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Attorneys for Plaintiff MAGNA-SONIC STRESS TESTERS, INC.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

MAGNA-SONIC STRESS TESTERS,
INC., a Utah corporation

Plaintiff,

vs.

TUBULAR INSPECTION PRODUCTS,
INC., a Texas corporation,

Defendant.

Civil Action No.: 2:15-cv-00445-DBP

COMPLAINT

Jury Trial Demanded

Plaintiff Magna-Sonic Stress Testers, Inc. (“Magna-Sonic”), for a Complaint against defendant Tubular Inspection Products, Inc. (“Defendant”), hereby alleges as follows:

I. THE PARTIES

1. Magna-Sonic is a Utah corporation with its principal place of business located at 1851 Easy Highway 40, Madsen Boulevard, Vernal, Utah.

2. Defendant is a Texas corporation and, upon information and belief, has a principal place of business located at 1551 Windway, Odessa, Texas.

II. JURISDICTION AND VENUE

3. This civil action (the “Action”) arises under the laws of the United States (i.e., the patent laws of the United States, 35 U.S.C. § 101, *et. seq.*) and Utah law. The above-entitled Court has jurisdiction over the subject matter of the federal law claims for relief in the Action pursuant to 28 U.S.C. §§ 1331 and 1338(a), and supplemental jurisdiction over the Utah law claims for relief pursuant to 28 U.S.C. § 1367. The Court also has jurisdiction over the subject matter of each of the claims for relief asserted by Magna-Sonic in the Action pursuant to 28 U.S.C. § 1332, in that there is complete diversity of citizenship between the two parties (i.e., Magna-Sonic is a Utah corporation and Defendant is a Texas corporation) and the amount placed in controversy by virtue of the claims for relief herein exceeds \$75,000, exclusive of interest, costs, and attorneys’ fees. Likewise, the value of the non-monetary relief sought by the claims for relief set forth herein also exceeds \$75,000, exclusive of interest, costs, and attorneys’ fees.

4. The Court may, and should, exercise personal jurisdiction over Defendant because, on information and belief, Defendant has sold, used, offered for sale, or induced others to use the infringing goods inside the State of Utah.

5. Venue in this judicial district (i.e., within the State of Utah) is proper pursuant to 28 U.S.C. § 1391(b)-(c) and § 1400(a) in that Defendant is subject to the Court's personal jurisdiction in this judicial district.

III. FACTUAL BACKGROUND

6. Magna-Sonic and Defendant both provide products to companies within the drilling industry.

7. A critical component of any drilling project is the ability to maintain the structural integrity of drill pipe that is used to facilitate the drilling of ground holes (wells) which allow for the movement of resources from a ground end point to the surface via the drilled hole.

8. In general terms, ground holes (or wells) are drilled by the use of a drill bit, a bottom hole assembly which sits on top of the drill bit, and drill pipe which is attached to and is positioned on top of the bottom hole assembly.

9. The drill bit is used to bore through soil, rock, *etc.*, to reach underground resources. In order for the drill bit to work effectively there must be enough weight or force behind it to bore through solid ground.

10. The bottom hole assembly sits atop the drill bit and is heavily weighted to provide the required weight and force to the drill bit for ground drilling.

11. The drill pipe is attached to the bottom hole assembly and is responsible for rotating the drill bit and bottom hole assembly as a unit to enable drilling.

12. The drill pipe is also responsible for delivering drill fluid to the drill bit to keep the bit from overheating and to push drilled ground debris back up the well, on the outside of the drill pipe and bottom hole assembly, to the surface.

13. Drill pipe itself is a steel pipe that may come in a variety of sizes, strengths and weights. Where deep (or directional) ground holes are being drilled, multiple sections of drill pipe may be connected together to allow the drill bit to reach substantial depths (or distances).

14. Each section of a drill pipe and bottom hole assembly has threaded connecting ends specially designed so that when the connecting ends are properly fitted together, a pressure seal is created, which serves to hold the pipe together and allows for the movement of drilling fluid, or mud, down the pipe to the drill bit. Each section of pipe has two connecting ends—a box end (female) and a pin end (male). Each connecting end has two shoulders—an inner shoulder and an outer shoulder. On the box end, the outer-most circumference of the pipe forms the outer shoulder, and the inner shoulder is formed inside of that and recessed to serve as a torque stop. On the pin end, the orientation of these shoulders is reversed such that the outer shoulder is recessed several inches from the end of the pipe, and the inner shoulder is co-terminal with the end of the pipe. These structures cooperate with one another to form the critical seal between each individual section of pipe, and to prevent overtightening of the sections as the pipe rotates during ordinary drilling operation.

15. For the connecting ends of the pipe to fit together properly, and to form the necessary pressure seal, the connecting ends must feature absolutely smooth surfaces on the shoulders, as well as precise angles.

16. If a connecting end is flawed or damaged with nicks, scratches or other irregularities—which regularly result from repeated use of the pipe—the ends will not fit together properly and the required pressure seal cannot form, thus leading to connection failures.

17. Magna-Sonic and Defendant both provide refacing tools to pipe rental and inspection companies for on-site repair of flawed or damaged pipe connecting ends (a service known as pipe refacing) to enable the ends to fit together properly.

18. Historically, drill pipe and bottom hole assembly refacing services required that the pipe be pulled from the ground and shipped to off-site pipe repair facilities (*e.g.*, machine shops). This made pipe refacing a time consuming and expensive process for drilling companies.

19. Recognizing the inefficiencies and cost caused by such off-site repair services, a few companies developed on-site pipe refacing tools, but actual use of these tools in the field revealed several shortcomings.

20. Magna-Sonic took note of these shortcomings and invented new and effective on-site pipe refacing tools for use with drill pipe and bottom hole assembly. Magna-Sonic's inventive pipe refacing tools include one specially designed for use with the pin end of a pipe segment and another one specifically designed for use with the opposite end, the box end.

21. Magna-Sonic sought patent protection for its inventive refacing tools, which has resulted in the issuance of several patents, including U.S. Patent No. 8,925,431, entitled, Refacing Tools and Methods, issued on January 6, 2015 ("the '431 Patent"). The '431 Patent is generally directed to the pipe refacing tool specifically designed for use with the pin end of the pipe. A true and correct copy of the '431 Patent is attached hereto as Exhibit A.

22. Magna-Sonic is the owner by assignment of all right, title and interest in and to the '431 Patent.

23. Defendant manufactures tools and equipment for use in the inspection of drill pipe and bottom hole assembly. Sometime after Magna-Sonic began making and selling its inventive

pipe refacing tools, Defendant approached Magna-Sonic seeking to enter into a business arrangement whereby Defendant would manufacture and market Magna-Sonic's on-site pipe refacing tool.

24. Magna-Sonic responded to Defendant's request by expressly denying permission to manufacture and market Magna-Sonic's on-site pipe refacing tool.

25. However, Magna-Sonic later learned that, despite Magna-Sonic's express denial of permission, Defendant was making, using and/or selling one or more pipe refacing tools essentially identical to Magna-Sonic's invention and similarly designed to reface the ends of drill pipe and bottom hole assembly.

26. On June 30, 2014, Magna-Sonic sent a cease and desist letter to Defendant notifying it that Magna-Sonic's invention was the subject of more than one patent applications pending at that time, including U.S. Patent Application No. 12/955,450, which had recently been published as U.S. Patent Publication No. 2012/0132044 A1 ("the '044 Published Application"). The '431 Patent and the '044 Published Application are related to one another as divisional applications. Magna-Sonic thus notified Defendant of its pending patent applications and of the likelihood that Defendant's drill pipe and bottom hole assembly refacing tools would infringe the patents ultimately issuing from these pending applications. Defendant therefore knew or should have known of the '431 Patent and its scope immediately upon its issuance on January 6, 2015.

27. Defendant's unauthorized manufacture and sale of its drill pipe and bottom hole assembly refacing tool not only infringes Magna-Sonic's patent rights, but has also caused harm to Magna-Sonic's business, eroded the value of Magna-Sonic's intellectual property, and has caused damage to the existing and potential market for on-site drill pipe and bottom hole assembly refacing.

28. On information and belief, Defendant has used unauthorized drill pipe and bottom hole assembly refacing tool to acquire existing and potential customers of Magna-Sonic by undercutting Magna-Sonic's prices and flooding the market.

29. On information and belief, Defendant's unauthorized drill pipe and bottom hole assembly refacing tools are of inferior quality when compared to Magna-Sonic's refacing tools, and as a result, customers have declined to do business with Magna-Sonic because they associate the inferior performance of Defendant's unauthorized refacing tools with on-site refacing generally. This has resulted in injury to Magna-Sonic in the form of lost sales and revenue.

IV. CLAIMS FOR RELIEF

FIRST CLAIM

(Infringement of U.S. Patent No. 8,925,431)

30. By this reference, Magna-Sonic incorporates each of the foregoing allegations.

31. Defendant has directly infringed and continues to directly infringe at least claims 1 and 10 of the '431 Patent by making, using, offering to sell, selling and/or importing in the United States, drill pipe and bottom hole assembly refacing tools without authority from Magna-Sonic to do so.

32. Defendant has indirectly infringed and continues to indirectly infringe at least claims 1 and 10 of the '431 Patent by inducing others to use drill pipe and bottom hole assembly refacing tools in the United States, without authority from Magna-Sonic to do so, despite knowledge of the '431 Patent and that such use infringes one or more claims of the '431 patent.

33. Magna-Sonic has sustained damages and will continue to sustain damages as a result of Defendants' acts of infringement.

34. Magna-Sonic is entitled to recover damages sustained as a result of Defendant's wrongful acts in an amount to be proven at trial.

35. Defendant's infringement of the '431 Patent will continue to damage Magna-Sonic's business, causing irreparable harm, for which there is no adequate remedy at law, unless it is enjoined by this Court.

36. Defendant's infringement of the '431 Patent amounts to willful infringement entitling Magna-Sonic to increased damages, under 35 U.S.C. § 284, and to attorney fees and costs incurred in prosecuting this action, under 35 U.S.C. § 285.

SECOND CLAIM
(Tortious Interference)

37. By this reference, Magna-Sonic incorporates each of the foregoing allegations.

38. Defendant has intentionally, and by improper means, interfered with Magna-Sonic's existing and potential economic relations.

39. By way of example, and as discussed above, Defendant has made and sold products that infringe one or more claims of the '431 Patent, to flood the market within which Magna-Sonic and Defendant compete, to undercut Magna-Sonic's prices and to provide inferior products which have harmed Magna-Sonic's reputation in the industry, its relationships with customers, and its ability to compete.

40. Defendant's actions in this regard have caused, and will continue to cause, injury to Magna-Sonic.

41. Magna-Sonic has suffered, and will continue to suffer, irreparable harm unless and until Defendant is enjoined from tortiously interfering with Magna-Sonic's business and economic relations.

THIRD CLAIM
(Utah Unfair Competition – Utah Code Ann. §§ 13-5a-101 et seq.)

42. By this reference, Magna-Sonic incorporates each of the foregoing allegations.

43. By virtue of Defendant's conduct, as described above, Defendant has engaged in acts of unfair competition in violation of Utah Code Ann. §§ 13-5a-101 *et seq.*

44. Defendant has engaged in intentional business acts which infringe Magna-Sonic's intellectual property rights and are thus unlawful, unfair and have led to a material diminution in value of the '431 Patent.

45. Defendant's acts of unfair competition have caused, and will continue to cause, injury to Magna-Sonic entitling Magna-Sonic to actual damages, costs and attorney fees and punitive damages pursuant to Utah Code Ann. §§ 13-5a-103.

IV. PRAYER FOR RELIEF

WHEREFORE, Magna-Sonic prays that judgment be entered in its favor on each of the foregoing claims for relief, and that the following relief be granted:

A. An adjudication that Defendant infringes the '431 Patent and that such infringement is willful;

B. An order preliminarily and permanently enjoining Defendant, its agents, servants and any and all parties acting in concert with any of them, from directly infringing in any manner any claim of the '431 Patent, pursuant to at least 35 U.S.C. § 283;

C. An award of damages adequate to compensate Magna-Sonic for Defendant's infringement of the '431 Patent in an amount to be proven at trial;

D. A finding that this is an exceptional case under 35 U.S.C. § 285, and an award of Magna-Sonic's costs and attorney fees;

- E. A trebling of the damage award to Magna-Sonic;
- F. An assessment and award of pre- and post-judgment interest on all damages awarded;
- G. An order preliminarily and permanently enjoining Defendant from tortiously interfering with Magna-Sonic's business and economic relations;
- H. An award of damages adequate to compensate Magna-Sonic for Defendant's tortious interference in an amount to be proven at trial;
- I. An adjudication that Defendant has engaged in unfair competition practices and an award to Magna-Sonic for actual and punitive damages, plus attorneys' fees and costs pursuant to at least Utah Code Ann. § 13-5a-103(1)(b); and
- J. Any further relief that this Court deems just and proper.

JURY DEMAND

Magna-Sonic hereby demands TRIAL BY JURY of all claims and issues presented in this Action so triable.

Dated: June 22, 2015

Respectfully submitted,

/s/ R. Parrish Freeman
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