



Decision nears on high-stakes patent fight over so-called safer tobacco

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RICHMOND, Va. (AP) - A decade ago, a car salesman turned entrepreneur began cooking tobacco leaves in a microwave with the lofty goal of creating less toxic products.

"I was in a race against myself to try to fix the tobacco industry," Jonnie R. Williams testified in a pending case over his patents. "And so I tested everything under the sun. When I ran out of tobacco, when the tobacco season was over, I switched to cabbage and to lettuce and to flowers."

Williams had little background in tobacco or science. But that didn't discourage the colorful venture capitalist, whose earlier adventures in business earned him several black marks along with riches.

Many failures and microwaves later, Williams claimed he had discovered how to substantially reduce a cocktail of cancer-causing toxins known as tobacco-specific nitrosamines, or TSNAs, which develop during the curing process. By 1998, he was also trying to limit the carcinogens by quickly drying leaves with high temperatures and increased air flow, according to court documents.

His company, Star Scientific Inc. of Chester, said in 1999 that Brown & Williamson had agreed to buy its "StarCured" tobacco. But shortly after learning of Star's innovation, R.J. Reynolds Tobacco announced a similar system to decrease nitrosamines, Star claims.

In May 2001, Star Scientific sued RJR for patent infringement in a case that could have enormous repercussions for the industry. Any day now, a federal judge in Baltimore could issue rulings that will determine whether the dispute goes before a jury.

Analysts say RJR, owned by Reynolds American Inc., conceivably could be forced to pay billions of dollars in royalties and damages. For Star Scientific, the stakes are even higher. Without additional capital or financial improvements, the company may have difficulty funding its operations next year, according to Star's financial reports.

Already, Star's regulatory filings paint a dismal picture of a company grappling with high litigation costs, industry woes and competitive issues. Last year, the company, which also sells discount cigarettes and spit-free hard tobacco pellets, lost \$16.6 million on \$66.7 million in sales.

In the fall of 2003, Star's worst nightmare occurred: RJR and Brown & Williamson announced plans to merge. Not surprisingly, Brown & Williamson's contract to buy StarCured tobacco, which had resulted in more than \$100 million in revenue for Star over three years, was not renewed. That was followed by more bad news. A year later, RJR informed Star of the unsuccessful market test of a hard smokeless tobacco product that Star had made for Brown & Williamson.

If Star wins the suit, though, it could collect money not only from RJR but also from other tobacco companies that might have infringed on patents licensed to Star, said Mike Niehuser, an analyst with The Robins Group. A Star victory would hand Williams, the company's chief executive officer, a resounding success.

Whatever the outcome, anti-smoking advocates caution that government regulation and independent research are needed to evaluate claims of low TNSA tobacco.

Danny McGoldrick, research director for the Campaign for Tobacco-Free Kids, says cigarettes contain toxins other than nitrosamines. And even if Star has managed to knock out the TSNAs, he says, there's no way to

tell whether its processes influence levels of other dangerous agents.

"In an unregulated environment, we have no idea what the impact of the changes are," McGoldrick said.

Philip Morris clearly has a vested interest in the Star-Reynolds dispute.

William Phelps, a spokesman for Philip Morris USA, said Star had threatened to sue the company over its use of low TSNA tobacco. (Star has denied this.) Perhaps as a pre-emptive strike, Philip Morris sued Star in federal court in Richmond in 2002, seeking to invalidate the smaller company's patents. A judge dismissed the suit, noting that the Maryland case involved the same issue.

Star and RJR declined to comment on the litigation.

In the Maryland suit, a bench trial was held earlier this year on RJR's inequitable conduct defense, which essentially alleges that Star failed to disclose all necessary information when it filed for two patents in the late '90s. U.S. District Judge Marvin J. Garbis is expected to rule on that issue and two motions for summary judgment.

It has been difficult for outsiders to analyze the companies' arguments because of the number of sealed court documents. But in general, inequitable conduct is a common defense that rarely gets past a judge, said Alexander Raring, an intellectual property attorney in Richmond.

"It's raised in almost every patent infringement case, because it's an easy defense to raise," said Raring, who is unfamiliar with the Star case. "A successful inequitable conduct defense means you never get to the question of infringement. And that's why you raise it."

The two motions involve whether the invention was already in the public domain and whether the patents made distinct claims. Rulings on these motions, as well as the inequitable conduct defense, could render the patents invalid, Raring said.

Of course, what Garbis decides may depend on whether he believes the 50-year-old Williams, who is perhaps better known for his charisma and salesmanship than some of the failed startups and irate investors in his past.

Early in his career, Williams, a native of Fredericksburg, established himself as a brilliant car and real estate salesman in his hometown. By the time he was 24, he drove a gold Mercedes, owned two homes and had started a local optical shop, according to articles in The Free Lance-Star from the '70s and '80s.

In 1979, a Spotsylvania County judge fined him \$100 for fitting contact lenses without a license, the newspaper reported. The optical business collapsed, leaving tens of thousands of dollars in debts. As the shop's equipment was auctioned off, one person remarked to the paper: "If the auctioneer really wanted to make some money, he'd auction off Jonnie's address and phone number."

Williams, in a later interview with The Free Lance-Star, blamed the situation on his lack of business knowledge.

But similar reactions followed him after he invested in a business that provided medical training and then in Spectra Pharmaceutical Services Inc., a Hanover, Mass., company that touted an ointment that could possibly cure eye diseases, The Boston Globe reported in 1988. Both companies failed.

The Securities and Exchange Commission accused Williams of carrying out a publicity campaign to promote Spectra's stock by using research reports that included false claims. Williams, without admitting or denying the SEC's allegations, agreed to the disgorgement of alleged ill-gotten gains, plus interest, totaling \$295,000.

Williams has had several successes, including his large investments in the companies LaserVision and Visx Inc., a maker of laser vision-correction systems.

In a statement to The Associated Press, Williams said his early business mistakes could have been avoided if his reading skills were better and if he had the legal counsel he has today.

Supporters of Williams say he is a classic entrepreneur who managed to outthink a well-heeled industry.

"One of the things I like about Jonnie Williams is he approached solving the problem of TSNA's in the curing process of tobacco in a way that appears to be unlike anybody informed in the industry," analyst Niehuser said. "He came in with an entirely new approach. That's how the world advances."

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9

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