# How They Won It: Finnegan Beats $260M IP Suit For ABBYY

By **Jonathan Randles**

Law360, New York (September 19, 2013, 9:33 PM ET) -- To defeat Nuance Communications Inc.'s $260 million patent and trade dress infringement lawsuit against Russia-based ABBYY Production LLC and Lexmark International Inc., Finnegan Henderson Farabow Garrett & Dunner LLP attorneys likened the creation of ABBYY's optical character recognition software to Silicon Valley tech innovation.

On Aug. 26, a California jury determined ABBYY and Lexmark do not infringe three patents covering Nuance's rival OCR software. The panel also rejected related trade dress infringement claims alleging packaging for ABBYY's FineReader software ripped off the look of Nuance's OmniPage box.

OCR software converts images or printed text that has been scanned to a computer into data that can then be recognized by a word processor or other program. ABBYY and Nuance are direct competitors, and two of the largest OCR software companies in the world.

The verdict was a resounding victory for ABBYY, which had for years been dogged by Nuance's litigation. Although Nuance's claimed damages shrank dramatically during the case, the company alleged before trial that ABBYY and Lexmark could be liable for as much as $1 billion — a mammoth figure that exceeded ABBYY's total revenues.

"This was clearly a bet-the-company case," said Erik R. Puknys, managing partner of Finnegan's Palo Alto, Calif., office.

That ABBYY came out on top is a credit to Finnegan's effective trial strategy. While Nuance alleged ABBYY had sought to compete unfairly in the OCR market by copying OmniPage technology, Finnegan attorneys stressed to the jury that FineReader was an innovative new product that represented a seismic leap over the patents-in-suit.

Nuance is expected to appeal the verdict. Attorneys representing Nuance did not immediately return messages sent Wednesday seeking comment on the case.

## New Competition

The dispute has its origins in ABBYY's rapid rise in the U.S. OCR market beginning in the late 1990s. FineReader, which had been available in Russia since 1993, posed a viable threat to Nuance and its OmniPage software. Up until ABBYY's arrival, Nuance had been one of the only companies in the U.S. offering comparable OCR technology, releasing the first version of OmniPage in 1988.

Shortly after FineReader was brought to the states, Nuance approached ABBYY's founders about the possibility of entering into an exclusive licensing agreement for the FineReader technology. But the relationship quickly soured after ABBYY turned down Nuance's proposal.

Finnegan attorneys showed jurors emails suggesting Nuance's leaders wanted to go to war with ABBYY and shut down its competitor.

"What had been a friendly overture had turned into something quite sinister," Finnegan partner Jerry Ivey said. "That was something the jurors were told throughout the trial."

In his closing summation to the jury, Ivey also pointed out that Nuance alleged ABBYY had infringed its patents only after its business proposal was refused and after Lexmark, a former Nuance customer, had switched to FineReader.

Lexmark began selling printers and scanners that included FineReader software in 2002. The partnership represented a major coup for ABBYY as it continued to make inroads in the U.S. market. Around that time, ABBYY also entered into a similar deal with Compaq Computer Corp., which at that time was still one of the top PC makers in the U.S.

"These new partnerships add to our momentum in the U.S. — Compaq and Lexmark will introduce the FineReader brand to millions of new scanner owners," ABBYY USA CEO Dean Tang said at the time.

The decision to frame the dispute as sour grapes from a business rival was one component of Finnegan's broader trial strategy, which also included technical noninfringement arguments on ABBYY's behalf.

Finnegan attorneys presented evidence that the method used for identifying characters on a page in FineReader was drastically different than in OmniPage. Jurors were also shown evidence that unlike Nuance's software, FineReader does not look at an entire line of text for an analysis but instead looks at adjacent letters.

"It's a fundamentally different approach," Puknys said.

**The Lawsuit**

Nuance sued ABBYY and Lexmark in February 2008. Finnegan didn't get involved in the case until 2011, after Nuance suggested that ABBYY and Lexmark's potential liability had ballooned to $1 billion.

Immediately, the firm began working with ABBYY's engineers to determine how the technology in the case worked. Puknys said that after the firm started analyzing the patents, it quickly became clear Nuance's infringement claims contained "some serious weaknesses."

The patents-in-suit had been filed back in the late 1980s and were, in some ways, outdated, Puknys said. ABBYY's product was drastically different from what was claimed in the patents and represented the sizable advances that had taken place in OCR technology, he said.

"From that point on, discovery was geared toward making sure we could explain those difference to the judge and jury when it became time to do that," Puknys said.

At the same time, Finnegan began chipping away Nuance's damages theories. This strategy helped diminish the sting ABBYY and Lexmark would have felt had they lost the case.

Nuance dropped its damages claim to $260 million before the case was presented to a jury. And during the trial, Nuance backed away from its contention that it was entitled to damages related to ABBYY and Lexmark's foreign sales, dropping the damages figure even further to about $110 million.

As for Lexmark, Finnegan's team attacked Nuance's contention that a manufacturer would pay as much as $4 a unit for hardware that bundled OCR software. The $4-a-unit figure was extraordinarily high, and Lexmark would not have paid it, said Finnegan partner Lily Lim.

**The Trial**

One of Finnegan's primary themes for the trial was that FineReader was innovative software that improved the reliability and accuracy of OCR technology.

ABBYY was founded by a group of friends who had attended the prestigious Moscow Institute of Physics and Technology, and who created the OCR software to support an electronic dictionary they had developed.

The software proved popular in Russia and was later distributed throughout Europe. In 1998, the company decided to bring FineReader overseas, and founded ABBYY USA Software House Inc. in California.

Finnegan compared the entrepreneurial spirit of ABBYY's founders to the startup culture that has become ingrained in Silicon Valley mythology, which would be familiar to a Northern California jury.

"Their story was very similar to what you see in Northern California," Ivey said. "We wanted to show a kinship between our young Russian graduates and the people that might be coming out of Stanford and Berkeley."

Nuance also claimed the box used to market FineReader knocked off the look and feel of OmniPage packaging. The company claimed it had rights to a series of designs that was featured on packaging between 2001 and 2006.

Finnegan attorneys argued that the designs Nuance was claiming were not protected trade dress. Several competitors, including I.R.I.S. Products & Technologies, utilized similar designs during that time, they said. To drive the point home to the jury, Ivey said, he also pointed out that "ABBYY had put its name all over its box."

The trade dress claim presented its own unique challenges to Finnegan's team. The firm was forced to conduct extensive research on what OCR product packaging looked like several years ago. As with most industries, packaging used by ABBYY and its competitors had undergone numerous changes by the time the case got to trial, said Finnegan's Doug Rettew, who headed up ABBYY's defense of the the

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trade-dress claim.

"We had to go back in time to prove our case," Rettew said. "We couldn't go into a store and take a picture, because it's a completely different marketplace now than it was 10 years ago."

One of the most important pieces of evidence Finnegan presented was a congratulatory email a Nuance executive had sent ABBYY in 2002 on the release of FineReader 7. The email did not say that ABBYY was infringing the OmniPage box.

If FineReader's packaging was hurting Nuance's business, the company would have complained about it at the time the alleged infringement was occurring, Ivey said.

Finnegan's team also presented evidence that potential FineReader and OmniPage customers were not confused by the alleged similarities in their packaging.

The arguments put forth on behalf of ABBYY and Lexmark convinced the jury to come out in their favor. Following five years of litigation and a two-week trial, jurors deliberated for approximately three hours before returning their verdict.

The jury determined that ABBYY and Lexmark did not infringe the patents and found that Nuance's alleged trade dress was not protectable.

"ABBYY has remained confident in its noninfringement positions since the case was first filed in 2008," ABBYY USA Vice President and General Counsel LeighAnn Weiland said after the verdict was issued. "It is gratifying to see that confidence affirmed."

The patents-in-suit are U.S. Patent Numbers 5,381,489; 6,038,342; and 6,742,161.

Nuance is represented by James Bennett, Michael Jacobs, Alison Tucher and Brooks Beard of Morrison & Foerster LLP and Marvin Craig Tyler and Jim Yoon of Wilson Sonsini Goodrich & Rosati PC.

ABBYY and Lexmark are represented by Gerald F. Ivey, Lily Lim, Joseph E. Palys, Erik R. Puknys, Douglas A. Rettew, John M. Williamson, E. Robert Yoches and Anna Balishina Naydonov of Finnegan Henderson Farabow Garrett & Dunner LLP.

The case is Nuance Communications Inc. v. Abbyy Software House et al., case number 3:08-cv-02912, in the U.S. District Court for the Northern District of California.

--Editing by Kat Laskowski.

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