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ATTORNEYS

THE 1904 KAHLE RESIDENCE
City of San Diego Historical Site No. 154

May 20, 2005

Via Federal Express and Email

Charles St. Clair Brown
EBS Yachting
2nd Floor, National Equity House
75 Queen Street
Auckland, New Zealand

Re: CBTF Co., Inc. v. EBS Yachting, et al.

Dear Mr. Brown:

This is further to our May 18, 2005 email notification that the actions and activities of the builders and owners of the yacht *Maximus*¹ infringe upon the patents of our client CBTF Co., Inc. We further respond, in part, to your May 19th denial claim of exemption from United States Patent laws. While we address this communication to you on behalf of those holding ownership and/or possessory interests in the vessel², the claims and demands set forth in both our communications are equally applicable to those who aided, abetted, contributed to or participated in the infringements, including engineers, designers, builders and suppliers³.

The United States Patent and Trademark Office granted CBTF (under its prior name Dyna-Yacht, Inc.) patents⁴ which describe a unique and innovative system to control and increase the performance of sailing yachts utilizing a combination of fore and aft foils to replace a standard keel, and laterally movable ballast among other features⁵. The Invention was developed as a result of years of research and development costing millions of dollars provided by investors in the technology. The unique ability of the Invention to enhance speed and performance of Maxi yachts has created a market demand fulfilled through CBTF's license of use in accordance with its published royalty schedule with fees based on length overall of vessel⁶. CBTF relies upon royalties from license of use of the Invention as its sole income source.

¹ The "Vessel" - 30 metre Greg Elliot/Clay Oliver designed Maxi yacht built by Cookson and launched February 2005

² Collectively the "Owners", who include Charles St. Clair Brown, Bill Buckley, E Sport Venture Yachting Limited, EBS Yachting, Buckley Yachting Limited and SuperMaxi.co.nz

³ Collectively "Contributors" who include Buckley Systems, Ltd., Greg Elliot, Clay Oliver, High Modules Ltd., TP Cookson Boat Builders, George Hendy, Elliot Marine, Chris Mitchell, Spa Engineer

⁴ collectively the "Patents" Patent No. 5,163,377 issued November 17, 1992 and Patent No. 5,662,180 issued April 22, 1997

⁵ The "Invention"

⁶ The License Fee for a 100' vessel would be US\$87,500 - see CBTF website: www.cbtfco.com for License Fee Schedule Effective June 24, 2004

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As you know, CBTF has licensed use of the Invention for use in construction of many of the Maxi yachts launched in the last several years⁷, and received payment of royalties in each instance. These yachts were built at facilities throughout the world; several in New Zealand by T.P. Cookson, the Vessel's builder. In each instance those yacht's owners and builders recognized that the twin-foil, canting-ballast system, was CBTF's patented Invention, obliging each to obtain consent from and pay CBTF a royalty for use.

Those involved in the *Maximus* project were exquisitely aware of CBTF's Patents that protected the Invention, a fact you confirmed in your May 19th reply. Aside from such admission, Clay Oliver and Mick Cookson's participation in the recently completed *Genuine Risk* build in which the CBTF Invention was utilized, and a royalty paid, leaves little question of such awareness. While Randall Pitman recognized that to use the Invention would be a "genuine risk", the Owners and Contributors decided otherwise, thinking they were beyond the reach of United States law. The resulting product was the Vessel: a keeless yacht equipped with twin-foils, and an articulable fin capable of canting a ballast bulb, through an interdependent mechanical controlled system as encompassed and described in the Patents⁸. By designing, constructing and utilizing a configuration, which applied variable counter-healing force, cyclic and collective steering and controls allowing adjustment of lift and leeway, the System performed the same function, in the same manner and achieved the same result as CBTF's patented Invention.

United States Patent law protects a patentee's rights against infringement by prohibiting, *inter alia*, importation or use of an infringing article in the United States. While those who manufacture systems encompassed within a United States patent, without the patentee's consent, may be beyond reach of the American justice system that immunity is lost and waived, and patent rights infringed, if the article is used for or in connection with the transaction of domestic commerce. That is what here occurred in respect to the Vessel.

After the Vessel was launched, it embarked upon a worldwide commercial venture in which the United States played a significant part. After transiting from New Zealand via Antigua, the Vessel entered the United States at which time it was engaged in, and used for the Owners' "*Corporate Days Sailing New York*", a EBS Yachting program which allowed 20 persons to sail aboard the Vessel for two days while in New York at a cost of \$40,000.⁹ In fact, of the several million dollars the Owners sought to raise in the EBS commercial venture, New York

⁷ *Wild Oats, Pyewackett, Genuine Risk* and *Morning Glory* among others.

⁸ The "System"

⁹ See: MAXIMUS EBS YACHTING PROSPECTUS "An Exceptional Sponsorship Opportunity of the Worlds Fastest and Most Advanced Super Maxi Yacht Race" at page 11 (www.supermaxi.co.nz)

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was targeted for \$375,000, and full access to the Vessel and crew for corporate hospitality while the Vessel was in New York was one of the rights received by investors. Any doubt that the Vessel was imported and used solely for an international commerce program in the United States, is dispelled by the many images of *Maximus* being utilized in New York Harbor for such purposes during the last several weeks.¹⁰

Your May 19th response made much of purported “safe harbor” for the Vessel afforded under 35 U.S.C. §272, which allows a defense to patent infringement for vehicles entering the U.S. temporarily. While previously a patentee had no cause of action for use of a patented process abroad to manufacture an infringing article, in 1988 it was made an act of infringement to *import*, sell, or *use*, in the U.S., without authorization, a product made by a process patented in this country.¹¹ While, liability for “use” in the United States was later delimited to exempt “temporary presence”, ambiguity was recently clarified in a Court of Appeals decision¹² in which the Appellate Court ruled that the purpose, not the duration of a vehicle’s presence, determined applicability of the Section 272 exemption. The court stated “the vehicle’s purpose to participate in international commerce at the time of entry – namely, a purpose to enter the United States, engage in international commerce, and then depart” defines temporary presence. The court concluded that “temporarily” requires that **a vehicle’s entry be “for the sole purpose of engaging in international commerce regardless of the length of stay in the U.S.”**

United States law provides that anyone whoever, without authority, makes, uses, or sells any patented invention within the United States, or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.¹³ United States law defines an infringer as whosoever actively induces infringement of a patent.¹⁴ Those who offer to sell within the United States or import into this country a component of a patented composition or material or apparatus for use in a patented process are liable as a contributory infringer.¹⁵ Whoever, without authority, imports into or uses within the United States, a product made by a process patented in the United States, is liable as an infringer if the offer, importation or use occurs during the term of such patent.¹⁶

¹⁰ Images of these activities may be viewed at www.regattanews.com (“The Rolex Transatlantic Challenge 2005”)

¹¹ U.S.C. Section 271(g) provides in part: “whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer”

¹² *National Steel Car, Ltd. v. Canadian Pacific*, 557 F3d 1319 (Fed. Cir. Jan. 29, 2004)

¹³ U.S.C. Section 271(a)

¹⁴ U.S.C. Section 271(b)

¹⁵ U.S.C. Section 271(c)

¹⁶ U.S.C. Section 271(g)

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It is abundantly clear that the System manufactured and installed on the Vessel, constitutes a “patented invention” that infringes CBTF’s Patents. It is further without dispute that the System was designed, manufactured, installed and used by the Owners and the Contributors in full awareness of CBTF’s Patents and all of the details publicly available and disclosed when the Patents were granted. Given this actual knowledge of the Patents, and the apparent misplaced reliance upon the “temporarily present” exemption thought available, those involved actively induced, contributed and aided and abetted the System’s creation and employment in the Vessel. The flaw, in undertaking to use the patented Invention and evade payment of the \$87,500 royalty required for permissive use, was the commercial element of the Owners’ commercial venture to be executed in the United States. Once the Vessel entered the territorial waters of the United States for that purpose, it infringed the Patents, thereby subjecting all those responsible, Owners, designers and builders alike, to those liabilities imposed by law on patent infringers.

When a defendant is found liable for infringing, the patentee is entitled to various remedies and relief including:

- Loss profits
- Reasonable royalty
- Enhanced damages
- Prejudgment interest
- Post-judgment interest
- Attorney fees
- Litigation costs
- Injunctive relief

The patent statute¹⁷ provides, *inter alia*, “upon finding for the claimant the court *shall* award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for a use made of the invention by the infringer”. This law has been interpreted to mean “loss profits” with a reasonable royalty acting as the floor for damages if lost profits are uncertain. Where there is an “established royalty”, proof thereof will establish the amount the patentee is entitled to receive from an infringing defendant.¹⁸ To prove “established royalty”, is evidence of a prevailing royalty charged and paid in that industry, issuance of prior licenses, patentee’s “security” before the infringement, payment of the royalty by a substantial portion of industry participants, without coercion or litigation.

¹⁷ 35 U.S.C. Section 284

¹⁸ *Railroad Dynamics v. A. Stucki Co.*, 727 F.2d 1506, 1518 (Fed. Cir. 1984)

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Of further significance by way of remedy and relief to an infringed patentee is the availability of enhanced damages. Where there is proof of willful infringement and bad faith, compensatory damages may be trebled. Evidence that an infringer was aware of a patent, and proceeded with knowledge that to do so would infringe, is the type of culpability upon which court decisions tripling damage awards have been founded upon.

Interest from the date of infringement through judgment is specifically awardable by law, the commencement date in this case being May 2005 and compounding thereafter. Post-judgment interest is automatically imposed, and continues to accrue and compound until satisfied. In appropriate cases, an award of a patentee's attorney's fees will be made and which may equal or exceed the damages awarded.

A further remedy available to patentees is injunctive relief barring infringers from use, sale, importation, etc. of an infringing article, or the further manufacturing of infringing articles. In a case such as this in which the Owners plan to replicate the Vessel and its infringing System¹⁹, injunctive relief prohibiting the Owners and Contributors from manufacturing additional infringing Systems is essential given EBS' plan to promote and sell yachts such as *Maximus* worldwide, further eroding CBTF's patent rights and damaging its reputation and recognized entitlements as the exclusive owner of the Invention.

The presence of *Maximus* within the United States caused the infringement, and because it embodies an infringing article, the Vessel (or so much of the Vessel as may be necessary) is subject to an order of seizure so that the System can be rendered unusable and/or destroyed. While you characterized this remedy as "draconian", it certainly should have come as no surprise given the care and attention paid by you to our client's rights, as well as the likelihood that those rights would be enforced to abate infringers. The consequence if your gamble played-out differently then you had hoped and, protestations heard by one whose hand was caught in the cookie jar are not overly compelling.

All of which leads us to our demands to all of those responsible for, or liable to CBTF for those activities outlined herein. First, we demand that you cease and desist from further acts that infringe CBTF's Patents including, without limitation, replication in any fashion whatsoever of the Invention for use in sailing yachts. Further, it is necessary that the system be disassembled and removed from the Vessel and it not be further used until that occurs. In the event the Vessel

¹⁹ See: *EBS Yachting Media Release March 05* "We have kept the hull mould here and are trying to promote this almost as a production boat. There are significant cost savings to be made for a new owner, plus a big savings in time", say Brown."

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departs the United States while the System remains intact, and without CBTF's consent, we demand that it not again enter either the United States (including its territories or possessions), or any country having reciprocity with the United States with respect to patent law recognition and judgment enforcement. To do so risks the Vessels arrest and seizure.

Secondly, we demand that you pay CBTF the sum of US\$100,000 no later than Tuesday, May 24, 2005, by remittance to our client trust account by wire transfer. Please contact our office for fund transfer details. Upon receipt of such sum, CBTF will issue to you a license for use of the Invention, applicable retroactively, and it will forgo further enforcement of its Patent rights save those applicable to other and further infringements involving other than the Vessel.

Third, and in the event you fail or refuse to avail yourself of the opportunity outlined in the preceding paragraph, and be purged from the liabilities consequent to infringement, we demand that you provide the following documents, materials and information no later than Friday, May 27, 2005:

- a. the names, addresses and capacities of all persons and entities who participated in, contributed to, and/or aided and abetted the infringement through the design, fabrication, construction or use of the System; and
- b. all originals and all copies of plans, specifications, engineering and design materials (including documentary and data formats) used in the assembly, fabrication, design, and manufacture of the System; and
- c. the identities, names, and addresses of all persons or entities that purchased, acquired, received or provided with copies of the System; and
- d. copies of all patent applications and supporting materials prepared, submitted, or filed that describe the Invention and/or the System; and
- e. copies of the original bill of sale, master builder's certificate, certificate of documentation, national or flagging registry, enrollment, preferred mortgage, charter party, document, deed of conveyance, or equivalent documentation for the Vessel; and
- f. copies of the Vessel's log for the period of February 1, 2005 through the present; and
- g. copies of the clearance issued by the United States Customs division of the Department of Homeland Security granting Vessel clearance to enter U.S. waters; and
- h. a true and correct accounting and supporting documentation reflecting sums paid to and/or received by any and all Owners, for use, lease, and/or charter of the Vessel from January 1, 2004 through the present; and

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- i. the identities, names and addresses of all persons (other than paid crew) who were present aboard the Vessel as invitees, guests, or unpaid crew, while the Vessel was within the territorial waters of the United States.

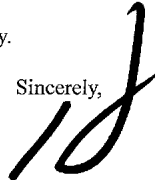
Last, if we fail to receive written acknowledgment and consent to be bound by our first demand above, and payment of the required sum *or* the documentation and materials specified above is not received by the applicable dates stated, we will, without further notice, fully and forcefully prosecute all statutory and common law rights available to CBTF, whether foreign or domestic. To be clear, those rights will be pursued and prosecuted against all participants – Owners and Contributors included – and wherever their assets may be located or sequestered.

In order for CBTF's patent rights to remain viable and enforceable, it must police infringements and take appropriate action when wrongdoing has occurred as is the case here. This is a matter that can be simply resolved by your doing that which should have been done earlier, and while it is unfortunate we are required to escalate our enforcement efforts, the position set forth in your May 19th reply, is neither tolerable nor acceptable.

As always, we remain available to consider information or perspectives relevant to these issues, especially if contrary to the factual and legal assumptions set forth herein. However, assuming the accuracy and completeness of the information disclosed by our investigations, we intend to proceed as outline above, and as otherwise necessary to protect the interest of our client.

Please be guided accordingly.

Sincerely,



Douglas D. Holthaus

DDH:rln
cc: see attached list

DISTRIBUTION LIST

- CBTF Co. Inc.
- Bill Buckley
- Buckley Systems, Ltd.
- Greg Elliot
- Clay Oliver
- High Modules Ltd.
- TP Cookson Boat Builders Limited
- E Sport Ventures Yachting Limited
- Buckley Yachting Limited
- George Hendy
- SuperMaxi.co.nz
- Chris Mitchell
- Spa Engineer
- Elliot Marine