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PRESIDENT'S CORNER

There are serious doings afoot that could have large influences on our practice. It appears at this writing that the international diplomatic conference to consider WIPO's patent treaty will be held in Brussels, Belgium during June as scheduled.

The draft of the WIPO treaty to be considered at the Brussels conference has already been the target of much critical debate in the United States, centered primarily on 1) the treaty provision that would require all signatories to grant patents on a first-to-file rather than a first-to-invent basis, and 2) the elimination of any grace period in which to file an application following publication or public use. Adoption of either or both might compel changes in United States patent policy and practice that have been grounded in social and economic concepts as old as the Constitution.

Abroad, both proposals are roundly supported, indeed, insistently demanded in some quarters. Opinion in the U. S. appears here to be somewhat more diverse: indications are that there is strong support for first-to-file in the corporate camp while many private practitioners are equally opposed.

The Commissioner, who will lead the official U. S. delegation to the Brussels conference, has circulated for comment a proposed position paper on all aspects of the draft treaty. The paper proposes that a first-to-invent system should be optional to a treaty signatory, such as the United States. In order to harmonize with the global scheme of the draft treaty, retention by the U. S. of its first-to-invent system would, of course, require significant changes to 35 U. S. C. in other respects, such as provisions for proof of a foreign applicant's inventive activity conducted outside the U. S.

Both the draft treaty and the Commissioner's proposed position paper have been studied intensively by several committees of your Association under the able direction of Bill Brunet, Chair of the

Association's Committee on Harmonization of Patent Laws. Their consolidated recommendations have been considered in detail and, with some amendments and additions, approved by the Board of Directors. By the time this edition of the Bulletin appears on your desks, the Association's recommendations (reprinted elsewhere in this edition) will be in the hands of the Commissioner.

It is a pleasure to note that Roger Smith, of this Association, will be in the official U.S. delegation to the Brussels conference. We are also gratified that WIPO has accorded Official Observer status to our Association, which presents an opportunity for the Association's opinions to be heard, at least informally. The Board of Directors has arranged for the Association to be well represented throughout the conference by the First Vice-President (and soon-to-be President Elect), Andrea Ryan. Other members of the Association also plan to attend the conference.

Whether the draft treaty will survive the conference can not be predicted. There is powerful controversy over its major provisions, so much so that there was some consideration given to a postponement of the conference, even though it had long been planned as the culmination of years of international effort to arrive at a treaty. Now the plan is for a shortened conference in June, a recess, and a resumption later this year.

Meanwhile, there is related controversy in the U.S. Senate. By agreement between the President and the Senate, a WIPO treaty (and others expected to bear on various aspects of international trade) had been scheduled for "fast track" treatment in the Senate; that is, the Senate would exercise its "advise and consent" by either approving or disapproving the whole package, without amendments, in a short time. That agreement expires in June. Although the Administration and its senatorial allies have requested renewal of the agreement, there are senators who have resolved to oppose. Without "fast track" treatment, the near term prospect for U. S. patent law being changed by whatever treaty may come out of the WIPO conference is substantially dimmed.

The Association's involvement in efforts toward international harmonization of intellectual property law as well as several matters of economic concern to our profession have made my term as President of the Association a very interesting and rewarding experience for which I thank all of you and especially the other officers, directors and committee personnel who have contributed so much. At the annual meeting on May 16 your President-Elect, Peter Saxon, will take on the responsibilities of this office. The prospect is that Peter and those who will be supporting him will have an equally interesting term. I wish them well.

- Frank F. Scheck

CALENDAR OF EVENTS

June 1, 1991

The Toronto Patent & Trademark Group, 10th Biennial Niagara-on-the-Lake Symposium, Prince of Wales Hotel, Niagara-on-the-Lake

June 5, 1991

NYPTC Luncheon Meeting, The Williams Club Speaker: Berj Terzian - Doctrine of Equivalents

June 5, 1991

WESFACCA Meeting, Indian Harbor Yacht Club, Greenwich, CT Speaker: Susan Westlake - Fair Use

NYPTC REPORT TO COMMISSIONER MANBECK

POSITIONS REGARDING THE DRAFT TREATY ON THE HARMONIZATION OF CERTAIN PROVISIONS IN LAWS FOR THE PROTECTION OF INVENTIONS

The New York Patent, Trademark and Copyright Law Association, Inc. (the Association) has adopted the following positions regarding the draft treaty of 21 December 1990 (the treaty):

I. PROVISIONS CONSIDERED MOST IMPORTANT

1. The Association supports a change to Article 9 of the treaty to permit the United States to retain its first-to-invent system, including the right to swear behind a third party reference up to one year before the domestic filing date or the priority date, if earlier.

2. The Association does not support any change to U.S. law which would permit foreign inventors to rely on acts outside the United States to prove invention, unless:

a) compulsory taking of evidence is available in regard to such proofs;

b) prior art from outside the United States continues to be limited to patents and publications as set forth in 35 U.S.C. § 102 (a) and (b); and

c) prior invention in the United States, which has not been abandoned, suppressed or concealed, continues to be available to invalidate patents under 35 U.S.C. § 102 (g).

3. The Association supports Alternative B of Article 10 which provides that patents shall be available in all fields of technology.

4. The Association supports, in general, Alternative B of Article 19 which sets forth the rights that a Contracting Party must confer on the patentee.

5. The Association supports Alternative B of Article 22, which requires Contracting Parties to provide a patent term of at

least 20 years measured from the domestic filing date.

6. The Association supports Article 16, which sets time limits for search and for examination of patent applications.

7. The Association favors a provision in the treaty which requires that it apply only to applications and patents whose filing or priority date, whichever is earlier, was subsequent to the date on which the United States becomes bound by the treaty.

II. PROVISIONS OF CONCERN

8. The Association opposes any treaty provision which would prohibit the United States from denying a patent to anyone who had commercially exploited the invention in the United States more than one year before his filing date or his priority date, if earlier.

9. The Association opposes any treaty provision which prohibits the United States from retaining its experimental use exception.

10. The Association is willing to accept a treaty provision which would require the United States to accord prior art status to U.S. patents and published U.S. applications as of their foreign priority date, provided that the United States is permitted to consider such prior art in regard to novelty and obviousness.

11. The Association is willing to accept a treaty provision calling for automatic publication of patent applications in the United States 24 months after their filing date or their priority date, if earlier, provided that:

(a) provisional rights are available after publication;

(b) examination, at least up to final rejection, is completed sufficiently in advance of publication to allow the applicant to withdraw his application prior to publication; and

(c) relief is available by way of reinstatement of the application in case the application is inadvertently published by the Office.

12. The Association favors a statement in the treaty which makes clear that a patent owner in an administrative revocation proceeding has the right to file claims of different scope and to have such claims examined and, if patentable, granted in his patent.

13. The Association opposes Alternative B of Article 20 which *requires* Contract-

ing Parties to grant prior user rights. Further, the Association is willing to accept Alternative A of Article 20 which *permits* countries to grant prior user rights, but only if the treaty makes clear that Contracting Parties may not grant any greater prior user rights than set forth in Alternative A.

14. The Association agrees with the wording of Article 21, subparagraph 2(b) of the treaty which states that an element shall "*generally* be considered an equivalent if..." The current U.S. position is to delete "*generally*." The Association supports the principle of equivalents but believes that courts should have discretion in applying the principle.

III. OTHER RECOMMENDATIONS

15. The Association favors a new definition of "publication" in Rule 1 (Article 2) to make clear that "publication" of a pending application must include a public announcement of where the published item is available to the public.

16. The Association proposes a change to Article 6, paragraph (2) of the treaty to state that when a named inventor files a statement that he is not an inventor, publications of the patent office must include such statement.

17. The Association favors limiting Article 7 of the treaty to applications claiming rights under an international treaty or convention. The Association also favors a provision which would permit late filing of a Paris Convention application within a limited time after expiration of the priority period, without explanation, upon payment of a fee, even a substantial fee.

18. The Association favors a change in Article 18 of the treaty so as to require Contracting Parties to give third party requestors or opposers in reexamination or opposition proceedings at least one opportunity to present their arguments to the Office relating to grounds for revocation. The purpose of this is to permit the U.S. to limit third party participation to only one opportunity.

19. The Association supports a clarification in Article 23 of the treaty which would ensure that a government shall not be subject to an injunction for non-commercial uses of a patented invention.

RECENT DEVELOPMENTS IN INSURANCE COVERAGE OF INTELLECTUAL PROPERTY TORTS

by David A. Gauntlett¹

Transference of the exorbitant cost of defending patent, copyright and trademark lawsuits to insurance carriers is possible if a company is covered by a standard Comprehensive General Liability policy with coverage for "Advertising Injury." Depending upon the facts of a case, companies may be able to also force insurers to pay all damages for which they are held liable for in such lawsuits.

"ADVERTISING INJURY" GOVERNS AVAILABILITY OF COVERAGE

With the exception of your clients who are self-insured, the majority of companies who have standard forms of Commercial Liability Insurance should be able to obtain reimbursement of defense costs expended in a wide range of intellectual property lawsuits, including trade and service mark infringement, trade dress infringement, patent infringement, unfair competition and copyright infringement under California, and perhaps even New York, law.

On December 13, 1990, Judge Consuelo Marshall of the United States District Court, Central District of California, in *Intex Plastics Sales Co. v. United National Ins. Co., et al.*, 1990 U.S. Dist LEXIS 18200, found that three separate insurers were bound to contribute to the payment of over \$500,000 in legal costs incurred by their insured in defending itself against alleged patent infringement. Judge Marshall also ejected the insurers' arguments that any threats to sue the insured made by the patentee prior to the commencement of the underlying patent infringement lawsuit constituted a pre-existing condition which would relieve the insurer of its duty to defend or trigger appli-

cation of the loss-in-progress rule articulated in *Home Ins. Co. v. Landmark Ins. Co.*, 205 Cal.App.3d 1388, 253 Cal.Rptr. 277 (1988).

The court found coverage under the "advertising injury" portion of the insurers' Broad Form Endorsements to their insured's Comprehensive General Liability insurance policies. The policies defined "advertising injury" as an offense committed during the insured's policy period arising out of acts of libel, slander, defamation, unfair competition, copyright infringement, piracy and misappropriation of advertising activities. The court held that the terms "piracy" and "unfair competition" were ambiguous and could reasonably be interpreted to include patent infringement. The duty to defend is based on the "possibility" or "potential" for liability under the policy's coverage whether revealed by the facts alleged in the complaint or otherwise known to the insurer. *Gray v. Zurich Ins. Co.*, 65 Cal.2d 263, 276-277 (1966); *CNA Casualty of California v. Seaboard Surety Co.*, 176 Cal.App.3d 598, 606 (1986). Where there is doubt as to whether a duty to defend exists, the doubt should be resolved in favor of the insured. *CNA Casualty of California v. Seaboard Surety Co.*, *supra*, at 605.

The court refused to follow the federal district court in *National Union Fire Ins. Co. v. Siliconix, Inc.*, 729 F.Supp. 77 (N.D. Cal 1989), which had found that allegations of direct patent infringement were not covered by the insured's policies. Judge Lynch had reasoned that "advertising" was not part of "selling" or "manufacture" of the product alleged to infringe the patent. Judge Lynch did not analyze whether coverage could arise for "use" of the patented article. Judge Lynch also failed to consider whether, based on the facts revealed through discovery, the patent infringement lawsuit could be amended to allege inducing or contributory patent infringement. These latter torts are distinct from the cause of action for direct patent infringement. They arise where the alleged infringer aids and abets the underlying patent infringement.

In *Aetna Casualty and Surety Co. v. Watercloud Bed Co., Inc.*, 1988 U.S. Dist. LEXIS 17572, Judge Alicemarie Stotler found that "use" of the patent was a form of direct patent infringement and that inducing and contributory patent infringement arose out of the insured's "advertising activity."

Judge Marshall adopted Judge Stotler's reasoning in her recent opinion. Although the orders in both the *Aetna* and *Intex* actions are unpublished, they represent a clear trend by the courts to provide coverage for patent infringement lawsuits.

Both Judges Stotler and Marshall found that the insurers' defense that they were not liable to indemnify or defend lawsuits premised on allegations of willful acts did not preclude their duty to provide a defense to patent infringement lawsuits. They held that "willful infringement" requires a different level of specific intent than §533 of the California Insurance Code which demands a preconceived design to inflict injury. *Clemmer v. Hartford Ins. Co.*, 22 Cal.3d 865, 887, 151 Cal.Rptr. 285 (1978).

Both Judges Stotler and Marshall also found that patent infringement may constitute "unfair competition." Judge Stotler relied upon language in *Aetna Casualty and Surety Co., Inc. v. Centennial Ins. Co.*, 838 F.2d 346, 352 (9th Cir. 1988), that "copying" another's goods brought the lawsuit within the coverage for an offense of "unfair competition" arising out of "advertising activity." This reasoning is in accord with the First Appellate District's recent broad reading of the "advertising injury" provision of an insurance policy. *Bank of the West v. Industrial Indemnity Co.*, 226 Cal App 3d 835 (1991). There, the court concluded that the phrase "unfair competition" in a standard form CGL policy must be given a broad statutory definition to "mean and include unlawful, unfair or fraudulent business practice and unfair, deceptive, untrue or misleading advertising," whether committed against a business rival or the general public. Judge Marshall also clarified that in California: "Unfair competition means any unfair business prohibited by law." *People v. McKale*, 25 Cal.3d 626, 631-632, 159 Cal.Rptr. 81 (1979). Patent infringement is an unfair business practice, is anti-competitive and is prohibited by law.

NEW YORK LAW

Although New York law does not follow California insurance law in all particulars, on the facts before the court in *Intex*, the same result should occur. The most recent New York case to find that there was no insurance coverage for allegations of "unfair competition" under the "advertising in-

jury" provisions of an insured's policy is distinguishable. In *A. Meyers & Sons Corp. v. Zurich American Ins. Group*, 74 N.Y.2d 298 (1989), the insured commenced a declaratory judgment action against its insurer seeking a defense in a proceeding before the International Trade Commission (the "ITC") under the "advertising injury" provision of Zurich American Insurance Group's policy. The policy's language is identical to that in *Intex*. The ITC notice of investigation served on the insured alleged unfair methods of competition and unfair acts in the importation and sale of certain plastic fasteners in the United States. The notice described the scope of investigation as limited to determining whether an unlawful importation or sale of plastic fasteners occurred thereby infringing several Dennison patents. The insurer declined coverage on the grounds that the complaint alleged illegal importation and selling of products which did not arise out of any advertising by Meyers. The New York Court of Appeals affirmed the decision of the New York Supreme Court in the Appellate Division finding no coverage under the policy because:

1. The ITC action sought only injunctive relief and not damages;
2. The circulation of a price list to customers was not deemed sufficient to constitute advertising activity within the policy; and
3. New York law does not require a factual investigation beyond the face of the pleadings in order to determine coverage issues.

CONCLUSION

Coverage should arise even in the face of such legal rules of construction in factual scenarios where the complaint alleges acts that constitute "offenses" arising out of "advertising activity" within the meaning of the policy's "advertising injury" provisions.

Insurers may not immediately agree to provide a defense once confronted with these unpublished orders. Nevertheless, these rulings provide a cogent analysis of the legal issues which obligate insurers to provide a defense in patent infringement lawsuits. Retention of coverage counsel knowledgeable about the legal issues in-

involved in securing insurance coverage for a patent infringement suit is essential to assure that the insured receives the full benefit from its policy.

There are three distinct advantages that arise from having separate coverage counsel for an insured in an intellectual property dispute. First, insurers may claim that the attorneys' fees incurred in defense of the lawsuit actually arose in connection with a coverage dispute thereby reducing the amount of attorneys' fees available for reimbursement to the insured. Hiring separate coverage counsel would segregate the two types of legal services and avoid claims of fee mixing. Second, discovery may be sought against counsel representing the insured where a coverage dispute arises and a declaratory relief action is filed. Such discovery is not proper against attorneys in a law firm that only represents the insured as coverage counsel. Separate coverage counsel can thus avoid the risk that facts may be divulged relating to coverage where the insured's counsel represents the insured in both the defense and coverage capacity. Insurers typically have separate coverage counsel from counsel assigned to defend an action for much the same reason. Third, failure to make a timely tender to an insurer of a potentially covered intellectual property claim may result in a legal malpractice action against the insured's counsel in the underlining intellectual property suit from any risk for failure to make proper and timely tender or analyze the potential for coverage under the insured's policy.

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MAGISTRATE JUDGES EXPECTED TO HANDLE MORE CIVIL TRIALS

Recent amendments to the Federal Magistrates Act make it likely that the number of litigants in civil cases who consent to have their cases tried before magistrate judges will continue to increase. The Judicial Improvements Act of 1990 amended the Magistrates Act to let district judges and magistrate judges more freely advise litigants of their option to a trial before a magistrate judge.

The Federal Magistrates Act was amended in 1979 to give magistrates the jurisdiction to try civil cases with the consent of the parties. The number of civil cases in which litigants consented to the jurisdiction of magistrate judges nationwide has grown from 1,933 in 1981 to nearly 5,000 in 1990.

Prior to the 1990 amendment, at the time an action was filed, the clerk notified the parties of their right to consent to a trial before a magistrate. The previous statute also provided that neither the district judge nor the magistrate should try to persuade or induce a party to select that option.

The legislative history of the statute indicates that there was concern for safeguarding the voluntariness of the parties' consent. As a result, many judges refrained entirely from mentioning to litigants, at any point in the lawsuit, the option to consent to trial before a magistrate.

The Federal Courts Study Committee, in its final report in April 1990, recommended amendment of the statute to permit judges and magistrates to advise civil litigants of the option to consent to magistrate jurisdiction at any time prior to trial. The Federal Courts Study Committee suggested that such an amendment would "allow the district courts to take fuller advantage of the magistrates." The change was endorsed by the Judicial Conference's Executive Committee.

The newly amended statute states that "either the district court judge or the magistrate may again advise the parties of the

availability of the magistrate, but in so doing, shall also advise the parties that they are free to withhold consent without adverse substantive consequences." The legislative history of the act reflects the fact that the parties have a right to have their disputes resolved by Article III judges.

Of the nearly 5,000 civil cases in which litigants consented to the jurisdiction of magistrate judges in 1990, 496 resulted in jury trials and 517 in nonjury trials. The remainder of the cases were settled or otherwise disposed of without trial.

The 1990 amendments also changed the title of the office of magistrate from "United States Magistrate" to "United States Magistrate Judge," which may also lead to an increase in consents to trial before magistrate judges. With the addition of the word "judge" to the title, any confusion of federal magistrates with state magistrates should disappear.

Last fall, before the statute was amended, the Southern District of New York instituted a program to encourage greater use of consent trials before magistrates. Under the program, upon completion of all pre-trial matters in a civil case, the district judge who has been assigned the case offers an immediate trial before a magistrate judge if the district judge's trial calendar does not permit an immediate trial. If counsel indicate that they do not want to proceed before a magistrate judge, the judge calls the district court executive to find a senior judge who can try the case. If a senior judge is available, the district judge notifies counsel that the case is to proceed to trial before the senior judge and directs them to contact that judge's chambers within 24 hours. There is thus no incentive to refuse to consent to trial before a magistrate judge just to gain delay.

In many districts, dates set for trials before a district judge must sometimes be changed because of intervening felony trials that the judge must conduct to comply with Speedy Trial Act timetables, or for other reasons. Litigants who consent to trial before a magistrate judge find that their trial dates are more certain than they would be if their cases were tried before a district judge.

When the parties have consented to trial before a magistrate judge, appeal from the judgment is ordinarily made to the court of appeals. There is also a consensual

option to appeal to a district judge, with appeal to the court of appeals only with the permission of the court.

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CONSULTANCY WITH DIRECTORATE GENERAL OF COPYRIGHTS, PATENTS AND TRADEMARKS

TANGERANG, INDONESIA

by Karl F. Jorda

INTRODUCTION AND BACKGROUND

Indonesia is a very large and increasingly more important country which with its wealth of natural and human resources has great potential for technological and economic development. In fact, Indonesia is a sleeping giant that is waking up. As *BusinessWeek* (8/27/90, p. 44) proclaimed, "Indonesia has become the hottest hot spot in Asia" and "is poised to be the region's new success story." With over 180 million inhabitants, it is the world's fifth most populous country, stretching a distance from California to Bermuda, and comprising over 13,000 islands, including some of the world's largest (Borneo, Sumatra, Java, Celebes). Oil tops their list of natural resources. The capital city of Jakarta is rumored to be the "best kept secret" in all of Asia. It is a vibrant city of over eight million people . . . a city of monuments and monumental traffic jams . . . and a shopping mecca that's becoming a serious rival to Hong Kong and Singapore.

Thus, it indeed behooves Indonesia —

one of the last countries in the world left without a patent law — to modernize its system of intellectual property (IP) rights. Commendably, Indonesia is now seriously embarked on a course of strengthening and updating its existing IP laws and introducing and implementing new ones where none existed before.

Indonesia's Copyright Law, as amended in 1987, meets international standards. Its Trademark Law of 1961 vintage is presently being revised and brought up-to-date with, *inter alia*, inclusion of service marks and collective marks. But no Patent Law existed in Indonesia until the enactment of one on November 1, 1989. It will come into force on August 1, 1991. Implementing regulations have been prepared and will be promulgated in the near future. In the meantime, the Directorate General of Copyrights, Patents and Trademarks, a new unit of the Justice Department, is charged with the responsibility of setting up a Patent Office operation and also improving and streamlining the operations of the Trademark and Copyright Offices.

Consequently, the Director General, Mr. Nico Kansil, let it be known that they would like advice on how to organize the office to administer the Patent, Trademark and Copyright Laws. Apparently, assistance and support has been proffered by various countries and organizations and apparently I was but one of several consultants to have been enlisted in this effort.

I was recruited by the International Executive Service Corps (IESC) for its Project No. 19554 which was entitled "advising the Director General of Copyrights, Patents and Trademarks on Organization and Administration of the Office." This project was funded wholly or largely by the Asia Foundation. The IESC project called for "help to the Director General in designing and developing of a system to administer the IP laws; in particular, in setting up a patent examination and granting system and a trademark registration and renewal system as well as advice on how modern copyright, patent and trademark offices operate and what kind of automation equipment they use."

PARTICIPATION IN PROGRAMS

I was asked to participate in an "Advanced Training Course in Patent Exami-

nation," held at the Directorate General in Tangerang for over 50 Examiners and potential Examiners, and give four 1 1/2 lectures on the subjects of "General Introduction to the Patent System" and "International Aspects of Patents — Paris Convention, PCT, EPC, CPC," "Overview of Trade Secrets," and "Overview of Licensing."

A three-day workshop for "Patent Consultants" (patent attorneys and agents) was held in Jakarta on November 27-29 with WIPO co-sponsorship, and I was invited to attend to participate in the discussions. Mr. Bambang Kesowo, Director General of Law and Legislation, Cabinet Secretariat, was in charge. He is the principal actor on the patent stage in Indonesia. I brought back his talk in the Indonesian language to have it translated to see what philosophy it reflects. It's a very positive one, indeed, to wit:

The need to expand knowledge and improve our development and mastery of technology requires greater availability of extensive technological information through the growth and development of a patent system. It is only through this expansion of knowledge and improved mastery of technology that we can respond to the need for technology transfer and resolution of the issues that surround it.

One aspect that cannot be ignored, especially now, is the increasingly close relationship of IPR to international trade and the effect of IPR on such trade.

[W]e can be called behind the times if there are among us those who continue to consider negative approaches such as stealing or plagiarizing. Regardless of the reason, times have changed, and the attention of IPR owners is now too great for such approaches to be used. Because of conditions, they have become more aware of the significance and value of their IPR. Conditions are very different from those of the fifties, sixties, or even the seventies

For Indonesia, this international trade aspect is very important. The era in which economic development will be increasingly focused on the industrial sector, especially industries oriented to exports, needs marketing security. In turn, this access to international markets will be secure only if we participate in a joint agreement in the IPR sector by affording equal, sufficient, and effective legal protection.

On December 11, the International Pharmaceuticals Manufacturers Group (IMPG) arranged a luncheon meeting at the Mercantile Club in Jakarta to give me an opportunity to address an audience of over 20 people, including Messrs. Nico Kansil, Slamet

Dirham and Bertus Rikin from the Directorate General as well as officials of other Government Departments, and representatives of Indonesian and international pharmaceutical companies on the subject of "IPR and Industrial Development — Pharmaceuticals."

At these and other occasions I was impressed with the number and quality of the questions that were asked and the eagerness on everybody's part for any piece or shred of information and material about IP law and practice and licensing/technology transfer. Also, at these and other occasions I was able to drive home such points as:

- an effective IP system is indispensable to technological development which leads to economic growth and social welfare;

- an IP system should be part of a country's *infrastructure* from the outset rather than something that one thinks about after reaching a fairly advanced stage of development (Robert Sherwood);

- "A country without a patent office and good patent laws is just like a crab that can't travel any way but sideways or backways" (Mark Twain);

- a patent and other IP are not and cannot be monopolies but are property and this misconception has caused a lot of mischief;

- stringent application of provisions for compulsory licenses, cancellation for non-working, exclusion of importation from infringement would thwart the new patent law and turn it into a hoax;

- lead times for commercializing inventions have become longer in all areas and not just the pharmaceutical area and hence the conventional periods of three or four years till lapsing or compulsory licensing are badly out of step with present realities;

- "Everything under the sun made by man is patentable" (U.S. Supreme Court in the *Chakrabarty* decision); hence, there should virtually be no exclusions of subject matter from patentability;

- subject matter that is viewed (by developing countries) as too important to be protected is, on the contrary, "too important not to be protected" (Professor Thomas Field);

- some countries have gold, some have oil — and some have technology and those that have gold and oil do not consider them part of the "common heritage of mankind" and accordingly give them away for free (Naboth Mvere, Controller of IP, Zimba-

bwe);

- technology transfers, licensing and investments are ever so much easier to carry out and accomplish via patents and other IP as vehicles or bases;

- the days when technology transferors took advantage of transferees in developing countries are gone, the realization having taken hold that the only viable license is one that results from a win/win approach and passes the fairness test.

MISCELLANEOUS MATTERS

In the context of my recommendation that a high-level delegation be sent abroad for the purpose of "selling" their new Patent Law and that the proposed Regulations be promulgated as soon as possible, I pointed out that there is a negative perception in industrialized countries about this new Law that should and can be dispelled. The new law can indeed be viewed the way it reads as having serious shortcomings, such as, provisions for exclusion of importation from patent right, short patent term, broad compulsory licenses, cancellation for nonworking, suspension of filings during hiatus period, certain exclusions from patentability, etc.

However, based on what I saw and learned in Jakarta, I believe that some of the criticized features will be removed or neutralized or softened by the implementing Regulations. I was gratified to find out that the exclusion-of-importation-from-infringement provision has, in essence, been turned around in the draft implementing Regulations by providing that the importation of products other than those specified in a schedule is an infringement and that the schedule will be a short and diminishing list of products which will be down to zero in a few years. I'm confident that the practice regarding compulsory licensing and patent cancellations for nonuse will be reasonable and pro-patent and that, for instance, developmental and/or regulatory delay or other good reasons would be considered — as have Directorate General officials intimated — to be suitable excuses for lack of working or nonuse as well as suitable justification for extension of the short 14-year patent term by two years.

Coming from Franklin Pierce Law Center (FPLC), Concord, NH, by now a nationally and internationally recognized and acclaimed institution for IP training, I would

have been remiss if I did not also suggest that, in addition to continuing to send Officials and Examiners of the Directorate General to foreign patent offices and foreign countries for orientation and training, a promising Examiner or junior Official be sent to FPLC for enrollment in its Master of IP (MIP) (1 year) or Diploma (6 months) Programs. I indicated that full or partial scholarships and tuition assistance and other financial aid might be obtained from the Asia Foundation, UNDP or other similar agencies and organizations, as many of our students from developing countries can attest to. Also, an IMPG representative let on that they would consider funding an Examiner's or Official's studies at FPLC. However, Mr. Nico Kansil was of the view that until the patent operation was up and running he would not be able to spare any hands. But a number of "Patent Consultants" showed interest in FPLC programs.

Mr. Harsono Adisumarto, the former IP Director of Indonesia (until 1988), is now associated with the Universitas Tarumanagara and is setting up an IP Training Institute at this university's law school. He is the author of two recent IP books and principal of an IP law firm. He met with me several times to establish contact with FPLC in the hope of getting some guidance from us in his efforts at his law school. His first interest and request has to do with collecting a representative number of IP titles for an IP Library. The Asia Foundation will fund the acquisition of fifty books on patents, trademarks, copyrights, trade secrets and licensing. (A "sister" relationship between our respective law schools — as exists between cities — might be worthwhile envisaging and striving for.)

CONCLUSION

The most fitting conclusion for me to make is that during the six weeks in Jakarta/Tangerang I became fully convinced that the Director General and his team are very serious about the implementation of the new Patent Law and improvement of the IP system in Indonesia. This is contrary to reactions being brought back to the U.S. by an American consultant in October 1989. At that time the new Patent Law was still in the process of being passed and the Directorate General was barely a year old. It's understandable that at that point the Directorate of

Patents was hardly a beehive of activity and the general level of knowledge about patents was very low. That has all changed *dramatically*. What's my evidence?

a) The present facility in Tangerang is under substantial renovation, inside and outside. Offices are being reassembled and refurbished. Air conditioning will be added. The exterior of the building is being overhauled and the grounds are also being improved and groomed.

b) A new building proposal for doubling the size of the present facility by way of a separate adjacent building at a cost of \$1.25 million has been submitted and is being considered. The likelihood is very good that such a building will come into existence albeit not in one fell swoop but in stages over 2 or 3 years.

c) Computers and other office equipment are being acquired and installed and computer program designs are being prepared.

d) Training in patent law and practice is being carried out at several levels and at a feverish pace. For example,

1. "Roving Workshops" are being held all over the country with WIPO assistance to create patent consciousness not only in industrial circles but also universities, courts and police departments.

2. Advanced training courses for present and potential Examiners and officials in all aspects of patent examination and processing are being held repeatedly.

3. Similar training courses are being conducted for Patent Consultants (patent attorneys, agents) to form a corps of qualified agents to represent clients come August 1.

e) The number and quality of questions asked at the courses and programs I attended demonstrated great interest and eagerness about learning all about IP law and practice.

f) There is a fairly steady flow of consultants and visitors (mostly from Europe and Australia) going to Jakarta/Tangerang to assist the Directorate General in gearing up for August 1, 1991 and helping out with training, computerization, regulations, procedures, operational manuals, etc. Conversely, several Tangerang officials have been to Europe, Australia, Japan, U.S., etc. for orientation and training.

I spent six weeks down there and I saw and heard it all with my own eyes and ears. I have no doubt the Director General and his

team have the necessary resolve and dedication to be ready to go operational on August 1, 1991 and do what is to be done at that point, i.e., receive applications and start processing them. ■

NEWS FROM THE BOARD OF DIRECTORS

by Howard B. Barnaby

The Board of Directors met on February 13, 1991. Peter Saxon reported that the CLE weekend will be held next November at The Heritage Inn in Southbury, Connecticut.

Mr. Saxon next reported on the status of the WIPO negotiations. Messrs. Brunet, Helfgott and Mellner had offered to represent the Association at the Diplomatic Conference scheduled for June, 1991. The Board then discussed the benefit of sending an NYPTC officer to the conference. The Board agreed that an officer should attend and decided to determine the designee at the next meeting.

Mr. Saxon next reported on the status of the New York State sales tax audits. New York is requiring firms to pay a use tax on any trademark search reports obtained from firms outside of New York State. The tax audits are covering the last five years.

Mr. Saxon suggested that the Board meet with Mr. Bailey, a Price Waterhouse representative who has been involved in a number of these audits. It was decided that Mr. Bailey should conduct an informal survey of audited firms and report to the Board.

Mr. Saxon reported that Emory Simon of the United States Trade Representative's Office has reported that the Office is interested in receiving remarks from corporations describing how they might be hurt in upcoming trade negotiations.

Virginia Richards reported that her Committee has obtained a list of members and their staffs of the House and Senate Judiciary Committees. She suggested that the Board make an effort to have more direct

contact with these persons. Mr. Saxon suggested that the Board should consider establishing a group to visit Washington on an as-needed basis to express Association views to the authorities. Mr. Gilbreth was appointed chair of an ad hoc committee for domestic and international liaison and all Board members agreed to serve as committee members.

Mr. Saxon asked Howard Barnaby to arrange for an NYPTC sponsored group admission to the U.S. Supreme Court.

Mr. Saxon reported that there are two Federal Circuit vacancies and asked that the appropriate committees make recommendations to the Board.

At its March 20, 1991 meeting, the Board considered obtaining a separate audit of the expenses and revenues associated with the 1991 Judges Dinner.

Howard Barnaby reported that a group admission to the U.S. Supreme Court will be scheduled for the Fall of 1992.

John Pegram reported that Leonard Mackey and Roger Smith will be part of the official U.S. delegation to the WIPO Diplomatic Conference in June. David Mugford recommended that the NYPTC representatives meet with observers from other organizations to develop a unified U.S. voice with respect to the WIPO Treaty. The Board unanimously agreed that Andrea Ryan be designated the NYPTC representative to the WIPO Diplomatic Conference.

The Board next unanimously resolved that Howard T. Markey be elected an Honorary Member of the NYPTC effective May 1, 1991.

The Board next considered possible candidates for the Federal Circuit vacancies. It was agreed that Mr. Scheck would send a letter to appropriate personnel in the House and Senate Judiciary Committees that James F. Davis, Allen R. Jensen and Fred McKelvy are qualified, but that Mr. Davis is particularly qualified.

Mr. Scheck reported that Congressman Hughes has been named to Chair the House of Representatives' Committee dealing with patents.

Mr. Gilbreth volunteered to work on a history of the NYPTC. He agreed to review historical documents and to speak to Granville Brumbaugh, Houston Kenyon and Giles Rich.

PENDING LEGISLATION

by Edward P. Kelly

Congress continues to consider bills that would amend the patent, copyright and trademark laws. Two bills that have been the subject of numerous House and Senate hearings have been re-introduced in the 102nd Congress. The design protection bill would afford protection to original designs of useful articles. The trademark bill would prohibit the importation of gray market goods. The House and Senate appear to be on the verge of eliminating state immunity from patent infringement and possibly for trademark infringement and infringements under the Plant Variety Protection Act.

PATENTS

State Immunity

Several circuit and district courts held a state immune from liability under the Eleventh Amendment for infringement of federal intellectual property laws. See e.g., *Richard Anderson Photography v. Redford University*, 853 F.2d 114 (4 Cir. 1988) (copyright); *Chew v. California*, 13 USPQ 2d 1393 (Fed. Cir. 1990) (patent); *Woelffer v. Happy States of America* 626 F. Supp. 489 (N.D. Ill. 1985) (1990) (trademark). Those decisions that held a state immune from copyright infringement were effectively overruled by legislation passed early this year. The Copyright Remedy Clarification Act amended the Copyright Statute explicitly stating Congress' intent that states are not immune from liability for copyright infringement under the Eleventh Amendment.

The problem of state immunity from patent and trademark infringement still exists. It also exists in theory for infringement of works protected by the Plant Variety Protection Act. The Act provides protection for breeders of novel varieties of living plants that are produced by using seeds. To date, there have been no reported cases of infringement actions brought against a state under the Act.

Bills were introduced last year in both the House (H.R. 3886) and Senate (S. 2193)

that would eliminate state immunity for patent infringement. Those bills provided that all patent infringement remedies including treble damages and attorneys' fees for willful infringement would be available against a state.

Senator DeConcini (D.-Ariz.) recently introduced two bills (S. 759 and S. 587) that would eliminate state immunity for patent infringement, trademark actions brought under The Lanham Act and action brought under the Plant Variety Protection Act.

In introducing the bills, Senator DeConcini stated that the reasons for eliminating state immunity for copyright infringement applied equally to patent infringement. He stated that eliminating state immunity would, for instance, avoid the anomalous result of state universities being immune from suit for infringing the intellectual property of a private university. The private institution, however, would be liable for infringement of intellectual property owned by a state university.

State immunity from trademark infringement is distinguishable because a trademark infringement action can be brought in a state court. Nevertheless, Senator DeConcini urged the need for abrogation of state immunity because remedies under state law are not always a sufficient substitute for a Lanham Act action.

S. 759 and S. 578 have been referred to the Senate Judiciary Committee.

Biotechnology

For the past two years the biotechnology industry has lobbied for legislation that would effectively overrule the result of *In re Durden*, 763 F.2d 1046 (Fed. Cir. 1985). In that case the CAFC held that use of a novel starting material does not render an otherwise obvious chemical process patentable. The effect of *In re Durden* may be that the U.S. Patent Office will not allow process claims for biological products where the starting material is novel but an otherwise known process is used to make the final product. The biotechnology industry considers that result unfair. The industry believes that significant investments in biotechnological processes should be protected. The industry also points out that patents are granted in Europe and Japan on biotechnological processes that would be rejected in the U.S. Patent Office.

The lack of protection for biotechnological processes also coincides unfavorably with recent revisions to Section 337 of the trade law that allow the ITC to exclude products manufactured abroad by a process patented in the United States. Currently, foreign competitors that use a patented biotechnological intermediate in a process cannot be stopped from exporting the product into the United States when no process claims exist here.

A bill introduced last year by Representatives Rick Boucher (D.Va.) and Carlos Moorehead (D. Ca.) responded to these concerns. The "Biotechnology Patent Protection Act of 1990" (H.R. 3957) would amend Section 103 of the patent law to provide that "a process of making a product shall not be considered obvious under this section if an essential material used in the process is novel under Section 102, and otherwise non-obvious under Section 103." The bill also would deal with the Section 337 anomaly by amending that section to allow the ITC to exclude imported products that "are made, produced or processed under or by means of, the use of a biotechnological material . . . covered by a valid and enforceable United States patent." Section 271(h) of the patent law also would be amended under H.R. 3957 to allow recovery in the District Court. Senator DeConcini (D. Ariz.) had introduced an identical bill (S. 2326) in the Senate.

Rep. Boucher later replaced H.R. 3957 with a new bill that limited the legislative remedy to an amendment of Section 103 while eliminating the provisions expanding ITC and district court jurisdiction.

Both Rep. Boucher and Senator DeConcini recently introduced bills (H.R. 1417 and S. 654) identical to H.R. 5664. The bills have been referred to the Judiciary Committees of the House and Senate.

Dissemination of PTO Information

The Patent and Trademarks Office ("PTO") created an automated patent search (APS) system in 1986 providing to examiners on line access to patents issued subsequent to 1974. The creation of the APS system reportedly cost more than \$150 million dollars. Since the program's inception, the PTO has provided private users access to the APS and has made limited patent information available on compact

disk, read only memory (CD-ROMs).

Senator William Roth (R.-Del.) recently introduced a bill (S. 721) that would greatly expand access for private industry to the on line information currently owned by the PTO. The bill would require the PTO to make CD-ROMs containing all U.S. and foreign patents available for use and sale. The bill would appropriate \$2 million to cover the cost of creating an initial master CD-ROM. Once the master is created, the PTO would charge a fee for providing copies of the master CD-ROM.

The bill also sets forth specific time frames in which the PTO must make the CD-ROMs available. For instance, the PTO is required to provide CD-ROMs containing sequential patent information patented after January 1, 1989 within 180 days of enactment of the Act. Within one year of enactment, the PTO is required to provide CD-ROMs of all patents issued in the past 17 years. After the Act takes effect, new patents are to be made available as soon as possible.

In introducing his bill, Senator Roth emphasized that both Japan and the European Community are far ahead of the U.S. in providing public access to information in their respective Patent Offices.

S. 721 has been referred to the Senate Judiciary Committee.

Patent Term Extension for Ethyol

Senator Strom Thurmond (R.-S.C.) recently introduced a bill (S. 526) that would provide a 10-year patent term extension for the drug Ethyol. According to Senator Thurmond, U.S. Bioscience, the exclusive licensee of the patent covering Ethyol, has discovered that Ethyol may prevent side effects of chemotherapy and radiotherapy without reducing the benefits of these treatments. The patent on Ethyol will expire in 1992.

COPYRIGHTS

Design Protection

In recent years, the House has held numerous hearings on the adoption of a statutory scheme that would provide protection for useful industrial designs. The protection would be afforded to those designs that fall outside the scope of the

traditional protections afforded by design patents, copyrights and trade dress law. For instance, an industrial design of furniture may not meet the unobviousness requirement of a design patent and could not be the subject of a copyright if it did not have the requisite identity apart from its utility.

Three bills introduced in the House last year, if adopted, would have added a new Chapter 10 to the Copyright Statute to grant protection to industrial designs of useful articles. All three bills (H.R. 902-Moorehead (R.-Ca.), H.R. 3017 Gephardt (D.-Mo.) and H.R. 3499 (Moorehead-Kastenmeier (D.-Wis.)) were similar to the extent that they provided for 10 years of protection and excluded protection for commonplace designs or designs that are dictated solely by utilitarian functions.

The bills also provided for damages adequate to compensate for infringement if notice of design protection appeared on the product. Representative Gephardt's bill (H.R. 3017) included specific protection for typeface and contained language aimed at excluding automobile replacement parts from protection. H.R. 902 and H.R. 3499 did not provide for typeface protection.

The bills further provided for an award of damages adequate to compensate for infringement. These damages included the infringer's profits resulting from the sale of the copies if the infringer's sales were reasonably related to the use of the protected design. Damages could have been increased up to \$50,000 or \$1 per copy — whichever was greater.

A consensus could not be reached on these bills during the 101st Congress despite the fact that the House held three hearings on these bills last year. During the hearings, the PTO and the Copyright Office both supported the bills. Proponents of the bills argued that the legislation was needed to allow U.S. industry to remain competitive with its foreign trading partners who are afforded this type of design protection in their respective countries. Criticism of the bills focused on the effect the legislation could have on the after-market auto supply industry. If automobile replacement parts qualified for design protection, the original equipment manufacturers would effectively eliminate competition from after market suppliers.

Representative Richard Gephardt (D.-

Mo.) recently introduced a new design protection bill (H.R. 1790) similar to the bills introduced last year. The bill contains revised provisions aimed at addressing some issues raised during the House hearings. H.R. 1790 has been retitled "Protection of Original Designs of Useful Articles." The emphasis on original was intended to eliminate designs that are commonplace and to insure that designs that receive protection are only those designs that "provide a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source" (see Section 1001(b)). According to Rep. Gephardt the new bill contains language that will encourage the continuation of the after-market repair parts industry. Rep. Gephardt stated that the bill is limited to preventing the pure piracy or knock off of a protected design. Companies that sell replacement parts would be able to do so even if the original equipment part receives protection under the bill. Designs of motor vehicle glass including windshields and side and rear view glass are specifically excluded from protection under the bill.

Unlike its predecessor bills, H.R. 1790 contains a public use bar. Protection would not be afforded to designs "embodied in a useful article that was made public by the designer or owner in the United States or a foreign country more than 1 year before the date of the application for registration." The bill also would allow a defendant to recover damages for lost profits, lost goodwill and punitive damages in instances where injunctive relief was sought in bad faith.

Renewal of Pre-1978 Works

The copyright in works created prior to January 1, 1978 subsists for 28 years. These copyrights can be renewed for an additional 47 years if the applicant files a renewal application with the Copyright Office within a year of the expiration of the original term. A failure to file the renewal application has serious consequences. If the renewal is not filed, the work falls into the public domain. Works created after January 1, 1978 are not required to be renewed.

Congress had a chance to eliminate this technical requirement for pre-1978

works when it overhauled the Copyright Statute in 1976. Congress chose not to, however, because, at the time, opponents argued that elimination of the renewal provision for pre-1978 works could upset existing contracts. Critics of the renewal provisions, however, have continued to argue that it is a technical requirement unknown to many authors who risk losing copyright through their own ignorance.

Senator DeConcini (D.-Ariz.) recently introduced a bill (S. 756) that would eliminate the renewal provision for the pre-1978 works. The bill would provide for automatic renewal of these works. Renewal applications would be accepted and encouraged on a voluntary basis but would not be a condition to a 47-year extension.

In introducing his bill, Senator DeConcini referred to a Senate report to the 1976 Copyright Law Revision that characterized the renewal provision as "one of the worst features of the present copyright law" and a "substantial burden and expense that resulted in incalculable amounts of unproductive work and in some cases the inadvertent and unjust loss of copyright."

Senator DeConcini's bill recognizes that renewal applications should be encouraged. For instance, renewal registrations allow users of copyrighted works to locate authors and their successors for licensing purposes. In order to encourage renewal registration, the bill would afford prima facie evidentiary weight to renewals filed within one year of the expiration of the first 28 year term.

S. 756 also contains a provision that would eliminate the Copyright Office's obligation to report to Congress regarding public libraries' reproduction of copyrighted works for non-commercial purposes. Section 108 of the Copyright Statute allows libraries and archives to provide photocopies of copyrighted works to students and scholars on a limited basis. Section 108 also requires that the Copyright Office report every 5 years on the status of this fair use. The bill would eliminate this reporting requirement. According to Senator DeConcini, two reports have been filed to date indicating that the libraries have not exploited these rights. Senator DeConcini stated that the reports are, therefore, no longer needed.

TRADEMARKS

Prohibition on Importation of Gray Market Goods

A gray market good is a product manufactured abroad. It bears a legitimate foreign trademark that is identical to a legitimate domestic trademark. The product, however, is imported without the consent of the domestic trademark owner. It typically is sold at a lower price than that charged by the domestic company and without the warranties offered by the domestic company.

The Tariff Act of 1930 currently prohibits the importation of foreign goods bearing a trademark owned by a domestic company. Nevertheless, a regulation of the United States Customs Service formerly provided that gray market goods may be imported (1) if the domestic and foreign trademarks are owned by the same, (2) if the domestic trademark owner has authorized the foreign manufacturer to use the mark. In *K-Mart Corp. v. Cartier, Inc.*, ___ U.S. ___ (1988), the Supreme Court upheld the first two parts of the regulation and struck down the third.

Bills supporting the importation of gray market goods were introduced in the House and the Senate while the *K-Mart* case was pending (H.R. 4803, Rep. Chandler, R.-Wash.; S. 1097, Sen. Chafee, R.-R.I.). These bills would have codified the original Customs Service regulation, thereby allowing importation under all three specified situations.

Prior to the close of the 100th Congress, and subsequent to the Supreme Court's decision in *K-Mart*, Senator Hatch (R.-Utah) proposed a bill to prevent the importation of gray market goods (S. 2903). This bill reflected widespread dissatisfaction with the *K-Mart* decision. The avowed purpose of the bill was to eliminate confusion over the source of imported products and prevent importers from taking unfair advantage of the domestic company's financial investment in creating a market for the products. Senator Hatch stressed that his bill was not an attempt to embargo merchandise and that importers would retain the right to import non-counterfeit goods as long as the offending trademarks were eliminated prior to sale. (Cong. Rec. 10/20/88 p. S17044).

Senator Hatch renewed S. 2903 under an identical bill S. 626 in the 101st Congress. Despite much debate neither the House nor Senate could reach a consensus on the importation of gray market goods during the 101st Congress. Senator Hatch recently resurrected the gray market issue by introducing a bill (S. 894) identical to S. 626.

The Hatch bill would provide a new Section 52 to the Trademark Act. The bill would prohibit importation of any product manufactured outside the United States if it bears a trademark owned by a domestic company, provided that the owner has registered the trademark and filed a copy of the registration with the Secretary of the Treasury. The prohibition would apply regardless of whether the foreign manufacturer is related to the domestic owner, or whether the domestic owner has authorized the use of the trademark abroad. Customs would be authorized to stop the importation of gray market goods. A domestic trademark owner also would be authorized to commence an action in federal district court to enjoin the importation of gray market goods and to recover damages for any profits lost as consequence of the importation.

In reintroducing his bill, Senator Hatch argued that the mere fact that a gray market good was imported from a foreign manufacturer related to the U.S. trademark owner did not justify importation. He stressed that U.S. trademark law is territorial in nature. According to Senator Hatch, the goodwill created in a trademark in "one country through time, effort and money spent in that country may be very different from the goodwill created in another country."

RECENT DECISIONS OF INTEREST

by Gregory J. Battersby

GRANT OF NAKED LICENSE CONSTITUTES ABANDONMENT OF RIGHTS IN TRADEMARK

The District Court for the Northern Dis-

trict of California recently held that the grant of a "naked license," i.e., the transfer of rights in a service mark without the exercise of control by the licensor of the quality of the services provided by the licensee, constitutes abandonment of its purported rights in the trademark. In *First Interstate Bancorp v. Stenquist*, 18 USPQ2d 1159 9 (N.D. Cal. 1990), the court rejected defendant's assertion that despite its abandonment of rights resulting from the issuance of a naked license, he never actually stopped using the name "First Interstate," for which he claimed his first use was several months prior to plaintiff's first use.

Defendant was held not to fall within the good faith prior user exception to 15 U.S.C. §1115 (b), as his continuous use of the name since March 1981 was interrupted in March 1988 by the abandonment, even though defendant "renewed" his use of the mark immediately after the 1988 abandonment. The renewed use, the court held, was undertaken with constructive notice of plaintiff's superior rights, precluding him from claiming he was a good faith user without knowledge of plaintiff's prior use.

ARBITRATORS GIVEN WIDE LATITUDE IN FORMULATING REMEDY WHERE CONTRACTUAL VOID EXISTS

The Court of Appeals for the Seventh Circuit refused to vacate an arbitration decision where the arbitrator declared the contract terminated despite the lack of a provision for early termination in a contract with a term for the life of the patent. In *Chameleon Dental Products v. Jackson*, 18 USPQ2d 1044 (7th Cir. 1991), the court found that all three of the licensing agreements the parties had entered into had been breached. Two of the agreements contained specific provisions for early termination. The third, the Training Program Agreement, had no termination provisions. The court rejected Chameleon's assertion that the arbitrators were without power to declare that contract terminated, because the term of the agreement was for the life of the patent.

The court pointed out that exclusive grounds for vacating or modifying a commercial arbitration award are found in §§ 10 and 11 of the Arbitration Act. No exceptions to these grounds have been adopted, and the court refused to adopt any in this instance.

Moreover, courts are prohibited from second-guessing arbitrators, who are charged with interpretation of the contract. Judicial review of arbitration awards is restricted to determining whether the arbitrator actually interpreted the contract. In this case, the court held, the arbitrators reached a remedy consistent with their duty of contractual interpretation. Any decision refusing to terminate such a contract would be illogical, the court said, and "could cause the continuation of contracts between antagonistic parties to the detriment of each side."

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