

**BEFORE THE AMERICAN ARBITRATION ASSOCIATION  
ATLANTA OFFICE**

**In the Matter of the Arbitration Between:**

**RANDALL J. HOUCK,**

**and**

**CASE NO: 30 489 00280 07**

**RING INDUSTRIAL GROUP, L.P.**

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**CLAIMANT’S REBUTTAL TO RESPONDENT’S RESPONSIVE BRIEF**

Rather than writing a brief that responds to Mr. Houck’s contention that Ring no longer has the legitimate business interests that the law requires for precluding Houck’s competition against it with inventions that would have fallen within the scope of the now-void Sections 2.7 (a) and (b) of the APA, Ring has essentially served up a wish list of how it would like to re-write the contract of the parties. Ring would even like to “buy” its requested new versions of the APA and the Noncompete covenant by *unilaterally decreasing* the already bargained for 1% payments to Houck and, even better, by prematurely stopping them completely by an edict of this Panel. Aware that the law affords no such power to the Panel, or even a court, Ring seeks to accomplish these inequitable goals by smearing Houck’s credibility and by introducing evidence regarding its allegedly declining sales – all in a blatant attempt to engender misplaced sympathy on its behalf. This is entirely improper; and neither the Rules of Commercial Arbitration nor the order of the Chairman authorized the filing of Ring’s affidavit evidence. What Ring has filed is actually an implied admission that it has no defense on the merits of Houck’s brief, hence it has resorted to ad hominem attacks and legally unprecedented contentions.

**I. Ring has Offered No Substantive Reply to Houck's Application of Florida Law**

A restrictive covenant “not supported by a legitimate business interest is unlawful and is void and unenforceable under Florida law.” Fla. Stat. § 542.335 (1) (b). In his post trial brief, Houck demonstrated that the straight-forward application of Florida law to the restrictive covenant and the APA, to which the Noncompete covenant is inseparably linked, compelled the conclusion that Ring no longer has a legitimate business interest in preventing Houck from commercially exploiting his new inventions in whatever manner he chooses, whether those inventions are classifiable as “competitive” or only “indirectly competitive.” Moreover, the controlling statute provides that a court (or arbitration panel as the case may be) “*shall* modify the restraint and grant only the relief necessary to protect” the business interest proven by the proponent of the restraint. Fla. Stat. § 542.335 (1) (c). Ring’s response to this argument was to suggest that maybe it did not want to apply Florida law to the case after all. But it is too late for this after-the-fact attempt to invoke some other state’s law. Ring was vehement in asserting during the hearing that Florida law, the place of contracting, governed all issues (*see* Hearing Transcript of March 24, 2008 at p. 80), and Houck concurred, not wishing to litigate over choice of law issues. Ring is not permitted now to reverse course; having selected this law by agreement, Ring is bound by the choice, and has admitted as much.<sup>1</sup> *See, e.g., Coral Gables Imported Motorcars, Inc. v. Fiat Motors of North America, Inc.*, 673 F.2d 1234, 1238 (11<sup>th</sup> Cir. Fla. 1982) (“[t]he parties’ agreement as to which law shall govern the

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<sup>1</sup> “As the Panel has already found Florida law applicable, Ring here focuses on Florida substantive law.” Respondent Ring Industrial Group, L.P.’s Responsive Brief Concerning the Noncompete (“Ring Noncompete Brief”), p. 15.

construction of a contract would be recognized under Florida law, unless the chosen law contravenes the public policy of Florida”).

**II. Ring Has Failed To Identify A Legitimate Business Interest In Preventing Houck From Competing With New Inventions**

The question Ring ought to have addressed, but did not, is whether it has an identifiable business interest that meets the statutory definition in enforcing the Noncompete covenant against Houck now that Ring has itself succeeded in voiding the contract provisions that it bargained for: §§ 2.7(a) and (b). It is fair to infer that Ring has no substantive response to this argument, for it did not address the particulars of Houck’s argument or even attempt to identify a legitimate interest in continuing to enforce the covenant against *new* inventive subject matter. Instead, Ring focused on such uncontested matters as the geographic scope of the Noncompete. (Ring’s Noncompete Brief, pp. 15-18.)

The only legitimate business interest that Ring could articulate was in “protecting its investments in the drainage business *purchased from Houck*,” not the entire drainage industry as Ring’s requested modifications would accomplish. (Ring’s Noncompete Brief, p. 24; emphasis added). Ring dilates on its concern over keeping Houck from using his “intimate knowledge of the patents he sold,” yet it has identified no legitimate business interest in preventing Houck from being able to pursue *new* inventions, directly competitive or not, that would have fallen under §2.7. (Ring’s Noncompete Brief, p. 19). This is the key question that Houck briefed and Ring has side-stepped.

Consider Ring’s unauthorized declarations. They show only that Ring has a proper concern over Houck reentering the market with the invention that he *already* sold, not new technology that

would have fallen under § 2.7.<sup>2</sup> Houck has already conceded that point. Certainly Ring does have a legitimate interest in protecting what it purchased and what it is paying Houck for. But that only translates into the restrictions that Houck has conceded: Ring has a legitimate interest only in avoiding infringement and in precluding competition with the *same products* on which Houck is now being paid – so long as Ring honors the contract. Ring is not content with this restriction; it wants to insulate itself from any *new product* that might erode sales of the *old products* that Ring is selling, and it wants that right for *free*. Ring would have this Panel freeze Houck’s innovation; keeping him from making any new improvements in drainfield products that might accord Houck a competitive advantage in the market place, even if that advantage is the product of new innovation. What Ring refuses to acknowledge, however, is Florida law does not permit such a restraint absent proof that it has a legitimate business interest in precluding such competition and that its proposed restraint is *necessary* to protect the interest it has articulated. Fla. Stat. § 542.335 (1) (b) and (c). *See, e.g., Gould & Lamb, LLC.*, 949 So.2d 1212, 1213-14 (Fla. 2d DCA 2007). It is one thing for the Buyer to say he does not want the Seller of a business reentering the market to sell against him the same product he purchased. It is quite another for the Buyer to say he does not want that Seller to be able to innovate in the marketplace for fear he might actually introduce something better than what the Buyer, however incompetently managed, is currently making. The former protects the Buyer’s investment, the latter is only an effort to stifle competition out of fear of innovation.

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<sup>2</sup> Ring’s improperly submitted declarations support this contention by focusing on Ring’s “concern” that Houck will “disrupt Ring’s supplier relationships,” namely, by “going back in to the EPS drainage business and . . . purchas[ing] some . . . machinery for his own personal use,” (Koerner Declaration, ¶ 9) and will “convey[] operational and other information to one of our strongest competitors.” (Declaration of Carl Ring, ¶ 18). This is all nonsense. And none of it fits the categories of Section 542.335. Any competition can be said to “disrupt supplier relationships;” this is always the lamentation of the monopolist.

So where is Ring's demonstrated interest in precluding Houck from doing whatever he can to exploit, at his expense and risk, the new technology which he did *not* sell to Ring and for which he is *not being paid*? Clearly there is none. Yet this is precisely what Ring is angling for; it wants the Panel to freeze Houck from competing with the very technology it refuses to purchase. What Ring really fears, the subtext of its entire brief, is that Houck will threaten Ring's market share with *new technology*. If that occurs, Ring can only thank itself for insisting on voiding the contract provisions that required Houck to sell such technology to Ring. But this sort of "interest" in avoiding competition for the sake of avoiding competition is forbidden by Florida law. Fla. Stat. 542.335 (1) (b). *University of Florida v. Sanal*, 837 So.2d 512, 516 (Fla. 1<sup>st</sup> DCA 2003). Ring must point to a *legitimate* business interest that would make such competition unfair – something which Ring has invested in and paid for. Fla. Stat. § 542.335 (b); *Henoa v. Professional Show Repair, Inc.*, 929 So.2d 723, 726 (Fla. 5<sup>th</sup> DCA 2006). This Ring cannot do. It did not purchase future inventions. Ring's own brief, by its silence, admits that there are no provisions in the contract documents that accord it any interest in new inventions save those Ring has insisted on declaring void. Nor can new inventions be located in any extant provisions of § 542.335 (1) (b). Consider the list:

- (b) 1. Trade Secrets, as defined in s.688.002 (4);
- 2. Valuable confidential business or professional information that otherwise does not qualify as trade secrets;
- 3. Substantial relationships with specific prospective customers. . . or clients.
- 4. Customer, patient or client goodwill associated with . . . an ongoing business . . .
- 5. Extraordinary or specialized training.

Mr. Houck's future creativity and inventions cannot be located in this list. Certainly new inventions cannot fit the category of trade secrets or confidential information that Houck sold to Ring. Nor can new inventions threaten specific clients or appropriate customer good will or the good will of an "ongoing business" or constitute trading on any "extraordinary training." New inventions are by definition new. They may flop. But if they succeed they succeed on the merits, not by any action that attacks the old business' good will. The only source for the Noncompete's restraint upon Houck's future inventions is the contract requirement that Ring purchase and Houck sell such inventions, now void at Ring's own insistence. Put another way, Houck's future inventions, in the wake of the voidness ruling, cannot possibly constitute "identifiable assets" of Ring's business, the appropriation of which would be unfair competition because of the agreement of the parties. *University of Florida v. Sanal*, at 516.

Aware of this, Ring resorts to the argument, underlined with great emphasis, that it is unfair to require Ring to pay Houck while he "uses that payment to fund his competition with Ring." Noncompete Brief, at 2. How exactly is this unfair? Ring contracted to pay Houck for his patents and his business. That is why it is paying him. It also contracted to buy *all* future competitive inventions, but then it had that clause declared void. So what is unfair about Houck being paid for what he did sell and using that payment to develop new technology which Ring refuses to buy? Ring is whining rather than complaining about real unfairness; and it certainly can link its concerns to no identifiable business interest.

Because Ring cannot identify a legitimate interest in keeping Houck out of the *entire* drainfield market with new products, it is appropriately left with what it originally bargained for in

the Noncompete *minus* the protection afforded by Section 2.7.<sup>3</sup> Houck has accurately defined this protection in its Post Trial Brief. Houck’s “blue-pencil” revisions protect Ring’s patent rights and prevent Houck from selling products which “otherwise constitute the same product on which Ring is paying Houck.” Houck Post Trial Brief, pp. 16-17. This latter category is potentially rather broad, and essentially prevents Houck from selling a product which is the same as the *Ezflow* in the marketplace. In this respect, Houck’s restriction connects the restraint to what would be “unfair competition:” competing against the very thing you sold to the purchaser and for which the purchaser is obligated to pay you. *Henao*, at 929 So.2d at 726. Ring strangely remarks that it does not need the Noncompete to enforce its patent rights as to such products against Houck, since it can always sue for infringement. But it neglects to mention that four of the patents will soon (as of this year) expire. Preventing Houck from practicing these patents will shortly not be an independent property right that Ring possesses, save the provisions in the Noncompete. Houck’s Post Trial Brief takes this into account. But as Houck has also shown, now that § 2.7 has been eliminated, the range of protection Houck has proposed is all Ring has a legitimate interest in protecting. The Panel should therefore abide by the statutory mandate and declare void the restraints upon Houck’s exploitation of new technology. Fla. Stat. § 542.335 (1) (b). As the statute states, if a restraint is “overbroad, overlong, or otherwise not reasonably necessary to protect the legitimate business interest or interests, a court shall modify the restraint and grant only the relief *necessary to protect such interest or interests.*” *Id.*, at § 542.335(c). The Panel can do this in any number of ways. It can declare all

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<sup>3</sup>Section 1(a) of the Noncompete provides:

Non-Competition. During the term of this Agreement, Sellers shall not . . . own, manage, operate, join, control or participate in the ownership, management, operation or control, of a trade or business engaged in producing, manufacturing, marketing or selling, any product utilized, or potentially utilized, in the drainage industry.

restraints upon Houck's competition with new inventive activity void, in view of the voidness of §§ 2.7 (a) and (b). It can declare the Noncompete overlong, now that we are eight years into the relationship, and thus at that point at which the court "*shall* presume unreasonable in time any restraint more than 7 years in duration," for the sale of the assets of a business. Fla. Stat. § 542.335 (1) (d) 3. It can make both rulings. Or it can adopt Houck's more limited blue-pencil, which is more favorable to Ring, for it clearly protects Ring from competition as to products on which it is paying Houck even if such products do not infringe or are broader than what Houck sold Ring in the first place, and it leaves in place other provisions that the parties do not, or do not currently, dispute.

What the Panel cannot do, however, is embrace Ring's red-lined modifications, which represent a naked effort to impose the same restraints upon Houck's new technology that existed before § 2.7 (a) was eliminated. Why, after all, did Ring attempt to require itself to purchase and Houck to sell new inventions that were competitive to Ring's drainfield products (§ 2.7 (a) ), if it did not need such a provision to make the Noncompete as to such inventions enforceable? Ring now is attempting to get the same level of restraint upon new technology that it had bargained to purchase previously. This argument cannot be squared with Florida law. Worse, it may even constitute an actionable misuse of the patents Ring has purchased from Houck. *See, e.g., Nat'l Lockwasher Co v. George K. Garrett Co.*, 137 F.2d 255, 256 (3<sup>rd</sup> Cir. 1943) (misuse for patentee to use patent to suppress the making of new competitive goods not covered by the patent); *Lasercomb Am., Inc v. Reynolds*, 911 F.2d 970, 979 (4<sup>th</sup> Cir. 1990) (it is an act of misuse to insist upon a license which prohibits licensee from creating competitive products to those of the licensor).

### **III. Ring's Failure of Consideration Theory Has No Support In Florida Law**

Ring argues that because this Panel has stricken §§ 2.7(a) and (b) and both parties agree that the Noncompete must be altered, Ring has “lost” its “bargained for ability to acquire or potentially acquire new drainfield technology” and thus its payments to Houck “should be adjusted.” (Ring Noncompete Brief, at 9). This is a curious contention for Ring to make after Ring itself succeeded in voiding the contract clauses which its own lawyer drafted. It amounts to saying: since I have now succeeded in voiding my own contract language (the language that I insisted I needed to protect myself from Houck’s future inventions) I must now be permitted to use the “failure of consideration” which I have now inflicted upon myself to justify renegotiating downward the payments that I agreed to pay Mr. Houck for his business. This is neo-Stalinist in both its “logic” and its appeal to the exercise of arbitrary power, as are Ring’s ad hominem attacks on Mr. Houck’s character. Needless to say Florida law supplies no writ for so re-crafting the bargain that the parties made over the purchase price; nor is there any analogy between doing so, in the improper exercise of power that Ring would have the Panel exercise, and blue-penciling a noncompete in accord with Fla. Stat. §542.335(i)(5), to contain the restraint to the *legitimate* interests that its proponent has identified.

There is, under the law of Florida, no power to “modify” provisions of a contract that have now become “unfair” to one of the parties, absent a basis for declaring the contract invalid altogether. *See Rose Printing Co. v. Haggerty*, 584 So. 2d 606, 608 (Fla. 1<sup>st</sup> DCA 1991) (“[i]t is axiomatic that where a promise to pay a sum of money is made upon the consideration of a promise to perform a certain service, the consideration fails, and the promise to pay is discharged, if the services are not performed”). If Ring is actually contending that the contract suffers from a failure of consideration – an absurd notion given its success thus far in the market – the necessary result is that the whole contract is invalid. *See Mease v. Warm Mineral Springs, Inc.*, 128 So. 2d 174, 180

(Fla. 2<sup>nd</sup> DCA 1961) (“relief by way of rescission and cancellation may be granted when failure of consideration consists in a breach of a dependent covenant of the contract. This principle has been invoked in several Florida cases”); *Vichaikul v. S.C.A.C. Enterprises, Inc.*, 616 So. 2d 100 (Fla. 2<sup>nd</sup> DCA 1993) (“a failure of consideration is a defense to the contract”). The bargain of the parties over price and payout terms is quite distinct from a non-compete whose terms are appropriately adjusted for over-breadth by statutory authority. Fla. Stat. § 542.335 (c). Outside of the particular statutory context of blue-penciling a noncompete agreement to adjust the restraint to the legitimate interests of the proponent, there is no authority to “rewrite the contract where its provisions were clear and unambiguous.” *Beach Street Bikes, Inc. v. Bourgett’s Bike Works, Inc.*, 900 So. 2d 697, 701 (Fla. 5<sup>th</sup> DCA 2005). Although specific provisions could on a proper showing be cancelled such that the contract might remain intact, as the severability clause in §8.7 provides, there is no theory of contract law that will allow this Panel to “modify” and substitute a new and “improved” contract provision for an old one as Ring would like.

Nor is there any ambiguity in the language of § 2.4 ( c ) of the APA:

**As consideration for the Patents**, the Installment Portion of the Purchase Price shall be paid as follows . . .

(ii) Ten Year Term. The Purchaser **shall pay Houck a monthly payment** computed at the rate of one percent (1%) of Net Sales for the term of ten (10) years beginning with the eighth (8<sup>th</sup>) anniversary of the Closing Date. (Emphasis added).

What, then, could be the basis for attacking this clear and unambiguous language? Plainly there is none. This brings us back to the failure of consideration notion, which under Florida law is a contention that the contract lacks mutuality, which in turn would require rescission. That would entail Ring handing back to Mr. Houck his patents, along with an equitable portion of the business

assets that he sold, and freeing Houck on the market.<sup>4</sup> Neither party wants or has argued for this remedy, however, and given Ring's success in the marketplace such a claim would be frivolous, even in view of the now-void contract provisions. *See Gladding Corp. v. Register*, 293 So. 2d 729,732 (Fla. 3<sup>rd</sup> DCA 1974) ("rescission is a harsh remedy, not favored in the law"). Moreover, the severability clause specifically negates this as a viable avenue for Ring.

Additionally, Florida case law has held that "failure of consideration is the neglect, refusal or failure of one of the parties to perform or furnish the agreed consideration." *Freitag v. Lakes of Carriage Hills, Inc.*, 467 So. 2d 708, 710 n. 1 (Fla. 1<sup>st</sup> DCA 1985) (citing *Holm v. Woodworth*, 271 So.2d 167 (Fla. 4<sup>th</sup> DCA 1972)). There is no indication that Houck has engaged in any of these actions, nor intends to, but instead has indicated his every willingness to continue honoring all of the contract obligations that remain in the wake of the Panel's previous ruling. Also, the court in the *one* case Ring cited to support the proposition that nonmutuality of remedy should excuse its performance did not find the argument to be very compelling and accordingly rejected it. *Don L. Tullis & Assocs. v. Benge*, 473 So. 2d 1384, 1386 (Fla. 1<sup>st</sup> DCA 1985) (stating that the "nonmutuality of remedy argument also fails"). Ring has simply provided a dearth of case law support for its contract avoidance argument.

Note also the fallacy of Ring's theory that the one percent installment payments are in some measure tied to the "continued promise of non-competition in the drainfield business." (Ring's Noncompete Brief, at 10). This is disingenuous in at least three ways. First, as noted above, the APA explicitly provides that the installment payments are "consideration for the Patents" (§ 2. 4 (c)).

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<sup>4</sup> In any case, even if this Panel did have the power to modify the APA, as has been determined with respect to Section 2.7, this Panel could not determine what an "equitable" decrease in Houck's payments would be.

Second, the APA explicitly ties the cash portion of the contract, not the installments, to present assets, including the Noncompete. (APA, § 2.4 (a) (\$25,000)). Third, the third recital of the Noncompete itself specifically links the restriction upon future inventions to §2.7's agreement to sell to Ring “all future inventions, patents, or other intellectual property,” not to Houck’s installment payments. What must follow from these provisions is that the installment payments have nothing to do with the Noncompete. Hence even if Florida law acknowledged some sort of partial failure of consideration theory like the one Ring advances, which it does not, Ring could not hope to show that the installment payments have lost their “value” as the result of the decision Ring itself invited – the invited “failure of consideration” itself being a frivolous theory.

It is also appropriate to observe that Ring has made millions off the Houck patents and with no interference from Mr. Houck. Never forget, although Ring complained that it has only made about \$2.5 million in profits while “it has paid Mr. Houck a total of approximately \$9,000,000.00 in payments under the patents,” Houck has only ever made 4% of Ring’s Net Sales, as defined in §1.8 of the Asset Purchase Agreement. (Declaration of Carl Ring, ¶¶12-13). Therefore, Ring is saying that out of the \$225,000,000.00 (\$9,000,000 divided by 4%) that Ring has made in Net Sales off of Houck’s patents, it could only manage a \$2,500,000.00 profit (about a one percent return). This begs the question of where the rest of that \$222,500,000.00 went, but hardly makes one think that Ring should in any way be pitied for its profit margin.

Moreover, it is a long-standing axiom of contract law that courts are not to look at the sufficiency of consideration for agreements and “second guess” what the parties’ intentions were at the time of contracting. This view is reflected in a number of Florida court decisions which refused to take contracts apart piece by piece in order to determine if there was adequate consideration.

*LaBonte Precision, Inc. v. LPI Industries Corp.*, 507 So. 2d 1202, 1203 (Fla. 4<sup>th</sup> CA 1987) (citing *Wright v. Seaton, Inc. v. Prescott*, 420 So.2d 623, 626 (Fla. 4<sup>th</sup> DCA 1982)); *see also Avid Engineering, Inc. v. Orlando Marketplace Limited*, 809 So. 2d 1, \*4 (“[W]here there is no other consideration for a contract, mutual provisions must be binding on both parties, but where there is any other consideration for the contract, ‘mutuality of obligation’ is not essential”) (citations omitted, alteration in original); *Beach Street Bikes, Inc. v. Bourgett’s Bike Works, Inc.*, 900 So.2d 697 (Fla. 5<sup>th</sup> DCA 2005) (adopting *Avid Engineering, Inc.*’s position with regard to mutuality of obligation and stating that the argument was nothing more than a smoke screen) (citations and internal quotations omitted).

Ring is still getting the benefit of its bargain. It must not be permitted to use the voiding of Sections 2.7(a) and (b) to boot-strap itself into a rewriting of the contract that the law does not allow.

#### **IV. Ring Has No Basis For Seeking to Modify or Suspend The Installment Payment**

Ring attempts to make it seem significant that Houck was, at an early point in the negotiations, merely going to license Ring his patent rights rather than sell them, as though the sale was primarily for Houck’s tax benefits. But in its improperly submitted declarations, Ring admits that it too desired to purchase the patents, though for defamatory rather than economic reasons:

We absolutely did not want Mr. Houck participating in the market place with us because customers, regulators, and others would inevitably link the two of us together and we felt in some circumstances that Mr. Houck’s actions could be counter-productive to our efforts to build the business. Declaration of Carl Ring, ¶17.

Despite that fact that it was Houck who invented, produced and secured the regulatory approval of the technology in the first place, Ring supposedly did not wish Mr. Houck’s personality to be “attributed to, or associated with, Ring” and wanted Houck out of the market to stay. Id.

Another incentive for Ring to buy Houck out was that it also thought “actual control of an existing business would bring a larger return.” *Id.* at ¶ 8.

This sort of disparaging and self-serving “testimony” by declaration and without cross-examination is unworthy of Ring’s counsel, and should not be permitted. But observe Ring’s implied concession: had Ring merely *licensed* the patents, Ring would have never gotten Houck out of the market in the first place. Ring did purchase the patents, however, and it agreed to a long term payout of the purchase price. The APA is very explicit about this; the installment payments are specifically to pay Mr. Houck for the purchase of the Houck patents, as noted in the already-quoted passage of Section 2.4(c). Every dollar Ring is now paying and must pay in the future in installments to Mr. Houck is specifically “as consideration for the patents.” (APA, §2.4(c)). Ring unquestionably agreed that it now *owns* the Houck patents by assignment (Ring Counterclaim, ¶¶ 4-6) and it has even sued an infringer in federal court on that theory – a detail on which the panel can take judicial notice. *See Ring Industrial Group, LP v. E-Z Tank Company, et al. (U.S. Dist. Ct., Western District of North Carolina; 5:07-cv-00103-RLV-DLH)*. Yet now that Ring is in litigation with Houck, Ring wishes to treat these payments as if they were mere royalty payments *for a patent license*, and thus terminable upon expiration of the patents. But they clearly are *not* royalty payments, regardless of the tax or non-tax or personal reasons for Ring’s election to purchase the patents; they are and must remain *purchase payments*. Are we to believe that the assignments provided for in the APA are not what they say?

Because Ring’s payments to Mr. Houck are indisputably installment purchase payments for the patents, the holding in *Brulotte v. Thys Co.*, 379 U.S. 29, 31-32 (1964), on which it relies, actually refutes Ring’s theory that the Panel can rewrite the contract to stop payments to Houck for

expired patents. The same is true for the Ninth Circuit authority which Ring cites, which, like nearly all Ninth Circuit authority, has nothing in common with Florida contract law, and is inapposite. *Zila v. Tinnell*, 502 F.3d 1014 (9<sup>th</sup> Cir. 2007).

Ring discusses *Brulotte* as if it embraced a categorical rule that all “royalty payments on expired patents are void.” (Ring Noncompete Brief, at 12). This is incorrect. *Brulotte* only applies to patent *license* agreements, not installment purchase contracts, and its reach is limited to prohibiting a patent *owner* from collecting *royalty payments for licensed use of an invention* after the licensed patents have expired. *Brulotte*, at 378 U.S. 32-33. In explaining its ruling, the *Brulotte* Court itself explained that the annual payments were not “part of the purchase price but royalties” and that these payments “are by their terms for use during that period, and are *not deferred payments for use during the pre-expiration period.*” *Id.*, at 31-32. The clear implication of this language is that “deferred payments” that really are part of the purchase price for the patents, as opposed to payments for *licensed use*, are outside the scope of *Brulotte*. Similarly, in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 303 (1979), the Supreme Court explained the *Brulotte* holding this way: “ the obligation to pay royalties *in return for the use of a patented device* may not extend beyond the life of the patent.” (Emphasis added). The context of this ruling was that of a patent license for the use of a device covered by a patent, not payments to the assignor who has actually sold the patent to its assignee.

*Brulotte* and its progeny simply do not purport to limit how a patent owner can be paid for the installment sale and assignment of his patented inventions. These cases say nothing about whether the patent owner is forbidden from stretching bargained-for payments beyond the expiration date of the patent; they address only the license of the patent by a patent owner who receives

royalties for a patent's *use* rather than installment payments. Unlike these cases, Ring's payments are not based upon a license of the *use* of an invention, they are installment payments explicitly for the purchase price of Houck's patents as part of an overall purchase of a business. (APA §2.4 and §2.4(c)). Surely Ring's attorney was aware both of *Brulotte* and the crucial distinction between licensing the use of an invention and assigning it in return for installment payments. This is made clear both by the recital in § 2.4 (c) that the installment payments are "as consideration for the Patents" and the expiration clause in § 2.4 (c) (viii). Here the draftsmen were careful to craft an installment assignment arrangement, not a license. Indeed, the word "royalty" does not appear anywhere in the APA; Ring has merely insinuated that the payments to Ring are royalties. The installment payments are called "monthly payments," not royalties, for the simple reason that they are just that: payments of the purchase price, not royalties for the use of an invention.

Consider for a moment the implications of allowing an assignee, like Ring, under these circumstances unilaterally to avoid, eight years later, an installment payment arrangement that it used to induce the assignor to part with his invention. Suppose Buyer promises to pay Seller on the basis of the number of patented items it sells in the marketplace, by way of installment payments at an agreed percentage. Suppose to make the deal work economically, Buyer says to Seller: I can make a profit only if I pay you 4% for 8 years, then 1% thereafter, and I am willing to keep paying even after all of the patents I am buying have expired. If this proposal is accepted, does the extension of payment beyond the patent expiration dates enable the patentee to exercise "monopoly power in the post-expiration period," 379 U.S. at 180, as in *Brulotte*? Clearly not. For it is the Buyer (like Ring) that now owns the patents, and he cannot extend the life of the patent at all; whatever "monopoly" power conferred by those patents ceases upon the ordinary expiration date. The Seller for his part

has parted with title to the patents, and enjoys nothing but an expectation of a bargained-for income stream for his pre-expiration valuable property rights; he can exert no monopoly power at all. In this scenario the parties have merely agreed to stretch the payments out longer at a *more affordable rate*, which is the economic equivalent of accepting a higher rate that is payable only during the remaining patent term. Is it equitable now to punish the Seller for making the deal more affordable to the Buyer by declaring that the payments beyond the patent term are void? Clearly not. That would be conferring an unfair windfall on the Buyer – in effect, an after-the-fact re-crafting of the bargain by judicial fiat. *Brulotte* has been condemned by many courts on similar reasoning, in the context of a patent license. *E.g.*, *Scheiber v. Dolby Labs, Inc.*, 293 F. 3d 1014, 1017 (7<sup>th</sup> Cir. 2002), noted, 18 Berkeley Tech L.J. 159 (2003). But at least *Brulotte* has some kind of rationale, however illogical, that can be located in antitrust policy; it is aimed at preventing an extension of the patent monopoly by a patentee who has entered into a long-term patent license. But *Brulotte* can have no application to an outright sale and installment purchase, as in this case, for an extension of the patent monopoly in the installment purchase scenario is simply impossible. The installments that remain after a patent expires are simply payments for an agreed value represented by those patents when they were in effect.

This is why the Panel must not let Ring expand the reach of a much-discredited case beyond the limits of its holding; *Brulotte* has no application to the sale of a portfolio of patents and associated business assets purchased by negotiated installment payments that extend beyond the life of the patents themselves.

Likewise, merely because the installment payments are in the form of a percentage of the purchase price does not mean that Houck is trying “to project [his patent rights] into another term

by continuation of [a] licensing agreement,” (*Brulotte*, 379 U.S. at 34); Houck is just trying to get paid for the agreed value of his patents in accordance with § 2.4 (c)(viii) of his contract:

Expiration of Patents. The Purchaser recognizes that one or more of the Patents may expire before the expiration of the payments payable during the ten year term provided in sub-section 2.4(c)(ii); however, the expiration of a Patent alone, *shall not relieve or otherwise affect the Purchaser’s obligation to pay the Sellers the amount provided in sub-section 2.4(c)(ii) specifically.* (Emphasis added).

Where is Ring’s authority for ignoring this provision of the contract?

Ring has advanced no legitimate reason for lowering or ceasing Houck’s payments based on the expiration of some or all of the patents. The parties validly contracted for an installment method of payment, and agreed on a payout that Ring found acceptable. This agreement should not be disturbed simply because Ring has decided it does not want to finish paying for the business it purchased almost eight years ago. Perhaps Ring views this stratagem as a clever way to befog the issues raised in Houck’s Post Trial Brief, but it is an appeal to exercise unrestrained power for the unilateral benefit of one contracting party. Florida noncompete law confers no such authority on any decision maker.

V. **Ring’s Demand for Modification or Suspension of Installment Payments is Procedurally Improper**

A. **Statute of Limitations**

Ring’s argument that Houck’s payments should now be modified or halted altogether in view of the patent expiration dates is essentially an argument for rescission of the contract, and as such is barred by the applicable four-year statute of limitations. Fla. Stat. 95.11(3)(l). The APA was executed almost eight years ago, and thus any action for rescission must necessarily have occurred at least four years earlier than now in order to have been maintained. *See Freeman v. Bianco*, 2003

U.S. Dist. LEXIS 1005, \*10-15 (S.D.N.Y. 2003) (applying Florida law). As was stated by the Florida Supreme Court, “[l]imitation statutes are designed as shields to protect defendants against unreasonable delays in filing law suits and to prevent unexpected enforcement of stale claims. . . . In such cases how resolutely unfair it would be to award one who has willfully or carelessly slept on his legal rights an opportunity to enforce an unfresh claim against a party who is left to shield himself from liability . . . .” *Allie v. Ionata*, 503 So. 2d 1237, 1240 (Fla. 1987).

Ring should not be allowed to write (or at the very least assist in writing) a payment provision that it knew or should have known was allegedly suspect in its enforceability, “sleep on its rights” to challenge that enforceability for nearly twice the statute of limitations period, and then argue that somehow the provision should not be enforced and payments should not have to be made. It is too late for Ring to seek a rescission of the installment payments to Houck, as it is now clearly doing.

B. Equitable Estoppel

Because Ring has both insisted upon and accepted Houck’s full performance under the APA and received an admittedly broader scope of protection under the Noncompete which it was entitled to for eight years, it should be equitably estopped from arguing that reduction or cessation of payments is a proper course. *See Gleason v. Leadership Housing, Inc.*, 327 So. 2d 101, 104 (Fla. 4<sup>th</sup> DCA 1976) (citation omitted) (“[t]he doctrine of estoppel is a part of the common law enforced in Florida, and it should be appropriately applied when the facts in a litigated case justify it”). Generally speaking, equitable estoppel acts to

preclude[] a person from maintaining a position inconsistent with another position which is sought to be maintained at the same time or which was asserted at a previous time; and, as a general rule where a person has, with knowledge of the facts, acted or conducted himself

in a particular manner, or asserted a particular claim or right, he cannot afterward assume a position inconsistent with such act or conduct to the prejudice of another who has acted in reliance on such conduct.

*Gleason*, 327 So. 2d at 104 (internal quotations omitted).

More specifically, there are three elements for equitable estoppel, all of which are undeniably met by the present circumstances: “(1) a representation as to a material fact that is contrary to a position subsequently asserted; (2) the plaintiff’s reliance on that representation; and (3) a change in position detrimental to the party claiming estoppel, caused by the representation and reliance.” *Sabeta v. Baptist Hosp. of Miami, Inc.*, 410 F. Supp. 2d 1224, 1240 (S.D. Fla. 2005) (citing *Sun Cruz Casinos, L.L.C. v. City of Hollywood, Fla.*, 844 So. 2d 681 (Fla. 4<sup>th</sup> DCA 2003)).

For almost the last decade, Ring has made a representation of material fact that the APA and Noncompete were fully enforceable to the utmost degree, and even has used this fact to threaten Houck with litigation for any supposed violations and stall his development of new technology. Now, in recanting its previous representations of the enforceability of the APA, Ring has invalidated as indefinite Sections 2.7(a) and (b), admitted that the Noncompete would most likely be unenforceable or “dead in the water” in a Georgia court, and is currently erroneously arguing that it should not have to pay Houck some or all of his installment payments.

In contrast, Houck has not only greatly relied to his detriment on and performed under the APA, but has changed his position in reliance of Ring’s assertions of enforceability of the same in a multitude of irreversible ways over the past eight years. As a very short list, Houck has sold and placed his multi-million dollar patent rights at Ring’s disposal, refrained from engaging in any kind of even potentially competitive activity under the Noncompete, offered Ring his new ideas under Sections 2.7(a) and (b), and, perhaps most significantly, granted Ring all of the knowledge at his

disposal regarding the patented technology he sold. Houck cannot get his eight years back, nor any of the events that have transpired through their due course. Indeed, these are not minor considerations, and any number of equitable contract theories would allow Houck to recover his full contract price either based on these actions themselves or the fact that they were performed in reliance on Ring's assertions. *See, e.g., Pinnacle Port Community Ass'n v. Orenstein*, 872 F.2d 1536, 1544 (11<sup>th</sup> Cir. 1989) (“[d]etrimental reliance is valid consideration for a contract”); *Strategic Res. Group, Inc. v. Knight-Ridder, Inc.*, 870 So. 2d 846, 848 (Fla. 3<sup>rd</sup> DCA 2003) (citing *Ocean Ridge Dev. Corp. v. Quality Plastering, Inc.*, 247 So.2d 72, 75 Fla. 4<sup>th</sup> DCA 1971) (“[s]ubstantial performance is that performance of a contract which, while not full performance, is so nearly equivalent to what was bargained for that it would be unreasonable to deny the promisee the full contract price subject to the promisor's right to recover whatever damages may have been occasioned him by the promisee's failure to render full performance”).

Thus, Ring should be equitably estopped from making the APA into whatever it wants by way of duration and payment at Houck's expense. *See Gleason*, 327 So. 2d at 104 (citations omitted) (“[t]he doctrine [of equitable estoppel] requires of a party consistency of conduct, when inconsistency would work substantial injury to another party”). Ring is essentially attempting to rescind a contract that is eight years completed, without regard for the fact that “the law is too well settled to admit of controversy that one may accept the fruits of a contract and at the same time renounce, or repudiate, the burdens which that contract places on him.” *Gleason*, 327 So. 2d at 104 (Fla. 4<sup>th</sup> DCA 1976) (citations and internal quotations omitted); *see also Fineberg v. Kline*, 542 So. 2d 1002, 1004 (Fla. 3<sup>rd</sup> DCA 1989) (citations omitted) (“[b]ased on equitable principles, once a party accepts the proceeds and benefits of a contract, that party is estopped from renouncing the burdens

the contract places upon him”). The law forbids such egregious violations of contract law, such that “[s]tripped of the legal jargon which lawyers and judges have obfuscated it with, the theory of estoppel amounts to nothing more than an application of the rules of fair play. One party will not be permitted to invite another onto a welcome mat and then be permitted to snatch the mat away to the detriment of the party induced or permitted to stand thereon.” *Coral Springs St. Sys. v. City of Sunrise*, 371 F.3d 1320, 1335 (11<sup>th</sup> Cir. 2004) (Fla. Law; citations and internal quotations omitted). Under the doctrine of equitable estoppel, Ring cannot on the one hand garner and insist upon the full benefit of Houck’s performance under a contract for eight years, and then on the other unilaterally decide that the contract is so flawed as to merit a decrease in, or complete halt to, the welcome mat it made Houck stand on. *See Blinco v. Green Tree Servicing LLC*, 400 F.3d 1308, 1312 (11<sup>th</sup> Cir. 2005) (citations omitted) (“[e]quitable estoppel precludes a party from claiming the benefits of a contract while simultaneously attempting to avoid the burdens that contract imposes”); *Bahena v. Am. Voyager Indem. Ins. Co.*, 2008 U.S. Dist. LEXIS 21652 (M.D. Fla. 2008) (citations omitted) (same).

### C. Waiver

In addition to the fact that Houck is entitled to have his payments continued under either the theory of equitable estoppel, detrimental reliance, or substantial performance, Houck is additionally entitled to have his payments continued under the waiver doctrine. The elements of waiver are as follows: “(1) the existence at the time of the waiver of a right, privilege, advantage, or benefit which may be waived; (2) the actual constructive knowledge thereof; and (3) an intention to relinquish such right, privilege, advantage, or benefit.” *BMC Indus. v. Barth Indus.*, 160 F.3d 1322, 1333 (11<sup>th</sup> Cir.

1998) (citations and internal quotations omitted). Ring has had the “right” to contend that its payments should have to end post-expiration of the patents for almost eight years and has failed to do so. The proper time to raise this concern would naturally have been when the APA was executed, and thus Ring should be deemed to have constructive knowledge of this right from that point on. Consequently, by subsequently holding Houck to his part of the bargain to the utmost extent, Ring should be said to have intentionally relinquished this “right” and prevented from arguing as much now.

### **Conclusion**

In accordance with Fla. Stat. 542.335 (1) (b) the Panel should declare void the restraints upon Houck’s exploitation of new technology, in view of its ruling that §§ 2.7 (a) and (b) are void. The Panel should also limit the Noncompete in its scope to protect only competitive acts that infringe the Houck patents or involve the sale of products like those on which Houck is being paid installment payments. The Panel should reject Ring’s efforts to “modify” the installment payments or to terminate them at any point earlier than provided in the APA, and it should find that Ring’s rescission theory is procedurally and substantively barred under Florida law.

DATED this 9 day of May, 2008.

Respectfully submitted,



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I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by email this 9<sup>th</sup> day of May, 2008, to the following:

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