

ROCHESTER BUSINESS JOURNAL

VOLUME 21, NUMBER 47

DAILY EDITION: <http://www.rbjdaily.com>

FEBRUARY 17, 2006

Document firm tussles with the EU



By MARY STONE

To defend its patented technology, Document Security Systems Inc. is bent on breaking through the bureaucratic barricade that surrounds the European Central Bank.

The company alleges the ECB began infringing on DSSI's patent during the cash changeover to the euro in January 2002, when the dozen countries in the Eurozone adopted newly designed and printed euro notes.

DSSI, which employs 21, contends the notes infringe its European patent 455750B1, granted in 1999. The patent covers a method of incorporating an anti-counterfeiting feature into banknotes or similar security documents to protect against forgeries that use digital scanning or copying devices.

DSSI last summer filed suit in the European Court of First Instance. The suit is expected to go to trial by the end of this year, by which point there could be more than 30 billion euro banknotes in circu-

lation, all of which—DSSI



claims—
infringe on its
patent.

Patrick White, DSSI chairman, president and CEO, said the infringement was determined after a two-year analysis by European and American

optical experts. DSSI then informed the ECB of the alleged patent violation.

“(ECB’s) legal team requested what we felt was an unreasonable time frame to review and discuss the issue,” White said.

“We felt a negotiated settlement could take place at any time whether we filed the suit or not.”

DSSI decided to file suit, seeking royalties for past infringements.

“We are more than willing to sit down and negotiate if the European Central Bank is interested because the issue is not just regarding past notes but any future printing as well,” White said.

The company’s lawyer expects the suit to end in a lump sum and ongoing income stream for DSSI.

“We estimate that there have been over 34 billion notes printed at a cost of approximately 10 cents a note. We typical-

ly command a royalty fee of 2 percent to 5 percent of the print costs," CEO White said. "However, the ECB would be a bulk purchaser, which may affect the reasonable royalty rate."

That would amount to \$68 million to \$170 million, not including a bulk purchaser discount.

Of the royalties generated, 88 percent would go to DSSI and 12 percent would go to the estate of Ralph Wicker, inventor of the technology, White said.

In 2004, the publicly traded DSSI logged \$1.6 million in sales, up 24 percent from \$1.3 million in 2003. The company posted a net loss of \$1.7 million in 2004 and a net loss of 1.5 million in 2003. Some 30 percent of the increase in sales resulted from its core business segment, document security, company officials said.

International dispute

DSSI is represented by the London office of international law firm McDermott Will & Emery UK LLP. Lead partner Larry Cohen said it is possible the bank got locked into printing the euros before it realized the infringement.

But whether the ECB realized the patent infringement before or after the initial printing is irrelevant, he said. If the bank did not investigate the legality of using DSSI's technology, it would be nothing less than mind-boggling incompetence, he added.

Speculating about why the ECB got into the situation is wrong, Cohen explained. What matters is how the ECB responds to the lawsuit, which so far has been to ignore it.

The normal defense would have been one of two responses: the ECB does not use the DSSI technology, or the patent was not validly granted, Cohen said. But the institution did not use either defense, retorting instead that DSSI filed its suit in the wrong court.

This is a good sign, Cohen said.

"I think things are going quite well. If they had a legitimate defense, one would expect the ECB to (cite) major issues instead of procedural issues like these," he said.

The line the ECB has taken is typical bureaucracy, Cohen explained.

"They decided to throw their toys out of the pram (baby carriage) and pretend DSSI doesn't exist," he said. "If there are two adjectives to describe the ECB, they are 'arrogant' and 'remote.'"

The ECB did not respond to repeated calls for this story.

"We simply think they're wrong, and we've effectively suggested that if they are wrong, there should be a judgment," Cohen said.

The next step for DSSI is to determine if the suit has been filed in the right court.

Filing at the European Union level is unusual since most patents are ruled at the state level. But the case of the euro poses an exception.

The following stages of the suit will be performed mostly on paper, Cohen said.

Before the case can proceed, the company may get 30 minutes or so in front of a judge before the court decides if the suit was filed in the appropriate court.

"If we sued in the right court, the case goes on. If it gets remitted, we go to a lower level of court," Cohen said.

A few months from now the court will have ruled one way or another, after which the case can proceed.

In the meantime, DSSI's attorney is continuing its investigation of patent infringements for other currencies, such as the new Iraqi dinar and the British 10- and 20-pound notes, which are printed in England. There are a number of currencies and travelers' checks using DSSI's technologies without authorization, Cohen said.

A long battle

The ECB suit could be a long one once it gets under way, said attorney Peter Zura, at Chicago-based Bell, Boyd & Lloyd LLC, a patent law expert with no ties to the case.

"This case is very interesting since infringement cases against national currency are rare, and this is the first time I've seen a patent being asserted on this scale," Zura said.

If the case is appropriately filed and does proceed at the European Court of First Instance, the court's job will be to see if every element of the patent claim is being practiced by the accused product, Zura said.

On average, litigation in the European Union can take two to three years to conclude.

"Although I wouldn't be surprised if this case takes longer considering the stakes involved," Zura said.

Filing the suit directly against the ECB saves time, Cohen explained.

Printing for the euro notes is contracted out. Some euros are contracted to commercial printers and others to government agencies.

But Cohen said to sue every infringer would take a lifetime. Going straight to the ECB sets a precedent for the other infringements, he explains.

Zura said what might be most difficult in the ECB suit is the discovery phase of litigation. Governments are extremely secretive about manufacturing processes to protect national security and guard against counterfeiters.

"DSSI may have problems during the discovery phase of litigation with the ECB because discovery is much more limited in the EU, and the ECB will likely invoke

protective orders to prevent the submission of documents that relate to the manufacturing of the euro," Zura said.

Normally, a patent case also would result in an injunction, Cohen said. But given the scale of possible ramifications to an injunction, getting one is highly unlikely.

Seeking royalties

What DSSI wants instead is back royalties for past infringements

"If we're successful, this would likely end in payment to DSSI, which would be preferable to both parties," Cohen said.

The amount could be large and likely will be based on a percentage of the manufacturing cost.

Cohen did not provide a dollar estimate but said, "It should be a significant amount, but I doubt it would be stratospheric."

White said DSSI's investment in the case is expected to total \$500,000, which the firm obtained by issuing 150,000 restricted shares to New Jersey-based IDT Corp., a telecommunications firm.

Cohen said DSSI is only trying to protect its most valuable assets—its technologies. Ongoing royalties from licenses are an important source of revenue for the company. Enforcing patent rights is key to its long-term success, he explained.

Zura said he has heard comments that describe DSSI as a patent troll: someone who issues patents with the sole intention of suing others for licensing fees.

"But I would disagree," Zura said. "The people involved at DSSI are veterans of the printing industry and have been involved at developing various products throughout their careers.

"Also, after reading their patents, it is apparent that someone thought through the technical aspects of the patented subject matter prior to the filing of their patents."

Thomas Wicker, DSSI's chief technology officer, said his family is pleased the company has enforced its technology rights.

In 2002 DSSI acquired Wicker's firm, Thomas M. Wicker Enterprises Inc., a local consulting and document security research and development firm. Thomas Wicker's father, Ralph Wicker, was the inventor of the anti-counterfeiting technologies, the patents and licenses to which were acquired by DSSI.

DSSI grew out of several anti-counterfeiting ventures marketing document and currency security technology developed by members of the Wicker family.

When he died of cancer in 1997, Ralph Wicker had 60 patents in various printing technologies. In 1995, Gov. George Pataki had named him Inventor of the Year.

Last summer, Thomas Wicker said his father passed away knowing that many governments and corporations were infringing

ing on his patents, but the Wicker family lacked the resources to enforce its rights.

“We joined forces with Document Security Systems in part so that we would

have the resources and corporate structure to not only address what we consider to be the wrongful use of our technologies but also to provide a platform

for marketing and licensing our newer and more powerful anti-counterfeiting technologies in the future,” Wicker said.

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