶ 3.

[8] *Id.*

[9] *Id.*

[10] *Id.*

- unjust enrichment and restitution; and
- violation of California's Unfair Competition Law (the "UCL"), Cal. Bus. & Prof. Code § 17200.[11]

II. LEGAL STANDARD

A. Motion to Stay

Courts have broad discretion to stay cases, including staying discovery therein, in the interests of judicial economy and to ensure the orderly and efficient management of litigation. *See Landis v. North American Co.*, 299 U.S. 248, 254 (1936) ("The power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants."); *Chambers v. NASCO, Inc.,* 501 U.S. 32, 45-46 (1991) (noting court's broad inherent authority to address discovery issues); *see also* Fed. R. Civ. P. 26(b)(2)(C)(iii) ("On motion or on its own, the court must limit the frequency or extent of discovery otherwise allowed . . . if it determines that the burden or expense of the proposed discovery outweighs its likely benefit, considering the needs of the case, the amount in controversy . . . .").

Specifically, a "trial court may, with propriety, find it is efficient for its own docket and the fairest course for the parties to enter a stay of an action before it, pending resolution of independent proceedings which bear upon the case." *Leyva v. Certified Grocers of California, Ltd.*, 593 F.2d 857, 863 (9th Cir. 1979) (citing multiple cases). Courts may grant a stay to promote "the orderly course of justice[.]" *CMAX, Inc. v. Hall*, 300 F.2d 265, 268 (9th Cir. 1962) (citing *Landis*, 299 U.S. at 254-55).

[11] *See generally id.*

B. Motion to Sever

The Federal Rules of Civil Procedure allow a court to "sever any claim against a party," pursuant to a district court's broad discretion. Fed. R. Civ. P. 21; *see Coleman v. Quaker Oats Co.*, 232 F.3d 1271, 1297 (9th Cir. 2000). Courts consider the following factors when determining whether to grant a severance: "whether (1) the claims arise out of the same transaction or occurrence; (2) the claims present some common questions of law or fact; (3) settlement of the claims or judicial economy would be facilitated; (4) prejudice would be avoided if severance were granted; and (5) different witnesses and documentary proof are required for the separate claims." *Broadcom Corp. v. Sony Corp.*, 2016 WL 9108039, at *2 (C.D. Cal. Dec. 20, 2016) (citations omitted).

III. DISCUSSION

A. Motion to Stay

Although this Court denied FHC's first motion to stay,[12] factual circumstances have changed that warrant a reconsideration of whether a stay is appropriate. On July 8, 2022, the PTO granted FHC's first IPR petition and instituted an IPR of Claims 1, 4, 5, 7, and 8 of the '413 Patent, which CRL owns.[13] The PTO concluded that FHC "has provided sufficient argument and evidence in relation to challenging" those Claims "to demonstrate a reasonable likelihood that [FHC]would prevail with respect to this challenge at trial."[14] Additionally, on September 13, 2022, the PTO granted FHC's second IPR petition and instituted a second IPR concerning Claim 8 of the '413 Patent. The PTO concluded that FHC "has demonstrated a reasonable likelihood of success

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[12] *See* Stay Denial Order.

[13] Motion 17:17-19.

[14] *Id.* at 18:12-21.

in proving that at least one claim of the '413 patent is unpatentable."[15] With a likelihood that FHC will prevail before the PTO on multiple Claims, the Court elects to revisit its previous Order.

"Courts consider three factors when determining whether to grant a stay pending IPR: '(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 non-moving party.'" *Finjan, Inc. v. Symantec Corp.*, 139 F. Supp. 3d 1032, 1035 (N.D. Cal. 2015) (quoting *Evolutionary Intelligence, LLC v. Facebook, Inc.*, 2014 WL 261837, at *1 (N.D. Cal. Jan. 23, 2014)). The inquiry is not limited, however, to those three factors. *See Universal Elecs., Inc. v. Universal Remote Control, Inc.*, 943 F. Supp. 2d 1028, 1031 (C.D. Cal. 2013). "Rather, 'the totality of the circumstances governs.'" *Id.* (quoting *Allergan Inc. v. Cayman Chem. Co.*, 2009 WL 8591844, at *2 (C.D. Cal. Apr. 9, 2009)). "The moving party bears the burden of demonstrating that a stay is appropriate." *Finjan*, 139 F. Supp. 3d at 1035 (citing *Netlist, Inc. v. Smart Storage Sys., Inc.*, 2014 WL 4145412, at *1 (N.D. Cal. Aug. 21, 2014)).

In light of the PTO's decisions granting FHC's petitions and instituting two IPR proceedings concerning the '413 Patent, the decision whether to grant a stay pivots on the second *Finjan* factor. Granting a stay in this case will simplify issues relating to the patent infringement claim for relief and will conserve judicial resources if the Court refrains from conducting a *Markman* hearing or issuing a claim construction order concerning issues that will be addressed in connection with the pending IPR proceedings.[16]

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[15] *See* Defendant's Notice that PTO has Granted Second IPR [ECF No. 113].

[16] *Id.* at 22:19-23:10.

The instituted IPR proceedings could invalidate—and thereby eliminate from this case—five claims in the '413 Patent. But even if those patent claims survive, the IPR process will assist the Court by providing guidance from the PTO and clarifying the scope of the claims.[17] Additionally, the second *Finjan* factor weighs against this Court continuing litigation in parallel with the IPRs on the relevant claims, because the creation of extrinsic evidence will affect claim construction and will complicate issues within the case.[18] Because granting the Motion to Stay will allow the PTO IPR to clarify issues in this case, given the weight of the second factor, on balance the above factors now favor granting the stay.

B. Motion to Sever

Having determined that a stay is appropriate, the Court must now decide whether to sever all non-patent claims and allow them to proceed independently. Weighing the five *Coleman* factors, the Court denies FHC's Motion to sever.

1. Same Transaction or Occurrence

CRL's patent infringement claim against FHC relates to or supports multiple other claims for relief in this case, including CRL's CFAA claim, Cal. Penal Code § 502 claim, unjust enrichment claim, and Cal. Bus. & Prof. Code § 1700 claim.[19] In short, all of CRL's claims for relief arise from the same alleged theft of intellectual property by CRL's former employee who then started his own company.

FHC argues that CRL's non-patent claims for relief "do not concern CRL's patented products and systems" and "[a]t most . . . make passing reference to CRL's patent and FHC's [HERC]-Door product."[20] FHC also

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[17] *Id.* at 23:22-24:11.

[18] *Id.* at 24:17-22.

[19] Opposition 23:18-22.

[20] Motion 29:14-27.

contends that the state-law unjust enrichment claim and UCL claim are preempted by federal patent law.[21]

This Court finds that the non-patent claims for relief still relate to the same transaction or occurrence, and that finding weighs against granting the Motion to sever. CRL's non-patent claims are plainly linked to FHC's alleged misappropriation of protected information and technology, FHC's development of competing technology, and FHC's sales of HERC-Door technology and products.

FHC's federal patent law preemption arguments fail because, as CRL notes, the cases that FHC cites address only state-law claims duplicating the patent claim or remedy.[22] Because CRL is not pursuing a duplicate claim or remedy, that argument does not support severance.

2. Common Questions of Law or Fact

FHC argues that the patent-related claims and counterclaims do not present a common question of law or fact because they are unrelated to issues raised in the non-patent claims such as unauthorized computer access, theft of supplier information, and breach of license agreements.[23]

As detailed in the Court's analysis of the first *Coleman* factor above, the underlying validity and scope of the '413 Patent will affect the viability of CRL's non-patent claims, as they all hinge on or closely relate to the alleged misuse or misappropriation by FHC of CRL's patented HERC-Door product and related confidential information. The Court concludes that common elements of law and fact exist between the patent and non-patent claims for relief.

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[21] *Id.* at 30:1-9.

[22] Opposition 23:25-24:6.

[23] Motion 30:20-31:5.

3. Judicial Economy

Both FHC and CRL argue that severing the non-patent claims would promote judicial economy—FHC contends that severance would allow the parties and Court to focus on patent and non-patent issues separately,[24] while CRL argues against staying any portion of the case.[25] This Court disagrees with both positions because, with patent-related claims stayed, it would not be in the interest of judicial economy to proceed with the non-patent claims. Allowing the non-patent claims to proceed to trial would lead to the duplication of motions by the parties and orders by the Court, along with the potential for two separate juries and trials on patent and non-patent claims. As a result, *Coleman* factor three weighs against granting the Motion to sever.

The Court also notes that if it severs the case, then it will have to spend nearly twice the amount of judicial resources to resolve a dispute between the same parties, who are represented by the same attorneys. "As a general rule, holding multiple trials when claims could be consolidated in one trial is not conducive to judicial economy." *See*, *e.g.*, *Thomas v. Wilber*, 2015 WL 4615911, at *6 (E.D. Cal. July 31, 2015). In addition, by not severing the case, the parties are more likely to take steps toward resolution. "[L]ogic dictates that holding two trials, as opposed to one, will inevitably cause delay in resolution of the parties' disputes." *Spectra-Physics Lasers, Inc. v. Uniphase Corp.*, 144 F.R.D. 99, 101 (N.D. Cal. 1992).

4. Prejudice

Neither party directly argues that it would be prejudiced by severing the non-patent claims. CRL's opposition incorporates its arguments against the Motion to stay,[26] whereas FHC argues only that it would be prejudiced if it was

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[24] *Id.* at 31:6-16.

[25] Opposition 24:27-25:7.

[26] *Id.* at 25:8-12.

required to litigate the patent-related claims while they are undergoing review in the IPR proceedings.[27] As a result, the fourth *Coleman* factor is neutral.

5. Witnesses and Documentary Proof

FHC argues that there is little or no overlap in witnesses for CRL's patent and non-patent-related claims because "[m]ost of the potential witnesses identified by the parties have nothing to do with CRL's claims of patent infringement."[28] The Court is not convinced.

The Court agrees with CRL that the testimony of Gary Sprague, the named inventor of the '413 Patent and designer of the accused HERC-Door product, will be relevant to all of CRL's claims—both patent and non-patent.[29] Additional documents and discovery will be required in this case, and patent- and non-patent-related witnesses may be relevant to both types of claims. Although FHC argues that the documents relevant to the patent-related claims and counterclaims are "mostly different" from those relating to the non-patent claims, that fact is not enough to warrant severance.[30]

Weighing the five *Coleman* factors in considering the Motion to sever, the Court concludes that the Motion should be **DENIED**.

IV. CONCLUSION

For the foregoing reasons, the Court hereby **ORDERS** as follows:

1. This action is **STAYED** (including all discovery activities, case management deadlines, and hearings) until further order of this Court. Any party may move for relief from stay at any time, for good cause shown.

2. The *Markman* Hearing scheduled for December 22, 2022, is **VACATED**.

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[27] Motion 31:17-25.

[28] *Id.* at 32:3-4.

[29] Opposition 25:13-15.

[30] Motion 32:10-12.

3. FHC is **DIRECTED** to file a Status Report within 14 days of the resolution of each IPR proceeding currently pending before the PTO.

4. The Motion to Sever is **DENIED without prejudice**.

5. The Clerk is **DIRECTED** to close this case administratively.

IT IS SO ORDERED.

Dated: December 9, 2022

John W. Holcomb
UNITED STATES DISTRICT JUDGE