

Beck was represented by Natalie Hanlon-Leh of Faegre & Benson, Denver. E3 was represented by Benjamin B. Lieb of Sheridan Ross, Denver.

BY NATHAN POLLARD

Full text at <http://pub.bna.com/ptcj/0813344pBeck.pdf>

## Patents/Infringement

### California Ink Cartridge Recycler Challenges Epson's Patent Infringement Claims

**L**OS ANGELES—A California start-up company that recycles inkjet and toner cartridges countersued Seiko Epson Corp. July 27, claiming that Epson's claims for patent infringement are barred by the patent exhaustion doctrine (*Seiko Epson Corp. v. Abacus 24-7 LLC*, D. Ore., No. 09-447-BR, counterclaims filed 7/27/09).

Green Project Inc., a Calif.-based recycler of inkjet cartridges, also accused the Japanese conglomerate of trade secret misappropriation and trespass, charges that stem from an Epson employee allegedly gaining access to Green Project's competitive business information by pretending to be a customer.

"Basically, Epson was spying on us, including gaining sensitive pricing information, through false pretenses," Green Project President Joseph Wu said in a statement.

Herbert W. Seitz, an Epson employee, gained access to Green Project's premises and its sensitive business information by using a false name and a fabricated company, while pretending to be a prospective customer, the Green Project counterclaims stated.

Epson on June 18 added Green Project to its lawsuit, filed earlier this year in U.S. District Court for the District of Oregon, against a handful of suppliers that make "compatible" after-market inkjet cartridges, which work with Epson printers.

However, while those firms also recycle Epson cartridges, Green Project only recycles cartridges; it does not make compatibles, the company noted.

Because Green Project "takes great care to recycle ink cartridges that are first sold in the U.S. by major brand manufacturers such as Epson," Green Project asserted in its countersuit that Epson's claims are barred in whole because the Japanese firm's patent rights "were exhausted at the time of the first sale of the patented products under the first sale doctrine or the doctrine of patent exhaustion."

"Basically, it's like saying that when you buy a car, they (Epson) are saying you cannot rebuild the engine," Thomas T. Chan of the Los Angeles-based Chan Law Group told BNA Aug. 24.

While the initial lawsuit, and the countersuit, were filed in U.S. District Court for the District of Oregon, Chan said he expects to soon file a motion to move the proceedings to federal court in Los Angeles.

Green Project is not selling compatibles—it is only repairing (refilling) Epson-manufactured cartridges, so that they can continue to serve their initial purpose, Chan, who is representing Green Project, added.

In fact, Epson America, on its website, says that refilling its ink cartridges is legal, Chan noted.

**Quanta Ruling Invoked.** Moreover, the U.S. Supreme Court, in *Quanta Computer Inc. v. LG Electronics*, 128 S. Ct. 2109, 86 USPQ2d 1673 (2008) (76 PTCJ 205, 6/13/08), ruled that a patent holder's rights were exhausted after the first authorized sale of the patented item, Chan noted.

"This is not new law," he told BNA.

However, that law applies only to patented goods first sold in the United States, which is not the case in the instant lawsuit, Harold A. Barza, an attorney with Quinn Emmanuel Urquhart Oliver & Hedges, Los Angeles, who is representing Epson, told BNA Aug. 24.

Epson is charging that Green Project buys and refills empty Epson cartridges in China, and then resells them in the United States, Barza noted. Epson does not pursue cartridge recyclers if the cartridges were first sold in the United States, he said.

The *Quanta* decision did not really deal with that issue, but the Federal Circuit's ruling in *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 73 USPQ2d 1678 (Fed. Cir. 2005) (69 PTCJ 274, 1/21/05), did, with the appellate court finding that the exhaustion doctrine applies only if the first sale is in the United States, Barza said.

Chan, however, insisted that Green Project only buys cartridges that were first sold in the United States.

"No doubt about it," he told BNA, adding that the sole reason Green Project was set up was to meet the first sale doctrine requirements. To that end, it buys only cartridges that were first sold in the United States, and then shipped to China, where they are refilled and brought back for sale in the United States, he said.

**Invalidity, Misuse, Estoppel Defenses Asserted.** In its countersuit, Green Project offered nine affirmative defenses against Epson's claims, including that: Epson's patents are invalid and/or unenforceable; Epson's patent rights were exhausted at the time of first sale; Epson's claims constitute patent misuse; and the claims are barred by equitable estoppel.

Green Project also asserted that Epson was, or should have been, aware of the "development, import, manufacture, use, offer for sale and/or sale of the accused products by Green Project long before this action."

Epson's delay in waiting until April 2009 to bring its legal action was both "unreasonable and inexcusable," and thus the action should therefore be barred by the doctrine of laches, Green Project argued.

Green Project is seeking: a declaration that the patents asserted by Epson are invalid and unenforceable; damages according to proof; restitution; and a permanent injunction enjoining Epson and Seitz from disclosing or using the Green Project trade secrets obtained under false pretense.

**Trade Secret Claim: Price Lists Taken.** In its misappropriation of trade secrets counterclaim, Green Project charged that at all relevant times, Seitz was acting as an agent of Epson America, and Epson America had full knowledge of, and authorized, Seitz's actions and conduct.

According to Green Project, in May, Seitz misrepresented his identity as K.C. Wells from K&R Supplies in Huntington Beach (Calif.) to William C. Lee, Green Project's director of sales. He allegedly misrepresented that he was a supplier of ink cartridges to local schools,

and expressed an interest in Green Project's ink cartridges for Epson printers.

"Seitz then misled Lee into sending Green Project's price lists and ISO certifications to Seitz via electronic mail," the lawsuit alleged. The price lists and ISO certifications constitute trade secrets protected under both Oregon and California statutes, the complaint stated.

Seitz misappropriated Green Project's trade secrets by misrepresenting himself, and Epson is liable for his actions under the doctrine of respondeat superior, it added.

On another occasion, Seitz misrepresented himself as a potential customer, and gained entry to Green Project's warehouse, which constituted trespass, for which Epson is also liable, the lawsuit asserted.

"This is a clear-cut case of a major international corporation bullying a start-up company using legal tactics without merit, and even worse, using false identity to gain trade secret information on its competitors," Chan. Green Project's attorney, charged in a statement.

Epson America did not respond to a phone call or e-mail seeking comment on Green Project's allegations of misappropriation of trade secrets or trespass.

BY TOM GILROY

## Patents/Infringement

### **Lexmark's Failure to Seek Damages, Injunction, Did Not Warrant Dismissal**

**A** prevailing patent infringement plaintiff's failure to seek damages or an injunction upon a finding of infringement does not constitute a refusal to prosecute warranting dismissal of the infringement action under Fed. R. Civ. P. 41(b), the U.S. District Court for the Eastern District of Kentucky ruled Aug. 13 (*Static Control Components Inc. v. Lexmark International Inc.*, E.D. Ky., No. 5:02-cv-571, 8/13/09).

In the latest ruling in a seven-year dispute between a printer manufacturer and a seller of replacement toner cartridges, the court said that the plaintiff's failure to seek a remedy on its patent infringement claim was simply a matter of trial strategy, not an attempt to thwart judicial pleadings.

**Toner Cartridge Litigation Goes Back to 2002.** Lexmark International Inc. is a manufacturer of laser printers for use with computer systems. Static Control Components Inc. is a supplier to toner cartridge manufacturers and sells to remanufacturers parts and supplies for reworking used toner cartridges.

The dispute between Lexmark and Static control began in 2002, when Lexmark challenged Static Control's sale of a computer chip that allowed consumers to avoid Lexmark's Toner Loading Program and use non-Lexmark replacement toner cartridges. The court concluded that the Static Control "Smartek" chip was likely a violation of the anticircumvention provisions of the Digital Millennium Copyright Act of 1998, 17 U.S.C. § 1201, and imposed a preliminary injunction (65 PTCJ 401, 3/7/03). The Sixth Circuit vacated the injunction (68 PTCJ 720, 10/29/04), and the trial court later ruled that the Lexmark Toner Loading Program was not sufficiently original to be afforded copyright protection (73 PTCJ 819, 4/27/07).

Meanwhile, in 2004, Static Control filed a declaratory judgment action, seeking a ruling that its new line of re-engineered toner chips did not infringe Lexmark's copyrights or violate the DMCA (67 PTCJ 402, 3/5/04). Lexmark filed a separate suit for infringement of its nine patents (73 PTCJ 219, 12/22/06), and the cases were consolidated.

During that trial, the district court found Static Control liable for direct infringement of a Lexmark patent (6,397,015), and Lexmark said it would not seek damages or other relief. Later, however, the court held that the exhaustion doctrine applied, as articulated by the U.S. Supreme Court in *Quanta Computer Inc. v. LG Electronics Inc.*, 128 S. Ct. 2109, 86 USPQ2d 1673 (2008) (76 PTCJ 205, 6/13/08).

Static Control sought to dismiss with prejudice Lexmark's claim for direct infringement of the '015 patent.

**Dismissal Not Appropriate.** Citing *Knoll v. American Telephone & Telegraph Co.*, 176 F. 3d 359 (6th Cir. 1999), Judge Gregory F. Van Tatenhove ruled against Static Control's motion to dismiss because Lexmark had not refused to prosecute its '015 patent claim to finality by declining to seek damages or an injunction.

In *Knoll*, the Sixth Circuit upheld dismissal pursuant to Rule 41(b) where a counsel neglected plaintiff's case, repeatedly ignored court orders without excuse, and ultimately attempted to force the court to grant continuance by refusing to proceed on the day of trial. The court in that case said that when a plaintiff does not appear at the trial date or is unprepared to prosecute the case, dismissal is appropriate.

In this case, however, Lexmark succeeded on its claim at trial, Van Tatenhove said. Even assuming a failure to seek damages or an injunction upon a finding of infringement constitutes the failure to prosecute contemplated by Rule 41(b), none of the four relevant factors under that rule makes dismissal of Lexmark's '015 patent claim appropriate, the court said, pointing to (1) whether the party's failure is due to willfulness, bad faith, or fault; (2) whether the adversary was prejudiced by the dismissed party's conduct; (3) whether the dismissed party was warned that failure to cooperate could lead to dismissal; and (4) whether less drastic sanctions were imposed or considered before dismissal.

There was no evidence that Lexmark intended to thwart judicial proceedings or acted with reckless disregard for the effect of its conduct on those proceedings by declining to seek a remedy on its '015 patent claim, the court said. "Rather, it appears Lexmark's decision was simply a matter of trial strategy," the court said.

The court said that the second factor also weighed in Lexmark's favor because a ruling favorable to Static Control would have no impact on this lawsuit.

"If Static Control commenced manufacturing infringing encoder wheels again tomorrow, and Lexmark filed suit, Static Control could not use a ruling on its equitable defenses in this case to bar the cause of action—different instances of infringement would be at issue. Dismissal of Lexmark's '015 patent claim would have an impact on the hypothetical second lawsuit, however, because Lexmark would be forced to relitigate its direct infringement claim," the court said.

As it was clear that Lexmark was not warned that dismissal could result from its failure to seek a remedy for the infringement of its '015 patent, it did not engage in


bath faith, the court said. Thus, the third factor weighed in Lexmark's favor.

Finally, the court said that it was very much in doubt whether Lexmark's actions amounted to a failure to prosecute.

Since all four of the factors weighed in Lexmark's favor, the court denied Static Control's motion to dismiss Lexmark's claim for patent infringement.

Static Control was represented by William H. Barrett of McDermott, Will & Emery, Washington, D.C. Lexmark was represented by Hanly A. Ingram of Stoll Keenon Ogden, Lexington, Ky.

BY NATHAN POLLARD

 Full text at <http://pub.bna.com/ptcj/502571Aug13.pdf>

## Technology Transfer/Stem Cells

### California Stem Cell Oversight Board Amends IP Regs to Cover Loans

**S**AN FRANCISCO—The California Independent Citizens' Oversight Committee approved Aug. 20 consolidating intellectual property regulations for nonprofit and commercial grantees and extending provisions to entities that obtain loans through the stem cell agency.

The consolidation comes as the ICOC in October will consider applications from multidisciplinary "disease teams" which likely will include joint applications from researchers with nonprofits and for-profits for state-funded grants and loans.

This is first time the stem cell agency will make loans to support early-stage research at for-profit organization. ICOC last fall approved making loans to life sciences entities to get them through the "valley of death," the four- to 10-year funding gap between the birth of a promising new technology or product and the later stages of development when the core research is completed and venture capitalists are more likely to kick in funding.

Existing IP regulations, with the exception of provisions for revenue sharing, will apply to both commercial and nonprofit applicants. In exchange for agreeing to issue warrants and to repay the loans with principal and interest, loan recipients are exempt from the revenue-sharing requirements contained in the IP regulations.

The consolidated interim regulations are in effect for 270 days while the agency initiates the formal process to make them permanent, said Scott Toucher, counsel to ICOC Chairman Robert Klein.

**Definition Issues Raised.** In a letter to the ICOC, John Simpson, who heads the stem cell project for Consumer Watchdog, argued that an inserted definition change would "create a tremendous loophole that allows some companies to escape the IP regulation's access requirements for products developed with CIRM funds."

Those receiving grants from the state agency must make the therapies developed with state funds accessible to publicly funded plans.

Simpson said the now-withdrawn definition changes to Chapter 6, 17 Cal. Code of Regs. § 100601, were made without the required public comment period.

Board member Edward Penhoet agreed with Simpson that an attempt to simplify the path of following the IP into the marketplace provided "an escape mechanism for people to actually avoid our intellectual property policies."

"I think that the intent of the [IP] task force has been clear all along that the [access] obligation should follow the technology into the marketplace," Penhoet said.

**Original Definition Adopted.** The board returned to the original definition of an exclusive licensee as "any individual or entity receiving all rights to make, use, sell, offer for sale and/or import in one or more fields of use or territories a CIRM-Funded Technology or a CIRM-Funded Invention, whether by assignment, license, or other mechanism."

The dropped change would have defined an exclusive licensee as any individual or entity receiving "by license directly from a Grantee, Grantee Personnel, or Collaborator all rights to make, use, sell, offer for sale and/or import in one or more fields of use or territories a CIRM-Funded Technology or a CIRM-Funded Invention."

The changed language, Penhoet said, would have allowed a sublicensee such as a pharmaceutical company "to avoid the provisions in the IP documents."

**Clarity Sought.** CIRM General Counsel Elona Baum said that the rules were consolidated for "clarity sake and administration sake" to address issues that may arise in the joint disease team grant applications.

Baum said it became evident the proposed definition change raised "concern that this would create an exclusion to access and pricing requirements."

The Stanford University Office of Technology Licensing in an Aug. 18 letter to the board said the university has 13 CIRM-funded licenses "but we have not licensed any of them" because of the access requirement provision. The access provision "may be a strong disincentive for potential licensees," OTL Director Katharine Ku said in the letter.

There is concern in the business community about following the access requirements, Penhoet said, and "honestly [it] will be a barrier to licensing from time to time."

"Nevertheless, it's been thoroughly discussed over the last four years. If this turns out to be a significant barrier to seeing our technology come to fruition, we can revisit these issues in the future," Penhoet said.

BY JOYCE E. CUTLER

## Copyrights/Settlements

### Opposition Group to Google Book Settlement Includes Big Names, Authors, and Libraries

**M**icrosoft Inc., Amazon.com Inc., and Yahoo! Inc. are a few of the companies that have joined with library associations, distributors, and the Internet Archive to create the Open Book Alliance, which counters the proposed \$125 million settlement of a class-action copyright infringement lawsuit brought by writers and publishers challenging Google Inc.'s book-scanning project. *Authors Guild v. Google Inc.*, No. 05 Civ. 8136 (DC) (S.D.N.Y., hearing scheduled July 7, 2009) (78 PTCJ 288, 7/10/09).