

Canon Settles Patent Case Amid Ethics Questions

Tuesday, May 02, 2006 --- Canon Inc. has settled a lawsuit brought by a five-employee Michigan company that has been racking up victories asserting patents covering digital camera technology against corporate titans over the past five years. But beneath the placid surface of the confidential settlement lurks a case fraught with alleged ethical lapses bordering on the bizarre.

"We're extremely happy and feel vindicated," said Thomas W. Baumgarten, Jr., Vice President and Corporate Secretary of Grosse Pointe-based St. Clair Intellectual Property Consultants Inc.

An analogy to the tale of David and Goliath is appropriate, according to St. Clair lawyer Ronald Schutz. The difference, he says, is that in the biblical tale, there was only one giant.

He called Canon "the third Goliath that's been slain" and referenced jury verdicts against Canon, Sony and Fuji-for \$34.7 million, \$25 million, and \$3 million, respectively.

"These same patents have been tried before three different juries, and we've won every time," Schutz said.

While legal skirmishes over patents may be commonplace, a review of court documents from the case between Canon and St.Clair shows that this matter was far from routine.

A "Special Master's Report," dated Nov. 17, 2005, details various allegations of questionable ethical moves by Canon and its counsel.

Special Master Vincent Poppiti's report centers on a consulting agreement between Canon and Mirage Systems Inc. that attorneys for St. Clair claimed were not properly disclosed during the discovery progress. According to Schutz, the agreement was disclosed soon after St. Clair had rested its case.

"It's the most bizarre thing I've ever seen in a trial," Schutz said of the revelation.

Under the agreement, Mirage agreed to help Canon establish that Mirage was the rightful owner of the patents at issue in the case, and not to assert those patents against Canon. Canon agreed to pay Mirage a lump sum of \$75,000 in addition to reimbursing Mirage for expenses and "lost time."

That agreement bound Canon to make a total payment of \$167, 693.97 to Mirage, who was, as the report notes "a fact witness."

The trial judge probed the implications of this arrangement, and was quoted in the Special Master's Report:

"I know that's not a lot of money to lawyers that litigate patent cases, but to a witness, you paid him \$75,000," the judge told Canon's counsel. "My interpretation would be possibly...you paid the guy \$75,000 to show up and say he owns the patents...it sounds like you paid him \$75,000 to come and say what you wanted."

The report recommends that "the pro hac vice admissions of Canon's attorneys from the law firm Kramer Levin Naftalis & Frankel LLP ...be immediately revoked, and that other attorneys from the law firm of Kramer Levin be precluded from representing Canon in any further proceedings before the court in this matter..."

The report also recommended that Kramer Levin pay \$35,000 in fines and a portion of St. Clair's legal fees.

The report concluded that Canon's failure to disclose the agreement with Mirage was unjustified and fraudulent.

Baumgarten wouldn't discuss the Special Master's Report. A Canon spokesperson also declined to comment on the report.

Canon and St. Clair reached a settlement agreement on March 17, according to a press release available on the Web site of St. Clair attorneys Robins, Kaplan, Miller & Ciresi L.L.P. While the terms of the settlement are confidential, the press release makes clear that there was a payment from Canon to St. Clair and that Canon would no longer dispute St. Clair's ownership of the four patents at the heart of the case.

St. Clair is also asserting its patents against defendants including Eastman Kodak Co., Hewlett Packard Co. and Nokia Inc. in a pending case in a federal court in Delaware.

The case between St. Clair and Canon is St. Clair Intellectual Property Consultants Inc. V. Canon Inc. et al., case number 03-00241, in the U.S. District Court for the District of Delaware.

--By Ben James, ben.james@portfoliomedia.com