

A man with grey hair, wearing a dark suit, white shirt, and patterned tie, stands in a professional setting. Behind him is a large barcode with the number '36226125' visible. The lighting is dramatic, with blue and white tones.

# Breaking the (Bar) Code

The fabled Lemelson patents won't scan anymore.

How Fish & Neave's Jesse Jenner shut down the billion-dollar licensing fee machine.

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By Susan Hansen

# BREAKING THE (BAR) CODE

The fabled Lemelson patents won't scan anymore.  
How Jesse Jenner brought down a billion dollar licensing empire.

Cover Photo by John Abbott

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ven by the exacting standards of Las Vegas, where he lives part of the year, Gerald Hosier has enjoyed an amazing 14-year run. Representing a controversial inventor named Jerome Lemelson, Hosier has parlayed his client's patents on bar code and machine vision technology into nearly \$1.5 billion in

licensing fees. He had a simple strategy—betting that corporate defendants would rather pay him than losing millions fighting him in court—and a taste for raising the stakes. Six years ago he made a bet he may live to regret, suing Wal-Mart Stores, Inc., and more than 400 other companies, charging that they violated Lemelson's patents.

Enter the Cooler. Unassuming, friendly, comfortable speaking both English and Techno, Jesse Jenner, 56, waited a decade for his shot at icing Hosier. He had tried once before and watched in frustration as his client folded: Ford Motor Company chose to pay millions in tribute rather

than fight through discovery. This time, however, Jenner represented a small group of bar code and machine vision

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manufacturers who literally couldn't afford to settle or lose; with some of their customers looking to them for indemnification, they went after Lemelson's empire.

At trial, Jenner and his colleagues at Fish & Neave attacked Lemelson's primitive science and his use of the patent process itself. Lemelson was a master at building "submarine patents," a since-banned practice of keeping patent applications alive in the patent office for years—or

## Timeline > >



**1953**

Lemelson gets his first patent for an improvement on a beanie with a propeller top.

**1954**

Lemelson applies for a machine vision/bar code patent.

**1963**

Patent 3,081,379 issues; Lemelson files continuation applications, which repeat figures and text of the '379 patent.

**1972**

Lemelson files more continuation applications.

**1978**

Patent No. 4,118,730 issues. All patents in the recent bar code suit share an identical specification with this patent, which is a continuation of the 1963 patent.

**1977-1992**

Lemelson files more continuation applications for the machine vision/bar code technology; more patents are issued.

even decades—in order to torpedo unsuspecting companies with licensing fee demands when the patent eventually issued. In January, a federal district judge in Las Vegas ruled that Lemelson’s patents were invalid. Barring a successful appeal, the most lucrative IP streak built on clever lawyering rather than scientific achievement came to a quick end. “It’s now essentially terminated,” Jenner says, coolly.

The litigation that signaled the beginning of the end of the Lemelson empire began in 1998, the year after Lemelson’s death. That year, with Hosier as chief outside strategist and litigator, the Lemelson Medical, Education, and Research Foundation began filing a hefty new batch of infringement suits in federal district court in Arizona. Besides Wal-Mart, the foundation named retailers Target Corporation and RadioShack Corporation, but also Hershey Foods Corporation, FedEx Corporation, Broadcom, and Apple Computer, Inc. “It represented a big, broad swath of the American economy,” says Kenyon & Kenyon partner Edward Colbert, who has been defending several companies named in the suits. “Essentially, it hit the entire GNP.”

Hosier’s strategy had always been to go after the largest users of bar codes rather than the much smaller manufacturers of bar-coding technology. His six airplanes and homes in Aspen, Colorado, and Las Vegas attest to the success of this plan. By 1998, corporations were demanding indemnification from the companies that sold them bar-coding and machine vision systems. Cognex Corporation, a leading maker of machine vision systems, used to assemble and inspect products, and Symbol Technologies, Inc., a top producer of bar code scanning devices, used to track inventory, decided it was time to test Lemelson’s patent claims in court. “These patents were pure science fiction,” says Michael Steir, legal director for the Natick, Massachusetts based Cognex. “They never should have been issued.”

When Cognex and Symbol hired Jenner, he was already immersed in the Lemelson legacy. Although the Ford case eventually settled, Jenner developed a theory that would

prove pivotal in the Cognex and Symbol cases. By fall 1999 Jenner had filed two separate suits (one on behalf of Cognex, the other on behalf of the bar code manufacturers)

**Lemelson submitted his original patent application in 1954. His first patent issued in 1963. By gaming the patent system, he was able to keep receiving patents well in to the 1980s.**

against the Lemelson foundation. The cases were consolidated in federal district court in Nevada, while the Lemelson foundation litigation in Arizona was stayed.

Jenner decided to attack the Lemelson patents with the doctrine of prosecution laches. The theory held that Lemelson took an unreasonable amount of time in actively obtaining patents, rendering them unenforceable. Lemelson had submitted his original patent applications for the technology in 1954. His first patent issued in 1963. But Lemelson was able to keep receiving related patents well in to the early 1990s. Lemelson would file so-called continuation applications that kept his claims alive in the patent office. He would amend his applications, according to Jenner, based on technological breakthroughs made by others. At the time, a patent lasted 17 years from the day it was issued. So Lemelson was able to start demanding royalties decades after he had originally applied for a patent.

Jenner believed Lemelson was manipulating the patenting process. “There was something wrong with the way Lemelson seemed to have gamed the system,” says Jenner. “He’d watch what real companies were doing, and craft these claims. Then 30 years later these submarine [patents] would pop out of the water.”

In the Ford case, Jenner won a key ruling from a magistrate who found that Lemelson’s use of continuation applications was abusive; he recommended that the patents

| 1983   | 1989   | August 1989   | September 1989  | November 1989   |   |
|--|--|---|---|---|---|
| U.S. automobile manufacturers adopt a uniform bar code standard. | Lemelson breaks with his attorney, Arthur Lieberman of New York's Lieberman, Rudolph & Nowack. Lemelson said the break was over a fee dispute. | Lieberman tells <i>The American Lawyer</i> that he is “tired of being called a parasite” by Lemelson's critics. | Lemelson hires Gerald Hosier to represent him in an infringement case filed in 1977 with Mattel over a patent for a flexible plastic toy car track. | Hosier files new bar code claims to pending applications. | Hosier sends out letters to electronics, semiconductor, and auto industries explaining they are infringing Lemelson's bar code patents. |

be declared unenforceable. In early 1996 Nevada federal district court judge Lloyd George initially adopted that magistrate's recommendation, but George later reversed himself when another federal judge ruled that a patent applicant should not be penalizing for exploiting the rules. After the U.S. Court of Appeals for the Federal Circuit declined to hear Ford's appeal, the company settled. "The sheer magnitude of the discovery costs of going forward was mind-boggling," recalls Roger May, former assistant general counsel at Ford, who's now retired. "In the end, I had to wear a business hat and a legal hat."

Cognex and Symbol had less incentive to settle. Their businesses were on the line. "This was the first time that

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manufacturers of the [bar code and machine vision] technology were involved," says Jenner. "There was a real possibility that they would go the distance."

Fish & Neave received an early break when the Lemelson side filed a countersuit charging Cognex, Symbol, and the other bar code makers with infringement. Hosier did not ask for damages, which meant he could not request a jury trial. "We thought it was important to keep this from a jury," who might be swayed by the success of Lemelson's licensing operation, says Jenner. "There would have been a natural inclination to think that this guy had done something important."

Still, Judge Philip Pro didn't seem especially sympathetic to some of Fish & Neave's arguments. Pro shot down three summary judgment motions. "We were a little worried that we were not getting our message through to the court," says Jenner.

Pro also balked when the Fish & Neave team attempted to redeploy the laches argument. Fortunately for Jenner, the judge agreed to certify the matter for immediate

appeal to the Federal Circuit. This time the appellate court took the case, and in 2002 ruled that prosecution laches could be used. "That was a gigantic victory," recalls Fish & Neave partner Steve Cherny, who worked on the trial. "If [the laches argument] ever applies anywhere, it applies in this case."

Jenner had more than just laches up his sleeve. At trial Jenner would eventually argue that his clients did not infringe Lemelson's patents and that those patents did not enable anyone to build a workable system—and therefore should be found invalid. "There wasn't any way to make a Lemelson bar code scanner," says Jenner. "It wouldn't know a bar code from a piece of tree bark."

The 27-day trial opened in November 2002. Six Fish & Neave partners and five associates took over a wing of Las Vegas's Venetian hotel. They used four suites just to hold case documents. Each morning, the Fish & Neave team would make their way past the bleary-eyed, all-night gamblers in the lobby. "There'd be people standing around with ice clinking in their glasses of Scotch," Jenner says. "Here we were, all the suits trudging out at 7 A.M."

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Fish & Neave opened testimony by giving Judge Pro a crash course on Cognex and Symbol's technology. The lawyers even set up a miniconveyor belt to show how Cognex's machine vision system works. Jenner called Symbol's first chief executive, Jerome Swartz, who testified about how he had started the company in his garage and how he had never heard of Lemelson, despite trying to keep

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| December 1989   | 1992   | June 1992                                 | 1992-1993                                     | 1995   | 1997                     |
|---|--|---|---|--|--------------------------|
| Jury awards Lemelson \$24.8 million in the Mattel case. | Lemelson settles with 12 Japanese automakers for \$100 million; closes about 40 more deals, worth about \$400 million. | Federal Circuit overturns Mattel verdict. | About 30 more companies settle with Lemelson. | Patent office revises rules; going forward, patents run 20 years from date of first application. | Lemelson dies at age 74. |



## BREAKING THE (BAR) CODE

tabs on other inventors in the field.

Fish & Neave called on other machine vision and bar code pioneers. The “hall of fame of real inventors,” as Jenner calls them, included George Lauer, a now retired IBM engineer who devised the Universal Product Code that bar code scanners read. The Lemelson foundation had also tried to hire Lauer as an expert witness. After analyzing Lemelson’s patents, Lauer recalled, he turned the foundation down, telling them that his “integrity wasn’t for sale.”

The Lemelson side did manage to get some shots in—especially during their cross of Fish & Neave machine vision

expert Dr. Berthold Horn, who had reviewed Lemelson’s patent claims. During a cross, Lemelson attorney Steve Lisa drove home the point that Horn had mischaracterized the patents in some respects.

till, Hosier faced an uphill battle. His best witness—namely Jerome Lemelson—was dead. He put

Lemelson’s widow, Dorothy, on the stand, but to little effect. “I must have gotten up 100 times” to object, says Cherny, who contends much of the testimony was either “hearsay or irrelevant.” The judge wouldn’t let Hosier introduce a video, produced by the Smithsonian Institution, honoring Lemelson’s work.

Some of Hosier’s key expert witnesses also got a rough ride. Under questioning from Jenner, British scientist Brian Williamson, Lemelson’s expert on claim construction, admitted that no single person could actually make Lemelson’s bar code or machine vision inventions based on the patents. The final Lemelson witness, Bobby Ray Hunt, a former University of Arizona electrical engineering professor, also acknowledged under cross that he had never tried to build a bar code symbol using Lemelson’s patents. “That was the end of the case,” says former Symbol in-house lawyer Mark Koffsky.

“I thought it was a pretty good ending.”

Of course, the real denouement came a year later, with Judge Pro’s decision: He sided with Jenner’s team on three key defenses, finding that the Lemelson patents in question were invalid and unenforceable (based on prosecution laches) and that the Symbol plaintiffs hadn’t infringed.

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Jenner’s immediate response was to take the trial team to a restaurant across the street from Fish & Neave’s office in New York and order up champagne.

Hosier says Pro’s ruling has avenues for appeal. As a legal matter, Lemelson is not obligated to have built his inventions or to have developed a robust version of them. “What happened here is the judge philosophically said, ‘It’s primitive, it’s early, I’m going to read in limitations,’ ” says Hosier. “Yes, his inventions were primitive, but so was Bell’s telephone, so was the Wrights’ airplane.”

Hosier is not complaining too loudly. “The judge ruled the way he did and you’ve gotta live with it and move forward with life,” he says. And he certainly is not about to start handing out refunds to the 900 or so companies that have paid the foundation licensing fees. “These were eyes-open deals,” he says. “You pay your money and you take your chances.” ■

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### June 1998

Ford settles with Lemelson; GM and Chrysler fall in line; Hosier starts signing up licensees at a “rate of one a day,” according to *Fortune* magazine.

### 1998-1999

The for-profit Lemelson, Medical, Education, and Research Foundation sues more than 400 companies, including Wal-Mart, Target, and Radio Shack.

### 1999

Bar code and machine vision companies Symbol and Cognex sue the Lemelson foundation.

### January 23, 2004

Judge Philip Pro finds 14 Lemelson patents invalid and unenforceable.

### SOURCES:

COURT PAPERS, “THE SKY’S THE LIMIT,” *THE AMERICAN LAWYER*, MAY 1993; “ENGINEER MAKES A FORTUNE ON PATENT INFRINGEMENT SUITS,” *THE WALL STREET JOURNAL*, APRIL 9, 1997; “THE PATENT KING,” *FORTUNE* MAGAZINE, MAY 2001.



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