

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

United States Courts
Southern District of Texas
FILED
MAR 09 2005
Michael M. Milby, Clerk

CLEANCUT TECHNOLOGIES LIMITED

Plaintiff,

v.

VARCO INTERNATIONAL, INC.

Defendant.

§
§
§
§
§
§
§
§
§

Civil Action No. H-04-CV-4603

Judge Harmon

**CLEANCUT’S MOTION TO DISMISS AND, IN THE ALTERNATIVE,
MOTION TO STAY COUNTERCLAIM OF VARCO L.P.
AND THIRD-PARTY CLAIM OF VARCO I/P**

Pursuant to Federal Rules of Civil Procedure 12(b)(6) and 14(a), and the Court’s inherent power to dismiss or stay a cause of action, plaintiff CleanCut Technologies Limited (“CleanCut”) respectfully moves to dismiss and, in the alternative, to stay Varco L.P.’s counterclaim and Varco I/P’s third-party claim.

Summary of Motion

CleanCut filed this lawsuit for infringement of two of its patents. Defendant Varco L.P. brought a counterclaim, and Varco I/P brought a third-party claim, against CleanCut in an effort to improperly consolidate unrelated patent infringement actions. The actions that Varco L.P. and Varco I/P (collectively “Varco”) attempt to consolidate with the present suit concern different parties, different patents, different issues of fact, and different equipment, facilities and operations. There is no overlap between CleanCut’s claims in this action and the counterclaim and third-party claims asserted by Varco, and permitting Varco’s claims to go forward in this case would unnecessarily complicate the present patent infringement case.

The counterclaim and third-party claims Varco brings in this action allege infringement of U.S. Patent No. 6,769,550 (the “550 Patent”). However, a first-filed declaratory

judgment action regarding the '550 Patent is already pending in this district.¹ That action was brought by M-I L.L.C. ("M-I"), a third-party in this case brought in only by Varco's claims on the '550 Patent. In asserting its counterclaim and third-party claims, Varco ignores the fact that CleanCut is not a proper party to Varco's infringement action on the '550 Patent, as CleanCut does not make, sell, or distribute the products that Varco alleges to be infringing, nor is it a subsidiary or owner of any party who does. Varco also ignores the fact that its claims concerning the '550 Patent arise from different and unrelated facts and circumstances, and there is no overlap between the cases.

Varco's counterclaim and third-party claims should be dismissed, and Varco should not be permitted to consolidate these actions.² Alternatively, Varco's counterclaim/third-party claims should be stayed pending the outcome of the first-filed declaratory judgment action already pending in another court.

Factual and Procedural Background

A. CleanCut's Patent Infringement Claims

On December 9, 2004, CleanCut filed its Original Complaint (Dkt. #1) seeking a preliminary injunction against Varco International, Inc. based on its infringement of CleanCut's U.S. Patent No. 6,698,989 (the "'989 Patent"). On January 14, 2005, Varco L.P. filed a motion to intervene (Dkt. #7), identifying itself as a party with an interest in the allegations made by CleanCut in its Original Complaint.

¹ CA No. H-04-CV-4602; *M-I L.L.C. v. Varco International, Inc.*; in the United States District Court for the Southern District of Texas, Houston Division, filed on December 9, 2004.

² The third-party claims brought against M-I L.L.C. (M-I") should also be dismissed because they too concern a patent and companies unrelated to CleanCut's action. Arguments and authorities in support of dismissal are set forth on behalf of M-I in its Motion to Dismiss and, In the Alternative, Motion to Stay Third-Party Claims.

On February 3, 2005, CleanCut filed its First Amended Complaint (Dkt. #12), adding claims for infringement of U.S. Patent No. 6,702,539 (the “’539 Patent”) and related causes of action for contributory infringement and inducing infringement. CleanCut also added Varco L.P. as a defendant.

On February 17, 2005, Varco filed its Answer of Varco L.P., Counterclaim of Varco L.P., and Third-Party Claims of Varco L.P. and Varco I/P (Dkt. #14). In it, Varco joins new parties and asserts a counterclaim and third-party claims against CleanCut for infringement of the ’550 Patent. Those claims should be dismissed.

B. The Patents

CleanCut owns the ’989 and ’539 Patents and both are titled “Pneumatic Conveying” (the “CleanCut Patents”) (attached hereto as Exhs. A and B, respectively). The CleanCut Patents are directed to a process for the collection and transport of drilling waste through pneumatic conveyance. Varco International, Inc. and Varco L.P. presently infringe the CleanCut Patents by making, selling, offering for sale, and/or using the Brandt Pneumatic Transport System and Brandt Blow Tank to collect and transport drilling waste using pneumatic conveyance.

Varco owns an unrelated patent, the ’550 Patent, which is titled “Screen Assemblies for Shale Shakers” (the “Varco Patent”) (attached hereto as Exh. C). The Varco Patent is directed to screen assemblies for shale shakers and shale shaker systems, and it has nothing to do with pneumatic conveyance or the subject matter of the CleanCut Patents. The purpose of a shale shaker system is to separate components of drilling fluid with solids entrained herein. The screen assembly is part of the shale shaker system. M-I manufactures and sells a variety of screen assemblies for shale shakers. One such screen product is M-I’s AUTOFIT

screen assembly. M-I properly developed the AUTOFIT screen to avoid infringing the claims of the '550 Patent. M-I, not CleanCut, manufactures and sells screen assemblies for shale shakers.

C. M-I's Declaratory Judgment Action

On November 1, 2004, Varco sent a letter to M-I, accusing M-I's screen products of infringing Varco's '550 Patent. Varco requested a response from M-I stating that infringement has ceased and the allegedly infringing screens had been removed from the market. *See* Affidavit of C. J. White, attached hereto as Exh. D ("White Aff."), Exh. 1.

Because M-I developed the AUTOFIT screen by properly designing around the '550 Patent in a manner that does not infringe the claims of the '550 Patent, M-I did not give Varco any indication that it would negotiate to resolve the issue. Instead, based on Varco's statements, M-I concluded that Varco would sue M-I if M-I continued to produce AUTOFIT screens. White Aff., ¶ 9.

On December 9, 2004, more than two months before Varco L.P. filed its third-party claims against M-I in this case, M-I filed its Original Complaint for Declaratory Judgment Regarding Patent Infringement in the Southern District of Texas (attached hereto as Exh. E) (the "'550 Declaratory Judgment Action"). The '550 Declaratory Judgment Action, Civil Action No. H-04-4602, *M-I L.L.C. v. Varco International, Inc.*, is currently pending in the Southern District of Texas, before Judge Sim Lake. It seeks a declaration that M-I's production of the AUTOFIT screen assembly does not infringe upon Varco's '550 Patent.

In addition to attempting to add unrelated claims over unrelated patents against the wrong parties, Varco also filed a Motion to Dismiss or Transfer Pursuant to the First-Filed Doctrine, and in the Alternative, Motion to Consolidate (attached hereto as Exh. F). That Motion was filed in M-I's '550 Declaratory Judgment Action. M-I opposes the relief sought in that motion, and will respond in opposition in that case.

D. The Parties

The plaintiff here, CleanCut, is in the business of selling and renting equipment for pneumatically conveying of oil-contaminated drilling waste, including drill cuttings. As previously discussed, CleanCut owns and has the exclusive rights to the oilfield use of the '989 and '539 Patents. It does not make, use, offer for sale, or sell any screen assemblies for shale shakers, which are the products that are the subject of Varco's '550 Patent. White Aff. ¶3.

M-I, plaintiff in the first-filed '550 Declaratory Judgment Action and now one of the third-party defendants in this case, is in the business of making and selling screen assemblies for shale shakers, including the AUTOFIT screen. M-I has no ownership interest in CleanCut. Further, and more importantly, M-I has no ownership interest in CleanCut's '989 and '539 Patents. White Aff., ¶ 4.

M-I Drilling Fluids, another third-party defendant in this case, is the former name of M-I Holdings L.L.C. See Affidavit of Marian Butler, attached hereto as Exh. G ("Butler Aff."). M-I Holdings L.L.C. is not in the business of pneumatic conveying equipment nor does it make and sell screen assemblies for shale shakers, and it does not make, use, offer for sale, or sell any screen assemblies for shale shakers or any products related to Varco's '550 Patent. White Aff. ¶5.

Argument and Authorities

A. This Court Has the Power to Dismiss Varco's Claims on the '550 Patent.

A district court has the inherent power to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants. Incident to this power is the court's ability to dismiss a lawsuit. *L.E.A. Dynatech, Inc. v. Allina*, 49 F.3d 1527, 1529-1530 (Fed. Cir. 1995) (internal citations omitted).

Further, in order to avoid wasteful duplication, conflicting rulings, and piecemeal resolution of issues that call for a uniform result, a district court may dismiss an action where the issues presented can be resolved in an earlier-filed action pending in another district court. *West Gulf Maritime Ass'n. v. ILA Deep Sea Local 24, South Atlantic and Gulf Coast Dist. of the ILA, AFL-CIO*, 751 F.2d 721, 728 (5th Cir. 1985).

This Court has the inherent power to dismiss all of Varco's '550 Patent infringement claims in order to avoid complicating this case by adding Varco's infringement claims for an unrelated patent, as well as unnecessary parties, to an already complex patent infringement action. In addition, this Court has the power to dismiss all of Varco's '550 Patent infringement claims in favor of the first-filed '550 Declaratory Judgment Action now pending before Judge Lake.

B. There Is No Overlap in Technology, Facts or Witnesses Between CleanCut's Patent Infringement Claims and Varco's Patent Infringement Claims.

It is not unusual to have multiple patents involving the same or similar technology at issue in a single patent infringement case. *See, e.g., SAES Getters, S.p.A. v. Aeronex, Inc.*, 219 F. Supp.2d 1081, 1090 (S.D. Cal. 2002) (granting leave to amend to file counterclaim for patent infringement of "markedly similar" patent to the patent-in-suit where both patents claim to provide method for purifying gases through apparently similar method for doing so). As previously discussed, that is not the situation here.

CleanCut's '989 and '539 Patents are unrelated to Varco's '550 Patent. CleanCut's Patents are process patents directed to the transport and disposal of oil-contaminated drilling waste. They involve equipment that pneumatically conveys non-free flowing drilling waste, including drill cuttings, from one point to another. The facts and witnesses relating to Varco's infringement of CleanCut's pneumatic conveying patents will focus on the Brandt

Pneumatic Transport System and those instances where it was made, used, offered for sale, or sold.

In contrast, Varco's '550 Patent is directed to screens that fit in shale shakers. The facts and witnesses relating to Varco's claims of infringement of its screen assemblies patent will focus on the Varco Patent and the AUTOFIT screen and those situations where it was made, used, offered for sale, or sold.

There is no overlap between Varco's development, manufacture, sale, or use of the Brandt Pneumatic Transport System, and M-I's AUTOFIT screen. The technologies are unrelated, the facts and circumstances surrounding the claims of infringement are different, and the parties are not the same. There is no overlap between the technology, facts, and witnesses between CleanCut's '989 and '539 Patent infringement claims and Varco's '550 Patent infringement claims. As such, combining these cases will not be more efficient, and instead will simply confuse the fact-finder and delay the adjudication of CleanCut's claims.

Moreover, patent infringement cases can be inherently complex, often involving complicated technical and legal issues. Requiring one jury to learn two complex, unrelated technologies, understand two different, unrelated fact patterns, hear the testimony of twice as many witnesses as necessary, and sort out technical and legal issues relating to two different, unrelated patent infringement claims is inefficient, unnecessarily burdensome, needlessly confusing, and potentially prejudicial to the proper plaintiffs in each action, M-I and CleanCut.

There is no reason to needlessly complicate this case. Varco's '550 Patent is already the subject of another lawsuit. This court should preside over this dispute, which concerns the pneumatic conveying patents only. The Varco Patent remains the subject of a

separate lawsuit, now pending before Judge Lake, and this Court should dismiss Varco's claims on the '550 Patent and see to it that these separate, unrelated lawsuits remain that way.

C. Varco L.P.'s Counterclaim Should Be Dismissed.

1. Varco L.P.'s Claim is Not Compulsory Counterclaim.

Under FRCP 13(a), a counterclaim is compulsory "if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction." Fed. R. Civ. P. 13(a).

Varco L.P.'s claim for infringement of the '550 Patent does not arise out of the same transaction or occurrence as CleanCut's action for infringement of the '989 and '539 Patents. Specifically, and as discussed above, Varco's patent infringement claims involve different technology, different products, different facilities, different parties, and different acts of alleged infringement than those related to CleanCut claims on CleanCut's '989 and '539 Patents.

CleanCut's claim for infringement of the CleanCut Patents and Varco's counterclaim for infringement of the '550 Patent do not involve common issues of fact, nor are the claims supported or refuted by overlapping evidence. Therefore, Varco's counterclaim does not arise out of the same facts and circumstances as CleanCut's infringement claims, and it is not a compulsory counterclaim in this case.³

³ On the other hand, the Federal Circuit has held that "Rule 13(a) makes an infringement counterclaim to a declaratory judgment action for noninfringement compulsory." *Polymer Industrial Products Co. v. Bridgestone/Firestone, Inc.*, 347 F.3d 935, 937-938 (Fed. Cir. 2003). Therefore, Varco L.P.'s claim for infringement of the '550 Patent is a compulsory counterclaim in the Declaratory Judgment Action, and that is the proper case for assertion of Varco L.P.'s counterclaim.

2. Varco L.P.'s Claim is Not Permissive Counterclaim.

Under Rule FRCP 13(b), a permissive counterclaim is “any claim against an opposing party not arising out of the transaction or occurrence that is the subject matter of the opposing party’s claim.” Fed. R. Civ. P. 13(b).

CleanCut does not manufacture, sell, or distribute screens for shale shakers. White Aff. ¶3. In fact, CleanCut is a separate company from M-I, the manufacturer of the accused screen products and proper party to Varco L.P.’s counterclaim for infringement of the ’550 Patent. Since CleanCut is not a proper party to Varco’s counterclaim, and Varco’s counterclaim is properly brought only in the Declaratory Judgment Action, Varco’s claim is not a permissive counterclaim and should be dismissed.

3. Counterclaim on Unrelated Patent is Needless Complication.

It is not unusual to have multiple patents involving the same or similar technology at issue in a single patent infringement case. *See, e.g., SAES Getters, S.p.A. v. Aeronex, Inc.*, 219 F. Supp.2d 1081, 1090 (S.D. Cal. 2002) (granting patentee’s leave to amend to file a counterclaim for patent infringement of “markedly similar” patent to the patent-in-suit where both patents provide similar methods for purifying gases). That is not the situation here.

Patent infringement cases can be complex and often involve complicated technical issues. Requiring one jury to learn two unrelated and complex technologies, understand two different fact patterns, and sort out technical and legal issues relating to two different, unrelated patent infringement claims is inefficient, unnecessarily burdensome, and needlessly confusing.

In *Metallgesellschaft AG v. Foster Wheeler Energy Corp.*, 143 F.R.D. 553 (D. Del. 1992), plaintiff Metallgesellschaft AG (“MG”) filed a patent infringement suit against Foster Wheeler Energy Corporation (“FWEC”) for infringement of two MG patents. FWEC

later asserted a counterclaim against MG for infringement of two different patents owned by FWEC. The court held that FWEC's counterclaim was permissive rather than compulsory, and declined to entertain the permissive counterclaim. Specifically, the court stated:

Reviewing the record at bar, MG's claim of patent infringement and FWEC's counterclaim of patent infringement do involve common issues of fact and law, supported or refuted by some overlapping evidence; i.e., there is some logical relationship between MG's claim and FWEC's counterclaim. Given the fact, however, that MG's and FWEC's patents are not related *per se* and that the facilities at issue as between MG's claim and FWEC's counterclaim are different, I conclude that FWEC's counterclaim is not a compulsory counterclaim, but rather is an independent claim, one that would not be barred by the doctrine of *res judicata* in a subsequent suit.

Id. at 557-558.

The court cited two reasons for refusing to allow defendant's counterclaim. First, trying to keep all four patents in the case would delay the resolution of the original case. Second, "[a]s significant, I conclude that the joint adjudication of MG's patent claims and FWEC's patent claims would unduly complicate the intrinsically complex factual and legal issue at bar; judicial economies can be accomplished without litigating all of the disputes between these parties in one action. *Id.* at 559.

Here, there are not even common issues of fact, nor are the proper parties even the same. There is no reason to unduly complicate this case. The Varco Patent is already the subject of another lawsuit. In order to avoid delaying the resolution of CleanCut's claims and needlessly complicating this case, Varco L.P.'s counterclaim should be dismissed.

4. The '550 Patent Dispute Should be Dismissed.

(a) The "First-to-File" Rule in Patent Cases

In *Genentech, Inc. v. Eli Lilly and Co.*, 998 F.2d 931 (Fed. Cir. 1993), *overruled on other grounds by Wilton V. Seven Falls Co.*, 515 U.S. 277 (1995), the Federal Circuit held

that Federal Circuit law, rather than regional circuit law, controls the issue of whether a declaratory judgment action should proceed in favor of a later-filed patent infringement action:

The question of whether a properly brought declaratory action to determine patent rights should yield to a later-filed suit for patent infringement raises the issue of national uniformity in patent cases, and invokes the special obligation of the Federal Circuit to avoid creating opportunities for dispositive differences among the regional circuits. Thus, although the Federal Circuit applies the procedural law of the regional circuit in matters that are not unique to patent law, and although matters of procedure do not always carry substantive weight, the regional circuit practice need not control.

Id. at 937 (internal citation omitted).

In *Genentech*, rather than apply Seventh Circuit case law, the Federal Circuit stated:

We prefer to apply in patent cases the general rule whereby the forum of the first-filed case is favored, unless considerations of judicial and litigant economy, and the just and effective disposition of disputes require otherwise.

Id. This rule is commonly referred to as the “first-to-file” or “first-filed” rule. *See, e.g., Texas Instruments, Inc. v. Micron Semiconductor, Inc.*, 815 F. Supp. 994, 996 (E.D. Tex. 1993). *See also Laboratory Corp. of America Holdings v. Chiron Corp.*, 384 F.3d 1326, 1330 (Fed. Cir. 2004) (holding that, injunctions arbitrating between co-pending patent declaratory judgment and infringement cases in different district courts are reviewed under the law of the Federal Circuit).

“The general rule favors the forum of the first-filed action whether or not it is a declaratory action.” *Genentech*, 998 F.2d at 938. The Court recognized that “the trial court’s discretion tempers the preference for the first-filed suit, when such preference should yield to the forum in which all interests are best served. There must, however, be sound reason that would make it unjust or inefficient to continue the first-filed action.” *Id.*

(b) Varco L.P.'s Counterclaim Should Be Dismissed.

As previously discussed, on November 1, 2004, M-I received a letter from Varco accusing M-I of infringing its '550 Patent, and demanding that M-I cease marketing all infringing screen products. Varco's accusations and demands gave M-I reason to believe that Varco would pursue legal action against M-I. Firmly believing that its AUTOFIT screen does not infringe upon Varco's patent, M-I had no interest in, and never suggested, engaging in any settlement or licensing negotiations. After waiting over a month from the time it received Varco's letter, M-I filed a declaratory judgment action regarding the '550 Patent in Houston, Texas, M-I's headquarters and principal place of business. See Exh. E.

Recognized exceptions to the first-to-file rule do not apply in this case. M-I's conduct can not be characterized as inequitable, nor does it invoke the "special circumstances" necessary to overcome the preference for the first-filed action. M-I never misled Varco into foregoing litigation to negotiate a settlement. Moreover, M-I did not react to Varco's letter by "literally sprinting to the courthouse the same day" to secure a preferred forum. Rather, M-I waited over a month before it filed its declaratory judgment action, and it provided a copy to Varco on the date it was filed. Good faith negotiations between M-I and Varco never ensued.

The Declaratory Judgment Act, codified at 28 U.S.C. §2201, provides a remedy to "minimize the danger of avoidable loss and the unnecessary accrual of damages and to afford one threatened with liability an early adjudication without waiting until his adversary should see fit to begin an action after the damage has accrued." 10A C. Wright, A. Miller and M. Kane, *Federal Practice and Procedure* §2751 at 569 (1983).

Moreover, Varco never filed a "mirror image" patent infringement suit in a different forum, an exception courts may recognize when declining to follow the first-to-file rule. Instead, it chose to assert infringement of its '550 Patent as a counterclaim and third-party claims

in an unrelated patent infringement case against a different party. M-I is not guilty of forum shopping, as mirror image cases are not pending in different states, or even in different judicial districts. Both the patent infringement case and the declaratory judgment action are pending in the same judicial district.

Therefore, no special circumstances are present to overcome the presumption favoring the first-filed action, and Varco L.P.'s counterclaim should be dismissed in favor of the declaratory judgment action pending in Judge Lake's court.

(c) Exceptions to the "First-to-File" Rule

Exceptions to the "first-to-file" rule are discussed at length in *The Holmes Group, Inc. v. Hamilton Beach/Proctor Silex, Inc.*, 249 F.Supp.2d 12, 14-16 (D. Mass. 2002). In that case, the patentee accused Holmes of patent infringement, which Holmes denied. Approximately one month later, Holmes filed a declaratory judgment action in Massachusetts seeking a determination of patent invalidity and noninfringement. Patentee then filed a patent infringement lawsuit in Virginia, and moved to transfer Holmes' first-filed case to Virginia, arguing that Holmes' choice of forum should not be given great weight because its declaratory judgment action falls within an exception to the first-to-file rule.

In discussing recognized exceptions to the first-to-file rule, the Massachusetts court stated that "the preference for the first-filed action may be overcome where (1) there are special circumstances justifying a transfer, or (2) convenience favors the later-filed action." *Id.* at 14. The court denied the motion to transfer, finding that no special circumstances overcame the presumption in favor of the first-filed declaratory judgment action. The court found that the defendant did not rely on any assurance that its claims would be resolved short of litigation. The plaintiff filed suit approximately one month after receipt of plaintiff's "cease and desist" letter, and the parties had not engaged in any negotiations before plaintiff filed suit. Therefore, the

defendant had not foregone suit in reliance on good faith negotiations only to lose the race to the courthouse. Instead, the court found that the parties stood on equal footing at the time plaintiff filed its declaratory judgment action. *Id.* at 15-16.

Many other courts have considered and rejected the proposition that alleged special circumstances should negate application of the first-to-file rule. *See, e.g., Alden Corp. v. Eazypower Corp.*, 294 F.Supp.2d 233, 234-237 (D. Conn. 2003) (finding in favor of first-filed declaratory judgment action where there was no showing that alleged infringer engaged in an impermissible “race to the courthouse” because, while patentee’s cease and desist letters strongly evidenced an intent to sue, they did not specify a date or a forum, nor did they state that suit was inevitable); *Brower v. Flint Ink Corp.*, 865 F. Supp. 564, 571-573 (N.D. Iowa 1994) (dismissing patent infringement case in favor of first-filed declaratory judgment action because neither party acted inequitably in attempting to secure a favorable forum, there was no “race to the courthouse,” and the balance of convenience test does not weigh in favor of one action over the other); *Biogen, Inc. v. Schering AG*, 954 F. Supp. 391, 397-399 (D. Mass. 1996) (denying motion to dismiss first-filed declaratory judgment action where accused infringer did not lull defendants into delaying suit so it could sue first); *Jam Strait, Inc. v. American Products Co., Inc.*, 2002 WL 31246566 (E.D. La) (denying motion to transfer first-filed declaratory judgment action to forum of later-filed patent infringement case where defendant fails to carry its burden of establishing that transfer is more convenient for the parties and witnesses and is in the interest of justice); *Corixa Corp. v. IDEC Pharmaceuticals Corp.*, 2002 WL 265095 (D. Del. 2002) (finding in favor of first-filed declaratory judgment action where the declaratory judgment action was not an improper “race to the courthouse,” and was not motivated by forum shopping alone, but rather by a legitimate exercise of its opportunity under the Declaratory Judgment Act).

D. Alternatively, Varco's '550 Patent Infringement Claims Should Be Stayed.

In addition to outright dismissal, it may be appropriate to stay an action. *West Gulf Maritime Ass'n*, 751 F.2d 721, 728 (C.A. Tex. 1985). "A stay may, for example, be appropriate to permit the court of first filing to rule on a motion to transfer. If that court transfers the first-filed action, the stay could be lifted and the actions consolidated. If the transfer is denied, however, the stay could be lifted and the second-filed action dismissed or transferred" *Id.*

If Varco's third-party claims are not dismissed, as urged above, they should be stayed pending Judge Lake's ruling on whether to proceed with the declaratory judgment action in CA No. H-04-CV-4602; *M-I L.L.C. v. Varco International, Inc.*; in the United States District Court for the Southern District of Texas, Houston Division.

In *Texas Instruments Inc. v. Micron Semiconductor*, the defendant filed a declaratory judgment action for noninfringement in Idaho regarding thirty-nine patents. 815 F. Supp. at 995. Three weeks later, plaintiff Texas Instruments ("TI") filed a patent infringement action in Texas regarding two of those thirty-nine patents. The Court initially ordered TI's patent infringement action transferred to Idaho. On reconsideration, and after learning that TI had filed a motion in the Idaho case requesting that court to sever, stay or transfer to Texas that portion of the Idaho declaratory judgment action relating to the patents TI elected to enforce in Texas, the court ordered TI's action stayed pending the Idaho court's decision as to which action should proceed. The Texas court stated that "the first-to-file rule gives the first-filed court the responsibility to determine which case should proceed." *Id.* at 998 (citation omitted).

Other courts have opted to stay later-filed patent infringement actions pending the outcome of the first-filed declaratory judgment actions. *See, e.g., Whelan v. United Pacific*

Industries, Inc., 2002 WL 31513432 (E.D. Pa. 2002) (staying later-filed patent infringement case in favor of first-filed declaratory judgment action, rejecting plaintiffs' argument that special circumstances exist which militate against application of first-filed doctrine); *Schnadig Corp. v. Collezione Europa U.S.*, 2001 WL 766898 (N.D. Ill. 2001) (staying patent infringement case pending the outcome of the first-filed declaratory judgment action).

Varco has moved to dismiss M-I's '550 Declaratory Judgment Action, transfer it to this case, or consolidate it with this case. M-I opposes that motion, and also urges this Court to dismiss all claims relating to infringement of the '550 Patent so that they can be resolved in the first-filed case. Alternatively, if Varco's '550 Patent infringement claims are not dismissed from this case, they should be stayed pending Judge Lake's ruling on whether to proceed with the declaratory judgment action.

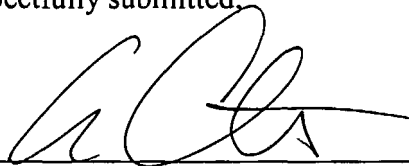
Conclusion

For the foregoing reasons, CleanCut respectfully requests that the Plaintiff's Motion to Dismiss and, in the Alternative, Motion to Stay Counterclaim of Varco L.P. and Third Party-Claims of Varco L.P. and Varco I/P be granted. Proposed alternative orders accompany this Motion.

Dated: March 9, 2005.

Respectfully submitted,

By:



David E. Warden
Federal I.D. No. 1042
State Bar No. 20856750
909 Fannin, Suite 3600
Houston, TX 77010
(713) 632-8000
Fax: (713) 632-8002

ATTORNEY-IN-CHARGE FOR
CLEANCUT TECHNOLOGIES LIMITED

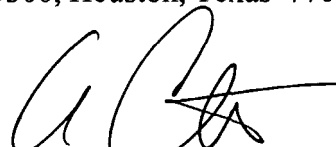
OF COUNSEL:

YETTER & WARDEN, L.L.P.

Eric P. Chenoweth
Federal I.D. No. 23626
State Bar No. 24006989
909 Fannin, Suite 3600
Houston, Texas 77010
(713) 632-8000
Fax: (713) 632-8002

Certificate of Service

I certify that on this 9th day of March, 2005, a true and correct copy of the above and foregoing pleading was served by messenger to defendant's counsel of record, Brandon T. Allen, Gibbs & Bruns, L.L.P., 1100 Louisiana, Suite 5300, Houston, Texas 77002.



Eric Chenoweth