

Teleflex patent suit may set precedent

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A decade ago, when the wisdom of the auto industry dictated that Teleflex Automotive Group needed a global partner, company officials were nervous.

How would Teleflex, a Big 3 supplier of automotive cables based in Detroit, protect its trade secrets? How would Teleflex share its business in the global arena, while protecting the technology that made its products sell?

The U.S. supplier got the answer it didn't want this month: The only way to protect a patent is through the courts. And that isn't easy.

This month in Detroit, a U.S. district court jury concluded that the European partner Teleflex had timidly chosen 10 years ago - Ficosa International of Barcelona, Spain - had infringed on Teleflex's patent for a detachable, two-piece transmission cable. The verdict came after Teleflex argued for two and a half years that the technology Ficosa used to crack into General Motors' mammoth GMT-800 full-sized truck platform business was the same two-piece cable technology Teleflex had developed to woo GM in the mid-1990s.

Teleflex originally argued that Ficosa infringed on four different patents. The argument was dismissed on three of them. Ficosa maintains that even the one remaining patent is not valid and has asked the court to review the circumstances under which Teleflex obtained it. Kenneth Adamo, the Cleveland attorney representing Ficosa in the patent case, said Ficosa is certain to appeal the verdict once several other legal issues are examined.

Meanwhile, attorneys for Teleflex, a \$450 million-a-year subsidiary of diversified Teleflex Inc. in suburban Philadelphia, are asking the court to issue a permanent injunction blocking the Spanish company from supplying its two-piece cables to GM. The ex-partners serve as the dual source for transmission cables on GM's full-sized trucks. That contract runs through 2004, representing about 1.5 million cables a year. Teleflex wants Ficosa's share of the flow to stop.

Where that would leave GM's supply of cables, the automaker declines to speculate. Where it would leave Ficosa's North American aspirations also is not clear. The European firm has a U.S. sales subsidiary in Madison Heights, Mich., Ficosa North America Inc., a technical center in Troy, Mich., and two factories in Monterrey, Mexico. The subsidiary sold \$40 million worth of parts in North America last year. The company's internal projections envision \$100 million a year here by 2003.

Just as unclear is what the legal clash says about intellectual property in a business where companies are increasingly leaving their technical innovations up to their suppliers.

'The automakers are pushing the responsibility for more and more of their technological innovations out to the supplier,' observes Southfield, Mich., attorney **Rodger Young**, who handled the lawsuit for Teleflex. 'The auto companies are creating a situation where several companies must move simultaneously to develop the same intellectual property. It's going to become increasingly common to see companies bumping against each other like this.'

Suspicious

Teleflex, a company with its roots in defense contracting, comes close to producing a commodity. A maker of cables for parking brakes, transmissions, trunk lids, pedals and other uses, Teleflex must distinguish itself from its competitors with technical enhancements. The company holds more than 100 patents, including one award-winning piece of technology that allows small drivers to bring foot pedals closer to the driver's seat.

That corporate culture gave officials pause in 1990 as they moved to embrace Ficosa as their joint venture partner. Ficosa was a privately held company of roughly the same size as Teleflex, supplying cables and other components to most of the automakers of Europe since 1949. Like other trans-Atlantic link-ups of the past decade, the partnership was seen as a mutual gain. Teleflex offered strength in automatic transmissions, which still held a relatively small share of the European vehicle market. Ficosa offered access to European customers.

According to **Young**, Teleflex insisted on language in the joint-venture agreement that prevented Ficosa or anyone else from absorbing the Detroit company's technologies. Ficosa also strives to be an innovator, and holds patents in electronic shifting and electronic parking brake technologies.

But within five years, Teleflex had become suspicious of Ficosa's growing interest in the U.S. market. The Spanish partner wanted to sell cables in competition with Teleflex. In 1995, Ficosa established a tech center in Michigan and leased a small factory in Mexico to begin serving Volkswagen AG there. In 1997, Teleflex discovered that Ficosa was eyeing a spot on GM's upcoming full-sized truck platform, the GMT-800. That platform would launch in 1999.

GM orders

Part development was well under way, and Teleflex was counting on the business. In 1995, in response to urgings from GM, Teleflex had patented an innovation on transmission cables. Installing automatic transmission cables is traditionally an ergonomically challenging job. Because the cables are inserted into the vehicle late in

the assembly process, they are cumbersome for an assembly worker to feed through the body and attach to the automatic shift lever.

GM asked for a cable in two lengths that could be installed separately. In addition to making the worker's job easier, it would give the automaker more flexibility on where in the assembly process the cables are installed and attached. GM asked for this innovation from whoever could supply it. Teleflex won the race to the patent office.

Meanwhile, Ficoso spent \$1.5 million developing its own device to fit GM's needs. Teleflex suspected, but never proved, that Ficoso had gained access to Teleflex's technology through their European joint venture, which was by now sitting dormant. Teleflex requested samples of its partner's device. Ficoso refused. In November 1997, as suspicions grew, the partners pulled the plug on the joint venture. The following summer, with the start of GMT-800 production still a year away, Teleflex filed suit in Detroit.

Lost profits

The lawsuit failed to interrupt Ficoso's sales of cables to GM. Teleflex estimated in court that the infringement had cost the company \$1.1 million in profits as the suit moved to trial. This month's verdict awarded Teleflex half of that, although a final judgment has not been entered.

'Willfulness' - the suggestion that the Spanish company might have intentionally copied Teleflex's design in order to win GM business - was not an issue in the jury verdict. U.S. District Judge John Corbett O'Meara concluded that there was no case for willfulness. The simple final question of the two-and-a-half-year fight was: Whose intellectual property was the cable?

'There is no need to find any evil doing in a case like this,' Young says. 'You don't have to prove that someone stole your technology. All you have to prove is that a device being produced and sold infringes on your patent.'

But the implications to the rest of the auto industry are large, Young warns. Only one party can hold a patent, he says. And the trend of the auto industry is toward dual sourcing and multi-sourcing parts.

'So it becomes a race to see which company controls the intellectual property of the part,' he says. 'How are competing suppliers going to sort that out? And what are the auto companies going to do to prevent this from happening over and over again?'