

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

VALVTECHNOLOGIES, INC. and
RHINOITE INC.

v.

ROBERT B. NORTH AND
NORTHMONTE LIMITED, INC.

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Cause No. 4:10-cv-03943

Plaintiffs’ Proposed Findings Of Fact & Conclusions Of Law

Findings Of Fact

1. Plaintiff Valvtechnologies, Inc. (“VTI”) is a Texas for-profit corporation. Plaintiff Rhinoite Inc. (“Rhinoite”) is a Texas for-profit corporation.
2. Defendant Robert B. North (“Mr. North”) is an individual and resident of Texas who has made an appearance in this matter.
3. Defendant Northmonte Limited, Inc. (“Northmonte”) is a Texas for-profit corporation which has made an appearance in this matter.
4. This court has subject matter jurisdiction pursuant to 28 U.S.C. § 1331 and 1338(a), and pendent jurisdiction for the Texas state law claims.
5. This Court has personal jurisdiction over the defendants. Defendants reside or conduct business in this judicial district.

6. Mr. North is the sole inventor listed for the following U.S. Patents: 6,117,493; 6,326,582; and 6,582,126 (collectively “the Patents”), which are attached as **Exhibit 1**, **Exhibit 2**, and **Exhibit 3**, respectively.

7. Mr. North is the sole owner of U.S. Patent No. 6,326,582.

8. Northmonte Partners, L.P. is the owner of U.S. Patent Nos. 6,117,493 and 6,582,126.

9. Northmonte Partners, LP is comprised of the following partners, shown with their ownership percentages : North (50%); VTI (49%); and Northmonte (1%). See defendants’ Exhibit 5 from the show cause hearing held January 6, 2011, and Mr. North’s testimony in **Exhibit 8**, the hearing transcript, page 77, lines 12-22.

10. On March 30, 2006, Mr. North signed an employment agreement (attached as **Exhibit 4**) with VTI.

11. On June 16, 2010, of his own free will, and without being asked by VTI to resign, North resigned from his employment at VTI. See **Exhibit 8**, the hearing transcript, page 46, lines 17-19, page 51, lines 18-20.

12. Also on March 30, 2006, Mr. North and Northmonte Partners, L.P. granted to VTI a worldwide, irrevocable, royalty-free, exclusive license (“the Patent License”, attached as **Exhibit 5**) under the Patents to make and sell (a) certain products (“the Licensed Products”) identified in the Patent License, and (b) products made using the methods/processes (“the Licensed Processes”) claimed in the Patents.

13. Pursuant to section 3.1 of the Patent License, the Patent License was “subject to termination as provided in Section 9” of the employment agreement. The

only part of section 9 of the employment agreement dealing with termination of the Patent License was section 9(a).

14. Section 9(a) of the employment agreement stated that the Patent License “shall be deemed canceled and terminated” if North’s employment ended before the initial three year period. Because North remained employed at VTI well past the initial three year period, the Patent License could not have terminated pursuant to section 9 of the employment agreement.

15. There was only one other contingency to the exclusive Patent License. Pursuant to section 2.1 of the Patent License, “Three years after the Effective Date, this exclusive license becomes non-exclusive for any Licensed Products or Licensed Processes that VTI has not used.”

16. In the hearing before this Court on January 6, 2011, Aart G. Schenau and Kevin J. Crosby testified on behalf of VTI that VTI had made and sold the Licensed Products, and had used the Licensed Processes, before March 30, 2009. See **Exhibit 8**, the hearing transcript, page 20, line 16 – page 21, line 16, page 43, lines 2-12, page 47, lines 13-25, and page 52, lines 19-25.

17. Also in that same hearing, North admitted that VTI had made and sold the Licensed Products, and had used the Licensed Processes, while he worked for VTI. See **Exhibit 8**, the hearing transcript, page 98, lines 5-18.

18. Mr. North had previously testified on direct examination that VTI had made profits in 2007 and 2008 from the Licensed Products, and the Licensed Processes. See **Exhibit 8**, the hearing transcript, page 92, line 14- page 93, line 10.

19. Therefore, pursuant to section 2.1 of the Patent License, on March 31,

2009, North's right to convert the exclusive Patent License to a non-exclusive license terminated. That is, on March 31, 2009, VTI became the permanent exclusive licensee of the Patents, with no further contingencies against VTI being the exclusive licensee of the Patents. Accordingly, VTI is the exclusive licensee of the Patents.

20. During his employment at VTI, Mr. North received health benefits that cost VTI at least one million dollars. See **Exhibit 8**, the hearing transcript, page 73, line 2 – page 74, line 11.

21. In addition to all common-law duties regarding the employer-employee relationship between North and VTI, the employment agreement (attached as **Exhibit 4**) included specifically tailored and reasonable restrictive covenant provisions that restricted North from disclosing VTI's confidential information to third parties, soliciting VTI customers and suppliers, soliciting VTI's employees, soliciting transactions, competing with VTI, and disparaging VTI.

22. After North resigned from his employment at VTI, on September 24, 2010, acting both in his individual capacity, and as President of Northmonte, he sent a letter to Kubota Metal Corporation, stating that such company could be "subject to penalty for ... patent infringement" of the Patents. See the attached **Exhibit 6**, and Mr. North's testimony in **Exhibit 8**, the hearing transcript, page 87, lines 9-19.

23. Then, on October 7, 2010, acting both in his individual capacity, and as President of Northmonte, he sent a letter to ExxonMobil, stating that if ExxonMobil wished to use the process covered by the Patents, they should contact him. See the attached **Exhibit 7**, and Mr. North's testimony in **Exhibit 8**, the hearing transcript, page 89, lines 2-6.

24. Section 9(b) of Mr. North's employment agreement listed the following four actions that VTI and Mr. North agreed to take if Mr. North was still an employee after three years:

9(b) In the event that the Term of Employment is not terminated prior to the completion of the initial three year period, the Company and Employee hereby covenant and agree to take, or cause to be taken, the following actions:

(i) Formation of a new entity with equity ownership and board representation (or other equivalent management representation) to be allocated 60% to the Company and 40% to Northmonte, LP (or other entity wholly-owned by Robert North and Ross Tramonte).

(ii) Execution of a Shareholders Agreement with respect to the new entity (or equivalent arrangement if a non-corporate entity) containing customary transfer restrictions and capital contribution and distribution provisions. The Shareholders Agreement shall also contain restrictive covenants and proprietary developments provisions applicable to Northmonte Partners, L.P., Robert North and Ross Tramonte on substantially the same terms as set forth in Sections 7 and 8 of this Agreement.

(iii) The Shareholders Agreement shall provide the Company with an option, exercisable at its sole discretion, to purchase the 40% equity ownership of Northmonte Partners, L.P. (or other entity wholly-owned by Robert North and Ross Tramonte) at a price equal to fair market value determined as of the date three years from the date hereof.

(iv) The Company shall contribute and assign to the new entity the Company's rights under the License. Employee shall cause the Licensors under the License to approve such assignment.

25. Mr. North presented no evidence that he had ever presented VTI with the legal documents to form the new entity listed in section 9(b)(1) of the employment agreement, nor with legal documents constituting any form of a Shareholders Agreement listed in section 9(b)(2) of the employment agreement.

26. On January 20, 2011, VTI presented defendants with the necessary legal documents to form the required new entity, and to fully comply with Mr. North's employment agreement. See **Exhibit 9**, the email presenting those documents to the

defendants' lawyer. Those documents included a Certificate of Formation (See **Exhibit 10**, Certificate of Formation), a Shareholders Agreement (See **Exhibit 11**, which is Exhibit A to the Shareholders' Agreement, setting forth the required ownership percentages), proposed Bylaws, and an Assignment from VTI of VTI's rights under the Patent License to the new entity (See **Exhibit 12**, VTI's assignment.)

27. On January 21, 2011, VTI received the Certificate of Filing from the Texas Secretary of State for the new entity ("Rhinoite Inc.") that had been required by Mr. North's employment contract to be formed by the parties to that contract. See **Exhibit 13**, the Certificate of Filing from the Texas Secretary of State.

28. The parties do not dispute that, on January 13, 2011, pursuant to section 15 of Mr. North's employment contract, the parties unsuccessfully attempted to mediate (with mediator Susan Soussan) their disputes involving the employment contract, but were unsuccessful.

29. In section 10 of his employment contract with VTI, Mr. North agreed that even a threatened breach of the employment contract, including the restrictions against his solicitation of VTI's customers, would cause irreparable harm to VTI, and would entitle VTI to injunctive relief.

Conclusions Of Law

30. Because Mr. North remained employed at VTI more than one year past the initial three year period, the Patent License could not have terminated, and did not terminate, pursuant to section 9 of the employment agreement.

31. Pursuant to section 2.1 of the Patent License, on March 31, 2009, North's right to convert the exclusive Patent License to a non-exclusive license terminated. That is, on March 31, 2009, VTI became the permanent exclusive licensee of the Patents, with no further contingencies against VTI being the exclusive licensee of the Patents. Accordingly, until January 20, 2011, VTI was the exclusive licensee of the Patents. Rhinoite Inc. is now the exclusive licensee of the Patents.

32. Mr. North received adequate consideration for his assignment of the Patents, as set forth in his Patent License to VTI, and for his restrictive employment provisions, as set forth in section 7 of his employment agreement with VTI.

33. Although defendants have argued that VTI has somehow not complied with certain terms of the employment agreement, even if such allegations were true, those allegations are irrelevant to the Patent License.

34. Defendants have infringed, and are now infringing, under 35 U.S.C. § 271, one or more claims of the Patents, by selling, offering to sell, manufacturing, and/or using, within the United States, the Licensed Products and the Licensed Processes, and will continue to do so unless enjoined by this Court.

35. Defendants have induced and are actively inducing the infringement of, and have contributorily infringed and continue to contributorily infringe, one or more claims of the Patents pursuant to 35 U.S.C. § 271, by (a) causing, urging, encouraging and/or aiding others to infringe the Patents within the United States, and/or (b) making, using and/or selling within the United States one or more components, materials or apparatus for use in practicing the inventions claimed in the Patents. Defendants will continue such unlawful conduct unless enjoined by this Court.

36. Defendants' infringement of the Patents is willful and deliberate, given that defendants had actual notice of the existence of the patents and their infringement thereof.

37. Defendants' infringement of the Patents has injured VTI's reputation in the marketplace, and is continuing to injure the perception of VTI by VTI's customers. Defendants' injuries to Plaintiffs are irreparable. These irreparable injuries to Plaintiffs will continue unless enjoined by this Court.

38. North and VTI entered into a valid, enforceable employment agreement.

39. North has breached the employment agreement by the conduct described in the preceding paragraphs.

40. As a direct and proximate cause of North's breaches, VTI suffered damages, including attorney's fees, which continue to accrue in an amount to be proven in court.

41. North's breaches of his employment agreement have injured VTI's reputation in the marketplace, and is continuing to injure the perception of VTI by VTI's customers. North's breaches have also injured VTI in other respects, all of which injuries are irreparable. These irreparable injuries to VTI will continue unless enjoined by this Court.

42. VTI has valid contracts with particular customers and business partners.

43. Defendants, by selling, offering to sell, manufacturing, and/or offering to license one or more of the Patents, have willfully and intentionally interfered with these contracts. Additionally, Defendants, by disclosing VTI's confidential information to third parties, soliciting VTI customers and suppliers, soliciting VTI's employees, soliciting

transactions, competing with VTI, and disparaging VTI, have willfully and intentionally interfered with VTI's contracts.

44. The interference proximately caused injury, and continues to cause injury, to VTI.

45. VTI has suffered actual damage or loss as a result of Defendants' interference with VTI's contracts.

46. Defendants' interference with VTI's contracts has injured VTI's reputation in the marketplace, and is continuing to injure the perception of VTI by VTI's customers. Defendants' interference has also injured VTI in other respects, all of which injuries are irreparable. These irreparable injuries to VTI will continue unless enjoined by this Court.

47. There is a reasonable probability that VTI would have entered into business relationships with certain parties within the relevant market including customers or business partners.

48. Defendants, by selling, offering to sell, manufacturing, and/or offering to license one or more of the Patents, have willfully and intentionally interfered with these relationships. Additionally, Defendants, by disclosing VTI's confidential information to third parties, soliciting VTI customers and suppliers, soliciting VTI's employees, soliciting transactions, competing with VTI, and disparaging VTI, have willfully and intentionally interfered with VTI's relationships.

49. The interference proximately caused injury, and continues to cause injury, to VTI.

50. VTI has suffered actual damage or loss as a result of Defendants' interference with VTI's relationships.

51. Defendants' interference with VTI's relationships has injured VTI's reputation in the marketplace, and is continuing to injure the perception of VTI by VTI's customers. Defendants' interference has also injured VTI in other respects, all of which injuries are irreparable. These irreparable injuries to VTI will continue unless enjoined by this Court.

52. Defendants have acted, and continue to act, in concert. Each defendant has acted together in a joint enterprise with the other defendant.

53. Defendants, their agents, servants, employees, and all other persons in privity or acting in concert with defendants, should be enjoined during the pendency of this action from (1) all efforts to sell or offer to sell any products or processes covered by the claims of the Patents; (2) all efforts to license any of the Patents, or to license the use of any products or processes covered by the claims of the Patents; (3) all efforts to solicit, contract for, or collect royalties as a result of licensing the Patents or any products or processes covered by the claims of the Patents; (4) all efforts to communicate with, solicit, or enjoin customers (or business partners with which Valvtechnologies, Inc. has a current or potential business relationship), and all employees, agents, or attorneys of such customers, regarding the Patents or any products that incorporate the processes covered by the claims of the Patents; (5) all efforts to manufacture products using the processes covered by the claims of the Patents; and (6) all efforts to solicit, contract for, or obtain manufacturing services from any third party to manufacture products using the processes covered by the claims of the Patents.

54. Plaintiffs' request for a preliminary injunction meets the criteria for determining whether a preliminary injunction will be granted, as set out in *Canal Authority of State of Florida v. Callaway*, 489 F.2d 567, 572 (5th Cir.1974): (1) a substantial likelihood that the plaintiff will prevail on the merits; (2) a substantial threat that irreparable injury will result if the injunction is not granted; (3) that the threatened injury outweighs the threatened harm to defendants; and (4) that granting the preliminary injunction will not disserve the public interest.

55. Based on this Court's application of the law to the evidence presented in the hearing on January 6, 2011, and based on the actions of the parties subsequent to that hearing, there is a substantial likelihood that VTI will prevail on the merits.

56. If Plaintiffs' request for a preliminary injunction is not granted, there is a substantial threat of irreparable injury, because, as shown in the hearing on January 6, 2011, defendants' actions have already resulted in important customers of VTI being concerned that they might be infringing the Patents, thus damaging VTI's reputation.

57. The harm that will result if the preliminary injunction is not issued is irreparable, because VTI's business relies upon (a) the maintenance of its relationships with its current customers and business partners regarding VTI's rights under the Patents, as well as (b) VTI's marketing directed to prospective customers and business partners regarding the Patents.

58. Defendants' actions are causing irreparable harm because such actions are causing VTI severe damage with respect to VTI's relationships with its customers, and such damages may not be repaired if defendants are allowed to continue with their unlawful acts.

59. The threatened injury outweighs the threatened harm to defendants, because the defendants have no ongoing business, have no manufacturing capacity, and presented no evidence at the hearing on January 6, 2011, that they have any investors who have invested money to enable the defendants to do any manufacturing.

60. Granting the preliminary injunction will not disserve the public interest, because the public has a strong interest in enforcing the rights of the exclusive licensees of patents.

61. At the hearing on January 6, 2011, all four criteria for a preliminary injunction were demonstrated to be met. Thus, a preliminary injunction should issue. *Mississippi Power & Light v. United Gas Pipe Line Co.*, 760 F.2d 618, 621 (5th Cir. 1985) (affirming grant of preliminary injunction when all four criteria were met).

62. Additionally, because in section 10 of his employment contract with VTI, Mr. North agreed that even a threatened breach of the employment contract, including the restrictions against his solicitation of VTI's customers and suppliers, would cause irreparable harm to VTI, and would entitle VTI to injunctive relief, Mr. North individually should be enjoined until June 16, 2013, from those actions to which he agreed to be enjoined, namely:

(c) Solicitation of Transactions. Employee agrees that during the Restricted Period Employee and Employee's Affiliates will not, directly or indirectly, contact or solicit (either directly or indirectly through a broker or otherwise) any Person that has been in contact, verbally or in writing, with the Company or any of its Affiliates or any representative of the Company or any of its Affiliates at any time during the one (1) year period preceding the Covenant Trigger, regarding any existing or contemplated venture or project to become engaged in the project or venture with the Employee, Employee's Affiliates or any Competing Business, unless the Company or its Affiliates have rejected in writing (otherwise than as a result of action, inaction or recommendation by the Employee) such project or venture.

(d) Non-Competition. Employee agrees that during the Restricted Period Employee and Employee's Affiliates will not, directly or indirectly, own, manage, operate, join, control,

finance, assist or participate in the ownership, management, operation or control of or otherwise engage in or become interested in or be connected in any manner with any Competing Business within the Non-Compete Area, whether as a director, officer, employee, agent, consultant, independent contractor, broker, manager, shareholder, partner, member, lender, guarantor or in any other capacity; provided, however, that Employee shall not be deemed to be so competing solely by reason of purchasing securities in companies listed on the New York Stock Exchange, the American Stock Exchange, or quoted on the National Association of Securities Dealers Automatic Quotation System (NASDAQ), so long as the direct and beneficial ownership of any class of securities in any of such entities by Employee and his Affiliates is less than five percent (5%) of the aggregate number of outstanding shares, units or interests of such class of securities; provided that, this Section 7(d) shall not apply with respect to the Licensed Products or Licensed Processes licensed to the Company under the License which the Company, prior to the Covenant Trigger, has not pursued, and does not then contemplate pursuing, in its marketing and sales efforts.

(e) Definitions.

i. The term "License" as used herein shall refer to that certain Patent License dated of even date between Northmonte Partners, L.P. and Robert B. North, collectively the licensors ("Licensors"), and the Company, as licensee (the "License").

ii. The term "Competing Business" as used herein shall refer to any business (whether conducted through an individual or an entity) which (i) is engaged in utilizing technology, products, processes or rights substantially similar to the Licensed Products or Licensed Processes licensed to the Company under the License or (ii) conducts the same or similar business as that which is presently or may be engaged in during the Term of Employment by the Company through the Division (the "Business").

iii. The term "Non-Compete Area" means the area within which the Division conducts Business or is intended to conduct Business, which area is presently a geographical area comprised of the states bordering on the Gulf Coast of the United States and all areas where the Division's customers are located.

iv. The term "Restricted Period" as used herein shall refer to the period commencing on the date hereof through and including the three (3) year period following the Covenant Trigger; provided that, in the event the Employee violates any aspect of this Section 7, the Restricted Period shall be extended by the number of days during the period from the commencement of the violation through the time when the Employee ceases violating this Section 7.

v. The term "solicit" as used herein shall refer, in addition to solicitation, inducement or encouragement and its other common usages, to communications or transactions whether initiated by the Employee or by a third party.

vi. The term "contemplated" as used herein shall refer to circumstances where the Company or any of its Affiliates has taken steps with the direct objective of conducting business with a Company Customer or Company Supplier or becoming involved in a project or venture,

which steps may, but need not, include proposals or presentations internally, or to or by other Persons or discussions or negotiations with other Perspns.

vii. The term "Covenant Trigger" as used herein shall refer to the time when Employee ceases to be an employee of the Company.

viii. The term "Affiliate" means, when used with respect to any Person, (a) any other Person at the time directly or indirectly (through one or more intermediaries or otherwise) controlling, controlled by or under direct or indirect common control with, such Person, (b) any other Person of which such Person at the time owns, or has the right to acquire, directly or indirectly, five percent (5%) or more on a consolidated basis of the equity or beneficial interest, (c) any other Person which at the time owns, or has the right to acquire, directly or indirectly, five percent (5%) or more of any class of the capital stock or beneficial interest of such Person, or (d) any director or officer of such Person, and (e) when used with respect to an individual, shall include a spouse, any ancestor or descendant, or any other relative (by blood, adoption or marriage), within the third degree of such individual. For the purposes of this definition, "control," when used with respect to any specified Person, means the possession, directly or indirectly (through one or more intermediaries or otherwise), of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of equity interests, by contract, or otherwise, and the terms "controlling" and "controlled" have correlative meanings.

ix. The term "Person" means any natural person, corporation, company, limited or general partnership, joint stock company, joint venture, association, limited liability company, trust, unincorporated organization, bank, trust company, land trust, business trust or other entity or organization, governmental authority or other entities.

(f) Nondisparagement. During the term of and following termination of this Agreement for any reason, Company agrees not to make any negative or derogatory statements or insinuations to any Person, whether in written or oral form, about Employee, and Employee agrees not to make any negative or derogatory statements or insinuations to any Person, whether in written or oral form, about the Company or its Affiliates or any of their respective stockholders, members, partners, directors, managers, officers, employees, customers, suppliers, services or products; provided that this provision shall not be interpreted to restrict the rights of Employee or the Company to enforce their respective rights under this Agreement or any other contract between them.

63. A preliminary injunction should enjoin the defendants from:

- all efforts to make, use, sell, or offer to sell any products covered by any of the claims of the following patents: U.S. 6,117,493; U.S. 6,326,582; U.S. 6,582,126 (collectively " the Patents");
- all efforts to make, use, sell, or offer to sell any of the following products:

- (a) Bearing surfaces that contain a first overlay of hardbanding material on the bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;
- (b) Radial bearings made from first and second overlays, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;
- (c) Bearing surfaces or radial bearings made from a process including two steps of adding overlays;
- (d) A steel bearing member having an erosion resistant surface, having been made by a method comprising the steps of:
 - i. applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and
 - ii. applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles migrates into a significant portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel;
- (e) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

- i. applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and
- ii. applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles migrates into a portion of the second overlay and forms with the first overlay a steel hybrid matrix of tungsten, carbon and steel; and

(f) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

- i. applying a first overlay of hardbanding material to a bearing substrate, the first overlay having greater than 65% sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles; and
 - ii. applying to the first overlay a second overlay of steel using a heat process whereby a portion of the submicron sized particles migrates into a portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel.
- all efforts to license any of the Patents, or to license the use of any products or processes covered by the claims of the Patents;

- all efforts to solicit, contract for, or collect royalties as a result of licensing the Patents or any products or processes covered by the claims of the Patents;
- all efforts to communicate with, solicit, or enjoin customers (or business partners with which Valvtechnologies, Inc. has a current or potential business relationship), and all such employees, agents, or attorneys of such entities regarding (1) the Patents, (2) any products that incorporate the processes outlined in the Patents, (3) Defendants' relationship with Valvtechnologies, Inc., or (4) any of such entities' relationship with Valvtechnologies, Inc.;
- all efforts to manufacture products that incorporate the processes covered by the claims of the Patents.
- all efforts to solicit, contract for, or obtain manufacturing services from any third party to manufacture products that incorporate the processes covered by the claims of the Patents.

Signed in Houston, Texas, this _____ day of _____, 2011.

Kenneth M.Hoyt
United States District Judge

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HOUSTON DIVISION

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RHINOITE INC.

v.

ROBERT B. NORTH AND
NORTHMONTE LIMITED, INC.

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Cause No. 4:10-cv-03943

Preliminary Injunction

On January 6, 2011, the parties appeared for a show cause hearing regarding the continued existence of the agreed Temporary Restraining Order. The Court heard testimony from the parties. The parties submitted proposed findings of fact and conclusions of law on January 25, 2011.

The Court has reviewed the plaintiff's request for a preliminary injunction in the complaint, the exhibits to the complaint, the evidence submitted at the January 6, 2011, hearing, and the proposed findings of fact and conclusions of law submitted by each side.

The Court is of the opinion that the plaintiff's request for a preliminary injunction meets the criteria for determining whether a preliminary injunction should be granted, as set out in *Canal Authority of State of Florida v. Callaway*, 489 F.2d 567, 572 (5th Cir.1974): (1) a substantial likelihood that the plaintiff will prevail on the merits; (2) a substantial threat that irreparable injury will result if the injunction is not granted; (3) that the threatened injury outweighs the threatened harm to defendants; and (4) that granting the preliminary injunction will not disserve the public interest.

The Court is of the opinion that plaintiff is entitled to a preliminary injunction.

Therefore, it is

ORDERED, that Robert B. North and Northmonte Limited, Inc. refrain from:

- all efforts to make, use, sell, or offer to sell any products covered by any of the claims of the following patents: U.S. 6,117,493; U.S. 6,326,582; U.S. 6,582,126 (collectively “ the Patents”);

- all efforts to make, use, sell, or offer to sell any of the following products:

(a) Bearing surfaces that contain a first overlay of hardbanding material on the bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;

(b) Radial bearings made from first and second overlays, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;

(c) Bearing surfaces or radial bearings made from a process including two steps of adding overlays;

(d) A steel bearing member having an erosion resistant surface, having been made by a method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles migrates into a significant portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel;

(e) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles

migrates into a portion of the second overlay and forms with the first overlay a steel hybrid matrix of tungsten, carbon and steel; and

(f) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having greater than 65% sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the submicron sized particles migrates into a portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel.

- all efforts to license any of the Patents, or to license the use of any products or processes covered by the claims of the Patents;
- all efforts to solicit, contract for, or collect royalties as a result of licensing the Patents or any products or processes covered by the claims of the Patents;
- all efforts to communicate with, solicit, or enjoin customers (or business partners with which Valvtechnologies, Inc. has a current or potential business relationship), and all such employees, agents, or attorneys of such entities regarding (1) the Patents, (2) any products that incorporate the processes outlined in the Patents, (3) Defendants' relationship with Valvtechnologies, Inc., or (4) any of such entities' relationship with Valvtechnologies, Inc.;
- all efforts to manufacture products that incorporate the processes covered by the claims of the Patents.
- all efforts to solicit, contract for, or obtain manufacturing services from any third party to manufacture products that incorporate the processes covered by the claims of the Patents.

Signed in Houston, Texas, this _____ day of _____, 2011.

Kenneth M.Hoyt
United States District Judge

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Preliminary Injunction

On January 6, 2011, the parties appeared for a show cause hearing regarding the continued existence of the agreed Temporary Restraining Order. The Court heard testimony from the parties. The parties submitted proposed findings of fact and conclusions of law on January 25, 2011.

The Court has reviewed the plaintiff's request for a preliminary injunction in the complaint, the exhibits to the complaint, the evidence submitted at the January 6, 2011, hearing, and the proposed findings of fact and conclusions of law submitted by each side.

The Court is of the opinion that the plaintiff's request for a preliminary injunction meets the criteria for determining whether a preliminary injunction should be granted, as set out in *Canal Authority of State of Florida v. Callaway*, 489 F.2d 567, 572 (5th Cir.1974): (1) a substantial likelihood that the plaintiff will prevail on the merits; (2) a substantial threat that irreparable injury will result if the injunction is not granted; (3) that the threatened injury outweighs the threatened harm to defendants; and (4) that granting the preliminary injunction will not disserve the public interest.

The Court is of the opinion that plaintiff is entitled to a preliminary injunction.

Therefore, it is

ORDERED, that Robert B. North and Northmonte Limited, Inc. refrain from:

- all efforts to make, use, sell, or offer to sell any products covered by any of the claims of the following patents: U.S. 6,117,493; U.S. 6,326,582; U.S. 6,582,126 (collectively "the Patents");

- all efforts to make, use, sell, or offer to sell any of the following products:

(a) Bearing surfaces that contain a first overlay of hardbanding material on the bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;

(b) Radial bearings made from first and second overlays, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles;

(c) Bearing surfaces or radial bearings made from a process including two steps of adding overlays;

(d) A steel bearing member having an erosion resistant surface, having been made by a method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles migrates into a significant portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel;

(e) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing hard submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the hard submicron sized particles

migrates into a portion of the second overlay and forms with the first overlay a steel hybrid matrix of tungsten, carbon and steel; and

(f) A radial bearing having an erosion resistant surface made by the method comprising the steps of:

applying a first overlay of hardbanding material to a bearing substrate, the first overlay having greater than 65% sintered cemented metal carbide pellets dispersed in steel, the cemented metal carbide pellets containing submicron sized particles; and

applying to the first overlay a second overlay of steel using a heat process whereby a portion of the submicron sized particles migrates into a portion of the second overlay and forms with the first overlay, a steel hybrid matrix of tungsten, carbon and steel.

- all efforts to license any of the Patents, or to license the use of any products or processes covered by the claims of the Patents;
- all efforts to solicit, contract for, or collect royalties as a result of licensing the Patents or any products or processes covered by the claims of the Patents;
- all efforts to communicate with, solicit, or enjoin customers (or business partners with which Valvtechnologies, Inc. has a current or potential business relationship), and all such employees, agents, or attorneys of such entities regarding (1) the Patents, (2) any products that incorporate the processes outlined in the Patents, (3) Defendants' relationship with Valvtechnologies, Inc., or (4) any of such entities' relationship with Valvtechnologies, Inc.;
- all efforts to manufacture products that incorporate the processes covered by the claims of the Patents.
- all efforts to solicit, contract for, or obtain manufacturing services from any third party to manufacture products that incorporate the processes covered by the claims of the Patents.

Signed in Houston, Texas, this 10th day of February, 2011.



Kenneth M. Hoyt
United States District Judge