

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

BLACK & DECKER (U.S.) INC.)	
)	
Plaintiff,)	Case No.: 08-1261 MJD/AJB
)	
vs.)	
)	JURY TRIAL DEMANDED
)	
BILLY STAR HOLDINGS LTD.)	
)	
Defendant.)	

**FIRST AMENDED COMPLAINT FOR DECLARATORY JUDGMENT AND OTHER
RELIEF
AND DEMAND FOR JURY TRIAL**

Plaintiff, Black & Decker (U.S.) Inc., hereby states and alleges as follows:

THE PARTIES

1. Plaintiff Black & Decker (U.S.) Inc. (“Black & Decker”) is a corporation organized under the laws of the State of Maryland, with a principal place of business at 701 East Joppa Road, Towson, Maryland 21286. Black & Decker is the successor-in-interest to Porter-Cable Corporation (“Porter-Cable”), a corporation that, prior to its acquisition by Black & Decker in 2004, was a corporation organized under the laws of Delaware.

2. On information and belief, Defendant Billy Star Holdings, Ltd. (“Billy Star”) is a corporation organized under the laws of the Province of Ontario, Canada, with a principal place of business in Niagara Falls, Ontario.

JURISDICTION AND VENUE

3. This is an action for declaratory relief pursuant to 28 U.S.C. §§ 2201 and 2202, and arising under the Patent Laws of the United States, Title 35 of the United States Code. This Court

has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1338. This Court has supplemental jurisdiction over the state law claims under 28 U.S.C. § 1367.

4. On information and belief, this Court has personal jurisdiction over Defendant, Billy Star, pursuant to 28 U.S.C. § 1391 and Minnesota's Long-Arm Statutes, Minn. Stat. §§ 543.19, and based on the consent to jurisdiction embodied in the License Agreement (discussed below).

5. Venue is proper in this district pursuant to 28 U.S.C. §§ 1391(b), 1391(c) and 1391(d), and pursuant to the choice of venue embodied in the License Agreement (discussed below).

FACTUAL BACKGROUND

The 1993 Patent License Agreement

6. On February 10, 1993, Porter-Cable entered into an exclusive patent license agreement with William Matechuk, whereby Porter-Cable became the exclusive licensee of certain technology relating to drywall sanders (the "License Agreement"). A true and correct copy of the License Agreement (financial terms redacted) is attached as Exhibit 1.

7. At the time of the License Agreement, Matechuk was the named inventor on U.S. patent, No. 4,782,632, ("the '632 patent"), Canadian patent, No. 1,312,411, and additionally on two pending U.S. patent applications, Appl. No. 07/747,605 (later abandoned) and Appl. No. 07/901,694 (later issued as U.S. Patent No. 5,239,783) and one pending Canadian application, Appl. No. 2,076,330-2.

8. Collectively, the License Agreement refers to these patents and patent applications, *inter alia*, as the "Licensed Patents." (License Agreement ¶2).

9. Under the terms of the License Agreement, Porter-Cable obtained the “sole and exclusive worldwide right and license to make, have made, use, sell, lease or otherwise dispose of products embodying the inventions disclosed and claimed in the Licensed Patents.” (License Agreement ¶ 2.2). The products embodying the inventions disclosed and claimed in the Licensed Patents were deemed the “Licensed Devices.” *Id.*

10. In exchange for the exclusive rights, Porter-Cable agreed to pay Matechuk:

An earned royalty [on] ... the Net Sales Price of Licensed Devices when, and only when, such Licensed Devices *are covered by at least one claim of unexpired valid granted patent of Patent Rights in the country of manufacture or sale, provided such country is the U.S., Canada, or a Latin American country.*

(emphasis added) (License Agreement, ¶ 4.3a).

11. Under the terms of the License Agreement, on improvements, Matechuk specifically acknowledged and agreed that “any idea regarding improvements in the Licensed Devices, patentable or otherwise, designed or otherwise obtained by [Porter-Cable] . . . shall be the sole property of [Porter-Cable] and [Porter-Cable] shall have exclusive right, title and interest thereto.” (License Agreement ¶ 7.2).

12. Under the License Agreement, on choice of law and venue, the parties agreed as follows:

Choice of Law and Venue. It is the intention of the Parties that the laws of the State of Minnesota should govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the Parties.

(License Agreement ¶ 19.7)

13. Pursuant to the terms of the License Agreement, Porter-Cable proceeded to pay royalties to Matechuk, via his alter-ego company, EG 2000, Inc., on sales (including sales in this

District) of certain drywall sanders, namely, the Porter-Cable Drywall Sander Model No. 7800 (“the 7800 Drywall Sander”).

The Assignment of the Licensed Patents and Contract Rights to Billy Star

14. On information and belief, following the death of William Matechuk in June 2001, the defendant company, Billy Star, based on information and belief, an entity owned and controlled by Mr. Matechuk’s son, William Matechuk, Jr., became the successor/assignee of the License Agreement and all rights thereunder.

15. In November 2003, assignments were recorded with the U.S. Patent and Trademark Office designating Billy Star as the assignee of the U.S. patents identified under the License Agreement.

16. On information and belief, following William Matechuk’s death, EG 2000, Inc. became the agent of Billy Star for the receipt of royalty payments.

17. Throughout, Porter-Cable continued to pay royalties, pursuant to the License Agreement, to the designated agent, EG 2000, Inc.

The Acquisition of Porter-Cable by Black & Decker

18. On October 2, 2004, The Black & Decker Corporation acquired the Power Tools Business of Pentair, Inc., including indirectly the shares of Porter-Cable. On May 2, 2005, Porter-Cable merged into Black & Decker with Black & Decker as the successor corporation.

19. Following the above transaction, Black & Decker continued to sell the 7800 Drywall Sander worldwide, assuming under the License Agreement the payment of royalties.

20. In May 2005, Black & Decker moved the manufacturing of the 7800 Drywall Sander from its location in Jackson, Tennessee to Reynosa, Mexico.

Expiration of the '632 Patent and Correspondence Between the Parties

21. On October 1, 2007, the '632 patent expired.

22. In January 2008, Black & Decker notified Billy Star that, in light of the expiration of the '632 patent and the License Agreement's limitation on the payment of royalties to products "covered by at least one claim of [an] unexpired, valid, granted patent" Black & Decker no longer owed royalties on 7800 Drywall Sanders sold in the United States. Black & Decker acknowledged that the Canadian counterpart patent, No. 1,312,411 would not expire until January 12, 2010, and thus Black & Decker indicated that it would continue to pay royalties per the License Agreement on sales of the 7800 Drywall Sander in Canada.

23. On February 4, 2008, Black & Decker specifically detailed for Billy Star the analysis as to why the claims of the sole remaining U.S. Patent (U.S. Patent No. 5,239,783, hereafter "the '783 patent") did not cover the 7800 Drywall Sander. Hence, Black & Decker's obligation pursuant to the terms of the License Agreement to pay royalties on sanders sold in the United States ended when the '632 patent expired. A true and correct copy of the '783 patent is attached as Exhibit 2.

24. On February 15, 2008, Billy Star responded to Black & Decker's notification by requesting an audit and by claiming that the '783 patent is in full force and effect and that the 7800 Drywall Sander is covered by at least Claims 1 and 9 of the '783 patent. Billy Star, however, provided no analysis of the infringement assertion, rather summarily demanding that Black & Decker "withdraw your said letter with prejudice and communicate your acceptance of the license status quo."

25. On February 25, 2008, having previously provided Billy Star with Black & Decker's analysis of why the claims of the '783 patent did not cover the 7800 Drywall Sander,

Black & Decker requested that Billy Star explain its position. Additionally, Black & Decker advised Billy Star that in preparing for the audit it discovered a royalty overpayment of \$522,544.00. The overpayment stemmed from the erroneous payments of royalties on products sold in Europe (where defendant has no patents and after Black & Decker moved the manufacturing of the 7800 Drywall Sander to Mexico). Black & Decker requested reimbursement of the overpaid royalties.

26. On April 4, 2008, Billy Star responded expressly refusing to return the overpayment indicating that “[p]ayment of any such reimbursement will have to await an unappealable Court decision and not your say so right out of the blue”, and further declined to explain its position regarding infringement of the 7800 Drywall Sander. Instead, Billy Star “restate[d] its position as outlined in our letter of February 15, 2008 ...” and attached a complaint that Billy Star had filed the same day in Ontario Canada (discussed below).

The Canadian Action

27. On April 4, 2008, Billy Star filed suit in Canada in a complaint captioned, *Billy Star Holdings Ltd. v. The Black & Decker Corporation and Porter Cable Corporation*, Court File No. 57664 (Ontario Supr. Ct of Justice) (“the Canadian Complaint”). A true and correct copy of the Canadian Complaint is attached as Exhibit 3.

28. In the Canadian Complaint, Billy Star alleges breach of the License Agreement by Black & Decker. According to the Canadian Complaint, Black & Decker gave notice of its refusal to pay royalties under the License Agreement “ignoring completely the second licensed patent, namely the ‘783 Patent. . . .” (Canadian Complaint ¶¶ 15 and 16).

29. In the Canadian Complaint, among other things, Billy Star seeks an order from the Canadian Court declaring that royalties are payable under the License Agreement, and

requiring Black & Decker to pay all royalties due. (Canadian Complaint page 3, Claims II and III).

30. In the Canadian Complaint, among other things, Billy Star also seeks a declaration that U.S. Patent No. 5,545,080 (“the ‘080 patent”), a patent owned solely by Black & Decker Inc. and unrelated to the License Agreement, be declared a “Licensed Patent”. (Canadian Complaint, pg. 4, Claim VIII and ¶¶ 20-21). A true and correct copy of the ‘080 patent is attached as Exhibit 4. Assignment of this patent was recorded to Black & Decker Inc. on October 2, 2004. A true and correct copy of the assignment report from the U.S. Patent and Trademark Office is attached as Exhibit 5.

COUNT I

DECLARATORY JUDGMENT OF NON-BREACH OF THE LICENSE AGREEMENT

31. An actual controversy exists between the parties regarding the License Agreement because Black & Decker has ceased certain royalty payments which it contends are no longer due and owing under the terms of the License Agreement, and because Billy Star has sued Black & Decker in Canada alleging that Black & Decker thereby breached the License Agreement.

32. The License Agreement requires the payment of royalties, “*when, and only when, such Licensed Devices are covered by at least one claim of [an] unexpired valid granted patent of Patent Rights in the country of manufacture or sale.*” (License Agreement ¶ 4.3(a)).

33. Black & Decker no longer sells any product in the United States that is covered by at least one claim of an unexpired, valid, granted patent, in which Billy Star has patent rights.

34. Black & Decker no longer owes royalties under the License Agreement on any product sold in the United States.

35. Black & Decker did not breach the License Agreement, and is not in breach of the License Agreement.

36. Black & Decker seeks a declaration from the Court that it is not in breach of the License Agreement, and properly ceased payment of royalties on product sold in the United States when the '632 patent expired.

COUNT II

DECLARATORY JUDGMENT OF NONINFRINGEMENT OF THE '783 PATENT

37. Plaintiff realleges and incorporates by reference the allegations set forth in the preceding paragraphs as if fully set forth herein.

38. An actual controversy exists between the parties regarding the '783 patent. Billy Star asserts in multiple correspondence that the claims of the '783 patent cover product sold by Black & Decker in the United States and has sued Black & Decker in Canada asserting that Black & Decker owes royalties on certain sales based on the existence of the '783 patent.

39. Black & Decker analyzed the claims of the '783 patent and compared them to the Black & Decker products at issue.

40. Black and Decker does not make, use, sell, offer to sell or import in the United States any product that infringes any claim of the '783 patent.

41. Black & Decker does not infringe, contributorily infringe, induce others to infringe, or infringe in any other manner, the '783 patent.

42. Black & Decker seeks a declaration from the Court that it does not infringe, contributorily infringe, induce the infringement of, or otherwise infringe in any manner, the '783 patent, and thus no longer owes royalties under the License Agreement on any product sold in the United States.

COUNT III

**DECLARATORY JUDGMENT OF OWNERSHIP
OF THE '080 PATENT AND NON-OWING OF ROYALTIES**

43. Plaintiff realleges and incorporates by reference the allegations set forth in the preceding paragraphs as if fully set forth herein.

44. An actual controversy exists between the parties regarding the '080 patent because Billy Star has sued Black & Decker in Canada alleging that the '080 patent is a "Licensed Patent" within the meaning of the License Agreement and has asserted that Black & Decker owes royalties under the License Agreement for sales in the United States of product falling within the claim scope of the '080 patent.

45. Black & Decker Inc. is the true, correct, and sole owner of all right, title and interest to the '080 patent by virtue of valid assignment.

46. Billy Star has no right, title, or interest in or to the '080 patent.

47. The '080 patent is not a "Licensed Patent" within the meaning of the License Agreement.

48. Black & Decker owes no royalties to Billy Star based upon the use, manufacture, sale, offer for sale, or import of any product falling within the claim scope of the '080 patent.

49. Black & Decker seeks a declaration from the Court that it is the true, correct and sole owner of the '080 patent, Billy Star has no right, title or interest in or to the '080 patent, and under the terms of the License Agreement, Black & Decker does not owe royalties to Billy Star based upon the use, manufacture, sale, offer for sale, or import of any product falling within the claim scope of the '080 patent.

COUNT IV

UNJUST ENRICHMENT

50. Plaintiff realleges and incorporates by reference the allegations set forth in the preceding paragraphs as if fully set forth herein.

51. Black & Decker conferred a benefit on Billy Star through the payment of royalties to Billy Star that, under the terms of the License Agreement, were not owed.

52. These royalties were paid in error, as the royalties were based on sales of product in Europe where Billy Star holds no patent rights.

53. These payments were made by Black & Decker in exchange for no benefit or other consideration from Billy Star.

54. Billy Star knows of the overpayment and has refused to refund the overpaid royalties.

55. Billy Star received an unjust benefit from the overpaid royalties, and continues to receive an unjust benefit through its retention of the royalty funds that do not belong to it.

56. Black & Decker has been harmed by Billy Star's acceptance of the overpaid royalties and refusal to reimburse Black & Decker for the inadvertent and erroneous overpayments.

57. It is inequitable to allow Billy Star to retain the overpaid royalties.

PRAYER FOR RELIEF

WHEREFORE, Black & Decker requests the following relief:

A. Enter a judgment declaring that Black & Decker did not breach any term of the License Agreement, and is not in default under the terms of the License Agreement as to the payment of any royalties owing under the License Agreement;

B. Enter a judgment declaring that Black & Decker does not infringe, contributorily infringe, induce the infringement of, or otherwise infringe in any manner, the '783 patent;

C. Enter a judgment declaring that Black & Decker does not owe royalties to Billy Star, its agent, successor, or assign, for the sale of any product in the United States;

D. Enter a judgment declaring that Black & Decker Inc. is the true, correct and sole owner of the '080 patent and declaring that Billy Star is not entitled to any right, title or interest in or to the '080 patent;

G. Enter a judgment declaring that Black & Decker does not owe royalties to Billy Star based on the manufacture, use, sale, offer for sale, or import of any product falling within the claim scope of the '080 patent.

H. Enter a judgment ordering disgorgement and restitution to Black & Decker of the unjust enrichment received and held by Billy Star.

I. Enter a judgment declaring this case exceptional pursuant to 35 U.S.C. § 285 and awarding attorneys' fees;

J. Enter a judgment awarding costs, interest and attorneys' fees to Black & Decker;

K. Enter a judgment awarding such other and further relief as the Court may deem just and equitable.

JURY DEMAND

Pursuant to Federal Rule of Civil Procedure 38(b), Plaintiff hereby demands a trial by jury on all issues triable of right by a jury.

Dated: 5/12/08

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