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Carry a big stick



It's patently obvious — knowledge is power when it comes to defending intellectual property rights

BY CHRISTINA P. O'NEILL

They're "bet-the-company" cases, and they're like hurricanes. They begin with sound and fury, and their paths are often unpredictable. While they're active, they can blow apart a small company's balance sheet and give incredible power to a large company. They are strategic weapons made of paper. They are patent infringement lawsuits.

Companies that have survived the storm of patent litigation are often bound by laws of confidentiality so strict they don't even want to give the appearance of comment. So, how can other patent holders learn how to come out ahead in protecting innovations that are rightfully theirs — or even avoid legal trouble in the first place?

Attorneys say most of the good stuff is left out of court documents on patent cases — and it's for a reason. Lawsuits that start with multi-page complaints and reams of patent documents, claims and counterclaims, often end with a one or two paragraph stipulation of dismissal stating the parties have amicably resolved the dispute.

Ask a winning company fresh out of a patent suit how this higher ground was achieved, and you'll almost always get turned away, largely because of the strict confidentiality requirements. Most companies bound by these agreements — particularly smaller ones — really seem to feel under threat. Data storage giant Hopkinton-based EMC Corp. was willing to talk to us about its most recent patent settlement, a pact with rival Hewlett-Packard that awarded EMC \$325 million. And much-smaller Solmetex Inc. was free to talk to us because that company has bought out its would-be patent rival.

Solmetex came out of that deal with an expanded business footprint which includes its rival's Vancouver office, its patents, its sales force — and it was spared the costly expense of bringing the case to the numerous court districts in which it does business. In other cases, it's common for plaintiffs to offer defendants licenses, as long as the defendant isn't eating

Mirick O'Connell patent attorney Brian Dingman poses with a lacrosse stick made by Milford-based Brine Inc. Dingman helped defend Brine against patent infringement by a competitor, in a case that's being appealed. He says patents are an increasingly important property right of companies — particularly in an innovation economy such as Massachusetts.

into the patent-holder's sales, because license revenue goes straight to the patent-holder's bottom line. But these deals are often done with little fanfare, which makes it hard for companies to learn from the experience of others.

Veil of secrecy or no, the dynamics of patent law are worth knowing for companies of any size in a regional economy that stresses the need for constant innovation. The stakes for patent infringement lawsuits have gotten higher in the two decades since the establishment of a federal circuit court that hears patent appeals from lower courts, say local patent attorneys. Three patent attorneys we spoke to are willing to dish, at least on the parameters, if not the names and terms, of make-or-break players and tactics in the growing theatre of intellectual property.

Of the 25 patent cases filed in U.S. District Court in Worcester since Jan. 1, 2000, 14 have been settled — two of them before the deadline for filing a formal complaint (see chart, page 12). Four are ongoing, three have resulted in awards, two resulted in judgments against the defendant, one demanded \$1 million in damages but was dismissed, one is about to be appealed, and two were transferred. The majority of Mass. patent cases are filed in the Boston court, which is where most of the state's patent attorneys are concentrated.

Paper power

"Big companies are usually not looking at their smaller competitors to determine whether their patents are infringed, because they [outsell] them in the marketplace," says Brian Dingman, a patent attorney and partner in the Worcester law firm of Mirick O'Connell. Instead, he says, big companies use their often-extensive patent portfolio as a defense, to mitigate their own potential liability under infringement of someone else's patents. If a comparably sized plaintiff accuses them of patent infringement, it's very likely that the rival is infringing on some of the defendant's patents as well — giving the defendant a position of strength from which to bargain.

A patent is a negative right, not a positive right, Dingman says. The law grants its owner a right — not a right to use its invention, but to prevent others from using it. In fact, patent law doesn't require a company to commercialize - or even *make* its patented technology. "All that's required is that the idea be sufficiently developed so it can be fully explained on paper," he says.

Dingman led a team that successfully defended Milford-based Brine Inc. in a patent infringement case Brine brought against a

Baltimore-based competitor, STX Inc. Brine filed suit in 1999 and got a jury verdict in its favor in November 2003, related to sale of three STX sticks — Octane, Proton and X2. In January 2004 in US District Court in Worcester, a jury ruled that STX had infringed Brine's patent. The presiding judge issued a permanent injunction against STX and awarded Brine a total of \$2 million — \$1.9 million in lost profits and about \$100,000 in pre-judgment interest. Then STX started selling the X2+. In April of this year, the presiding judge found STX guilty of contempt of court, based on the determination that X2+ was "substantially the same" as the X2 stick STX had previously sold — which also used the same technology as Brine's. STX, which has stopped selling the sticks, is appealing the contempt ruling, which is due to go into oral argument July 8. Meanwhile, more than 2,000 STX sticks now lie in bonded storage, where they'll remain pending the outcome of the appeal. A company official declines comment on the case except to say Brine only wants to preserve the rights granted to it under the patent.

Bet your company — or buy theirs

Other Central Mass./Metrowest cases include Northboro-based Solmetex Inc., one of the few companies that is willing to comment. Solmetex is not bound by confidentiality agreements because it acquired a smaller rival, Vancouver-based Maximum Separation Systems Inc. At issue was a dental amalgam separation system that filters the mercury in dental amalgam out of the water supply. Solmetex was one of the *Worcester Business Journal's* Environmental Award winners of 2004 for the amalgam separation device.

Despite Maximum's size, the Canadian company was intent on going to court, says Solmetex President Owen Boyd. "They were willing to do it," he says. "Everybody in a patent suit has their opinion as to how solid the ground is that they're standing on." So was Solmetex, he says. But that didn't mean he was going to rule out option B — buying out Maximum.

Solmetex successfully made its case for an acquisition instead of litigation to Maximum's management on the basis of costliness. If the case went to court, it would have to be brought in Canadian, U.S. and European courts — everywhere the two companies did business. The acquisition, which was completed in March of this year, presents business opportunities Solmetex would not otherwise have had, says Boyd. Solmetex now owns all Maximum Separation's patents; it has a Vancouver office and representation in



Northboro patent attorney Brett Dorny says 95 percent of all patent-infringement cases settle out of court because defendants "don't want to be labeled as thieves."

Canada.

Worcester-based Curtis International Inc. has declined comment on its legal proceedings with a much larger competitor. The case was settled and closed in 2002. Natick-based Boston Scientific Co. Inc., a multi-billion-dollar medical device maker, is currently involved in four large patent suits (see *News Briefs*, page 8) and has declined to comment on any of them, as they are ongoing.

Bigger companies have stronger patent portfolios and have established strategies on how to use them, whereas smaller companies use patents only to protect their technologies to prevent competition in their core business. Most of them don't get sophisticated in patent strategies until they're large enough to have a budget for it, or in-house counsel, attorneys say.

Reach out and sue someone

In a suit filed in U.S. District Court in Boston on June 10, Norcross, GA-based Furukawa Electric North America and its wholly-owned subsidiary, OFS Fitel LLC, which has operations in Sturbridge, filed suit against a China-based company, Yangtze Optical Fiber and Cable Co. Ltd. alleging that the latter had infringed at least four U.S. patents related to single-mode and multi-mode optical fiber and processes for making optical fiber. The Sturbridge facility, the former SpecTran Corp., had developed its fiber technology in the 1980s and 1990s before

being sold to Lucent Technologies, which then sold it to Furukawa. That company and OFS are seeking unspecified monetary damages from Yangtze as well as a permanent injunction barring the import and sale of Yangtze's principal suite of optical-fiber-based products. Repeated attempts to get comment from OFS Fitel were unsuccessful at press time.

Patent litigation has gotten more teeth since the early 1980s, when the Federal Circuit Court of Appeals was given the power to hear all appeals from lower court levels of patent cases. This court, according to Brett Dorny, an independent Northboro-based patent attorney, is experienced at dealing with patents. "Before that occurred, it was a coin flip," Dorny says, in which half of all patent rulings were thrown out. Now, with the Federal Circuit Court of Appeals, between 70 percent and 80 percent of rulings are upheld - if a defendant has the money to pay for an appeal to this court. The improved prospects have encouraged more patent litigation, he says, both among companies and patent attorneys. "If there is a large enough payback, there are [law firms] that will take the case on for a percentage," he says.

Donald Holland, partner in the Longmeadow law firm of Holland & Bonzagni PC, says the process begins like this: A company which thinks it's a victim of infringement will write a cease and desist letter



Never underestimate the willingness of the other side to go to court, warns Longmeadow attorney Don Holland. Regardless of the relative strength of each side's position, it may be late in the case before the infringer gives up the fight.

to the alleged infringer, and typically sets a deadline by which the alleged infringement must stop, or they will get sued. "That will work many times if the infringer [doesn't have] a lot of money invested in the infringing product," he says. If the infringer has millions invested, chances are, the issue will go to litigation. If the infringer realizes the complaining company has a case, characteristically, they'll work out a phase-out agreement to sell or liquidate the offending inventory.

Friendly versus unfriendly

Timing is everything. Companies that seek a cross-licensing agreement with a rival firm would do well to approach that firm proactively rather than wait until receiving a "nastygram" from the rival's corporate counsel. A friendly approach is far likelier to result in lower royalty payments — not to mention far lower legal fees — than an after-the-fact confrontation, say the attorneys to whom we spoke.

Holland notes that sometimes the owner of a patent may just want to shut down the infringer, to protect its own price points. But if the infringer isn't in a market area competitive with the aggrieved party, it might not mind if the infringer pays a royalty and gets the first party into a market in which it wouldn't otherwise be. "As long as the infringer makes a quality product that will reflect well upon the reputation of the patent holder," Holland says, "then, you don't mind a license."

In fact, licenses are a not-uncommon outcome of patent litigation, says Mirick O'Connell's Dingman, particularly if the plaintiff isn't losing sales as the result of the defendant's actions. Additionally, he says, royalty revenue from a licensing agreement goes straight to the plaintiff's bottom line.

But if things go south, he says, an injunction can stop anyone from making, using or selling the infringing product — or they'll get sued. Lag time between injunction and trial could be years — and usually, the infringer backs out because the injunction has already telegraphed to them that they're not going to prevail.

Ultimately, Holland says, most patent cases are settled out of court because of the stigma attached to being labeled as an infringer — or the financial burden of litigation, for which attorney fees can range from \$500,000 into the multi-million-dollar category — representing the bulk of a smaller company's entire annual income.

Most legal liability insurance policies cover trademark and copyright issues, but don't cover patent infringement. Patent litigation can take anywhere from three to four years for

the district court level and then to appeal it could take two years more. That's why the vast majority of patent cases — about 95 percent nationally — settle out of court.

Dingman adds some observations on protocol that could save thousands of dollars in legal fees. First, the cease-and-desist letter is critical to making a good case in court. Judges tend to get annoyed at companies that don't contact the prospective defendant with a cease-and-desist letter before filing a claim. Additionally, in cases that do go to trial, juries will look more favorably on a patent-holder who gave the defendant a chance to back away, he says.

Additionally, he says, never underestimate the willingness of the other side to go to court. Holland concurs. "Too often the patent holder underestimates the will of the infringer," he says, and it may be late in the case before the infringer gives up the fight.

Beware of counterclaims, Holland notes. Concurring with EMC's Paul Dacier (see sidebar, page 10) that counterclaims can take on a life of their own, he says a judge may decide the original case is not worth pursuing, but the counterclaim is. In that event, the original case gets thrown out, and all the jury sees are the counterclaims.

Win in court, lose in the marketplace

The way cases are decided can literally form a company's future. Winning patent litigation may ultimately not be a win for the patent-holder. The cases of Polaroid versus Kodak - and Sony, with its guarding of the intellectual property of Betamax, are examples. Instead of sharing their market or developing technology, Polaroid and Sony prevailed in court but lost in the marketplace. On the flip side, there's the EMC-Hewlett Packard litigation, which, officials from both companies state in the press release announcing the settlement, is expected to lead to better business relationships between the two companies.

But for the most part, because of the push-pull nature of patent litigation, companies in settlements with rival firms either are unwilling or unable to talk about the outcome of litigation. Dorny says, "A lot of deals are done very quietly and there's not a lot of fanfare about what the deal was."

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Central Mass. patent suits, U.S. District Court, Worcester, 2000-present

Companies in boldface are based in *Worcester Business Journal's* readership area.

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Case title	Case dates	Item contested	Status or disposition
Brine Inc. et al v STX LLC et al	Filed 9/29/99 Reopened 5/21/01 Reclosed 1/21/04 To reopen 7/8/05	Lacrosse stick design	\$1.9 million awarded to plaintiff \$1 million pre-judgment interest Defendant appealing
Truebro Inc. v Plumberex Specialty et al	Filed 8/11/00 Closed 3/10/04	Under-sink plastic guard	Court trial \$2.1 million awarded to plaintiff Case closed
Tuthill Corp. vs Ramfan Corp.	Filed 1/10/00 Closed 1/4/01	Plastic diffusers for gas flow products	Demand \$1 million Dismissed
Cabot Safety International et al vs Bacou USA Safety Inc.	Filed 1/31/00 Closed 8/15/00	Pantoscopic adjustment for safety eyewear	Dismissed - settled
Thermo Web Systems (1) vs Kaneng Industries	Filed 2/11/00 Closed 11/8/00	Doctor blade for paper-making machinery	Dismissed - settled
Connectel LLC vs Tundo Corp.	Filed 8/15/00 Closed 12/5/00	Multi-protocol telecommunications routing device	Dismissed voluntarily (2)
EMC Corp. vs Hewlett-Packard Corp. et al	Filed 10/20/00 Closed 1/27/05	Redundant storage with mirroring	Judgment - jury verdict
Vox2 Inc. v Telular Corp.	Filed 2/21/01 Closed 6/07/01	Telecommunications equipment	Dismissed voluntarily (2)
Curtis International et al vs Douglas Dynamics et al	Filed 4/27/01 Closed 4/15/02	Vehicle hitch mount assembly for snowplow	Dismissed - settled
Nugenesis Technology vs Scientific Software	Filed 7/11/01 Closed 2/5/03	Storage and retrieval of visual data	Dismissed - settled
Cabot Safety International et al vs Crews Inc.	Filed 11/12/02 Closed 8/12/04	Safety eyewear	Transfer/remand Transfer to another district
EMC Corp. vs Hewlett-Packard Corp. et al	Filed 9/30/02 Closed 6/20/03	Redundant storage with mirroring	Dismissed — settled
The Holmes Group Inc. vs Hamilton Beach	Filed 4/8/02 Closed 1/17/03	Air filtration device	Dismissed - settled
EMC Corp. vs Hitachi Data Systems et al	Filed 4/11/02 Closed 4/1/03	Data storage	Dismissed - other (3)
Hitachi Ltd. et al vs EMC Corp.	Filed 7/25/02 Closed 4/1/03	Data storage	Dismissed - other (3)
The Holmes Group Inc. vs. Tilia International	Filed 1/15/03 Closed 4/14/03	Apparatus for vacuum-sealing plastic bags	Dismissed voluntarily (2)
Technofirst SA vs David Clark Co. et al	Filed 5/12/03 Closed 8/12/03	Sound suppression devices	Dismissed - settled
The Holmes Group Inc. vs RPS Products Inc.	Filed 7/3/03	Air purifier	Ongoing
Maximum Separation Systems vs Solmetex Inc.	Filed 6/25/04 Closed 5/26/05	Dental amalgam separation system	Dismissed - settled
Solmetex Inc. vs Maximum Separation Systems Inc.	Filed 2/17/04 Closed 5/26/05	Dental amalgam separation system	Dismissed - settled
Saint-Gobain Ceramics and Plastics Inc. vs Coorstek Inc.	Filed 3/3/04 Closed 3/21/05	Specialty industrial ceramic	Judgment on consent (4)
P&M Services Inc. vs Lavallee & Ide	Filed 8/27/04 Closed 4/13/05	Method and device for cutting cylindrical paper roll	Transfer/remand to another district
Inner-Tite Corp. vs Dewalch Technologies	Filed 10/27/04	Security locks	Ongoing
Angel Guard Products Inc. vs Hopkins Manufacturing Co. Inc.	Filed 1/18/05	Snow rake	Ongoing
Saint-Gobain Abrasives Inc. vs Pferd Inc.	Filed 2/24/05	Long-life grinding-wheel hub	Ongoing

Source: U.S. District Court, Worcester

Notes: (1) Thermo Web Systems is now called Kadant Corp. (2) In voluntary dismissal, a plaintiff may dismiss an action without a court order anytime before the defendant serves an answer or moves for summary judgment, or by stipulation of the parties. Otherwise, a court order is required. A court-ordered dismissal will not prevent the plaintiff from bringing the action again unless the order so states. A dismissal without a court order will not bar the plaintiff from bringing the action again unless the plaintiff has brought the same action already. (3) The outcome of these cases is sealed. (4) In a judgment on consent, parties agree to have the court determine the outcome which neither party can appeal.