



THE NEW YORK INTELLECTUAL PROPERTY
LAW ASSOCIATION

BULLETIN

Volume 34

July/August 1994

Number 6

PRESIDENT'S CORNER

It is an honor and privilege to accept the designation of the membership to become president of this venerable association.

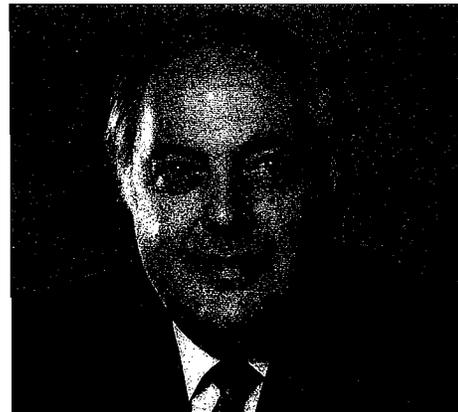
As I prepared to enter this position, I thought about the long tradition of excellence which has been established for this organization by its 71 presidents whose ranks I now join. I am particularly honored to follow four former partners: Judge William Connor, John Riley, Lee Robinson, and Peter Saxon. They and the other presidents I have served with have been great mentors and friends. I want to thank them for their inspiration and support.

Beyond my colleagues at the firms I have been associated with, this Association has been my professional home—a place where friendships are made and strengthened while working on current issues facing our profession. It is truly like a family where you can be friends and even dance with each other one week (as I did recently with Siegrun Kane at the New Jersey Intellectual Property Law dinner) and then zealously fight and argue with each other the next—as Siegrun, David, and I did on trial in Connecticut the day of my installation as president. It is because of their courtesy I was able to make the installation!

It is, of course, also an honor to be chosen to succeed Bill Gilbreth. He has been an eloquent and forceful leader representing this Association, its goals and views in the tradition of the highest levels of our profession. He has earned my gratitude and admiration—as well as that of all who have served with him—for a job exceptionally well done. Bill's presidency will be hard to follow, but not for lack of trying. I will do my best to carry out the responsibilities that Bill is passing on to me. And I am fortunate to have the assistance of an excellent group of officers and directors to help me do so.

Turning briefly to what I foresee as the work of our Association this year, I cannot help but note that since the change in administration in Washington, a number of important issues this organization has worked hard on over the years have been put on the back burner. This, of course, includes primarily the patent harmonization discussions and the Madrid Protocol. In their place new and difficult issues have come to the forefront of our discussions, including renewed interest in expanded use of the antitrust laws to limit intellectual property rights to prevent enforcement not only of invalid patents but also of those that are "too broad." An entirely new concept to me, I must say. In addition, the Commissioner of Patents seems intent on reevaluating the standard of non-obviousness applied by the Patent Office—an issue the Courts have struggled with for over 40 years.

With the growth of the "information superhighway" and biotechnology, concerns also are raised about whether, or how, such technology should be protected by existing intellectual property laws. Just a few weeks ago I watched a televised debate on this issue by respected people involved in this industry, some of whom argued that computer programs, once published, should be free for all to use because they are too complex to protect—and because if they are protected they are too expensive to buy.



With these kinds of serious debates going on, I believe it is important for this Association to participate in them and to help find the appropriate places to put the copyright and patent toll gates on the information superhighway, to ensure protection for biotechnology, and to ensure the standards of patentability that have been developed over the past 40 years are not diluted.

I assure you that we will see to it that the views of this Association's membership are heard in these debates.

We will, of course, also continue the long tradition and objectives of this Association of advancing the education of the bar and public in our specialized field of law. Along these lines, we have planned what I believe is our first international joint CLE meeting with the Patent and Trademark Institute of Canada to be held in

CALENDAR OF EVENTS

Sept. 30-Oct. 1, 1994

Seventh Annual Intellectual Property Litigation Series, "Patent Interferences: At the Crossroads," Franklin Pierce Law Center, Concord, NH

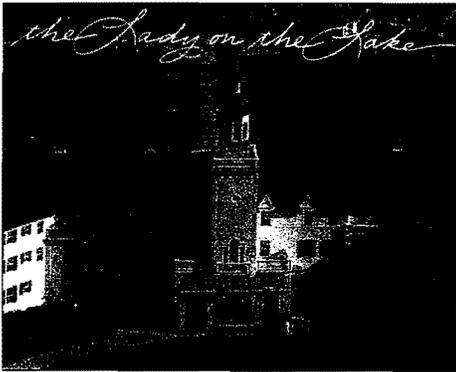
October 7-9, 1994

NYIPLA and Patent and Trademark Institute of Canada Joint CLE Program, The Sagamore, Lake George, NY

October. In addition, I hope to be able to arrange with the City Bar Association a joint open meeting for our members with the Commissioner of Patents to discuss biotechnology issues.

I look forward to working with all of you this year on these issues and I am certain that with all of your help we will have another successful year in the long history of our Association.

— Pasquale A. Razzano



The Sagamore

NYIPLA AND PTIC CO-SPONSOR CLE PROGRAM

This Columbus Day weekend escape to the picturesque surroundings of The Sagamore resort on Lake George in upstate New York for a joint program of The New York Intellectual Property Law Association and the Patent and Trademark Institute of Canada (PTIC). Families and children are welcome. The program will kick off with the annual meeting of the PTIC which will run from October 5-7, 1994. NYIPLA members are welcome to attend this program.

On Friday evening the NYIPLA and PTIC will host a joint dinner. On Saturday morning, October 8, the NYIPLA and PTIC will co-sponsor a program on NAFTA. This program will commence with a panel discussion on the intellectual property aspects of NAFTA as well as its overall trade implications. The panel will include representatives of Mexico, Canada and the U.S.

from the fields of business, government and law. This discussion will be followed by speakers from the U.S. and Canada who will explain the implementation of NAFTA into the domestic law of those countries.

The program will conclude on Sunday morning, October 9, with the NYIPLA's annual Fall CLE program. Topics this year will include intent-to-use applications, U.S. Customs enforcement of intellectual property rights, and various other topics from the areas of patent law, trademark law, litigation and ethics.

On Saturday and Sunday afternoons registrants will be free to indulge in the excellent facilities offered at The Sagamore resort which include a Donald Ross designed golf course, tennis, racquetball, water sports, fitness center, health spa, walking and jogging. The Sagamore also offers supervised children's programs.

Registration materials will be mailed shortly to members. Further information on the program can be obtained from Brian Slater of Fitzpatrick, Cella, Harper & Scinto, (212) 758-2400.

JAPANESE PATENT DEVELOPMENTS

by John B. Pegram

In this issue, we will discuss one recent amendment to Japanese patent law that has created a new obstacle for applicants and a proposed change which would ease the application procedure for foreigners.

THE TRANSACTION PROBLEM

Translation of technical documents is not an easy task, even for an expert. Filing a U.S.-based patent application in Japan is complicated by greater conceptual and structural differences of Japanese from English than those of Western European languages. The usual way to accomplish a last minute filing is to divide the translation task among several translators, for example, a 21 page application might be divided among seven translators. Until recently, errors and differences in translation between the sections

could be corrected later under Japan's liberal new matter law.

NO NEW MATTER

As a part of its patent harmonization efforts, Japan has amended its law to prohibit adding new matter by amendment of applications filed after December 31, 1994. It appears that the law will be strictly interpreted and that inclusion of new matter by amendment can lead to later invalidation of the patent. Thus, leading Japanese patent attorneys are advising against any amendment of the specification and drawings. The rules concerning amendment during an appeal appear a bit more liberal. Examples, which can be added to pre-1994 Japanese applications, will now be submitted separately. Of course, claims can be amended, but the new law restricts amendments after the response to the first office action.

Since a Patent Cooperation Treaty (PCT) application designating Japan is considered a Japanese application as of its filing, attorneys should consult their Japanese patent attorney before amending the specification or drawings of a PCT application during the international stage to avoid a Japanese new matter rejection or invalidation.

FOREIGN LANGUAGE FILING

The United States has accepted patent applications in foreign languages for over ten years. The European Patent Office accepts applications in a variety of languages, including English, and no translation is required during its pendency. Until recently, however, Japan insisted on applications being filed in its national language.

As a result of discussions with the U.S. Bar/JPO Liaison Council (in which the NYIPLA participates), the JPO recognized that one source of poor quality foreign applications was last-minute translations. While acknowledging that acceptance of foreign language applications, to be followed by a translation, would alleviate the problems of examining poor quality applications, permitting a foreign language document to be the final authority on the contents of the Japanese application appeared to be a major political and cultural obstacle.

Thus, the U.S. participants in the dialogue were pleased to learn of a bilateral agreement between U.S. Assistant Secre-

tary of Commerce Lehman and then JPO Commissioner Asou for Japan to permit the filing of foreign language patent applications commencing July 1, 1995 and for the U.S. to introduce legislation providing for a 20 year patent term. 47 PTCJ 286 (January 27, 1984). From discussions with Japanese patent attorneys, we understand that the foreign language application filed in Japan will be treated as the original application for new matter purposes. The translation must be filed within two months. Later amendments to correct translation errors will be permitted. It appears that the latter provisions will be fairly liberal and will also apply to Japanese applications filed via the PCT.

English language filings in Japan are likely to become a common method for U.S. applicants; however, simply filing a copy of a U.S. application is not recommended. The application should be revised to satisfy Japanese law, practice and style while avoiding introduction of errors, which may be uncorrectable.

COURSEBOOK AVAILABLE

While a Japanese patent attorney should be consulted with respect to specific questions, information can be obtained from the new 500-plus page coursebook, "Japan Patent Practice: Prosecution/Licensing/Litigation," available for \$50 from AIPLA, Suite 203, 2001 Jefferson Davis Highway, Arlington, VA 22202.

John Pegram is a NYIPLA representative on the US Bar/JPO Liaison Council and a partner in the New York City firm, Davis Hoxie Faithfull & Hapgood.

SUMMARY OF 1993-94 COMMITTEE REPORTS

The following is a summary of the reports for some of the more active NYIPLA Committees for the 1993-94 year.

Committee on Antitrust, Inequitable Conduct and Misuse *John E. Daniel, Chair*

During the past year, the Antitrust, Inequitable Conduct and Misuse Committee continued to monitor the lower courts' application of *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus. Inc.*, 113 S. Ct. 1920 (1993). Most significantly, the Federal Circuit affirmed a district court's grant of summary judgment dismissing an antitrust counterclaim in *Carroll Touch Inc. v. Electro Mech. Sys. Inc.*, 27 USPQ 2d 1836 (Fed. Cir., August 24, 1993). The Federal Circuit appears to be proceeding with the same caution as the Supreme Court in delineating the scope of the *Columbia Pictures* "sham" litigation test. Just as the Supreme Court dropped a footnote pointing out that it was not deciding "to what extent *Noerr* permits the imposition of antitrust liability for a litigant's fraud or other misrepresentations," the Federal Circuit in *Carroll Touch* indicated that it "need not decide the applicability of *Noerr* immunity to a litigant who sues on a patent procured by fraud . . . because that issue is not raised here."

The Committee also monitored cases which address the issue of whether Fed. R. Civ. P. 9(b) applies to allegations of inequitable conduct. For example, the courts in *Xilinx Inc. v. Altera Corp.*, N.D. CA, San Jose Div., No. 93-20409 RMW (Comp. Ind. Lit. Rptr. 11/18/93) and *Laitrom Corp. v. Oki Electric Industry Co. Ltd.*, 1994 WL 43823 (E.D.La. 1994) both held that inequitable conduct must be pleaded with Rule 9(b) particularity.

Next year the Committee will continue to monitor the assertion of RICO claims in an intellectual property context, for example, the adding of a RICO counterclaim along with a more usual antitrust counterclaim.

Committee on Continuing Legal Education *Edward E. Vassallo, Chair*

The CLE Committee sponsored a program with Fordham Law School on November 11, 1993 which was very well-received. Two S.D.N.Y. judges participated in the program and over 200 individuals attended. The Association, through the CLE Committee's efforts, also partici-

pated in the Joint Patent Seminar sponsored by the New York, New Jersey, Connecticut and Philadelphia Intellectual Property Associations. This program took place at the Grand Hyatt in New York City on April 26, 1994. Approximately 150 people attended this program.

The CLE is also actively planning, in cooperation with the Patent and Trademark Institute of Canada, a joint program which will take place October 5-9, 1994 at the Sagamore Inn at Lake George, New York. The Canadian Association will sponsor the program on October 5, 6 and 7. Saturday, October 8 will be devoted to a joint program on NAFTA and other issues.

Committee on Economic Matters Affecting the Profession *Brian M. Poissant, Chair*

The Committee on Economic Matters Affecting the Profession continued its activities from last year relating to a new Long Term Disability Insurance Plan to be offered to individual members of the NYIPLA through UNUM. The plan was submitted by Randy Rasmussen of Rand Insurance in Riverside, Connecticut, who made a formal presentation on this matter to the Board. At that time, the Board felt that it would be helpful for an independent third party to review the proposal. The Committee then contacted Timothy Kelly of The Leaton Financial Group in Stamford, Connecticut to review the plan. Mr. Kelly's evaluation stated that although the new disability insurance plan is comparable to other policies, certain aspects of the proposed plan could be improved upon. The Committee hopes to follow up with Mr. Rasmussen concerning possible improvements.

One other matter for consideration by the Committee was the possible liability ramifications to patent attorneys regarding due diligence opinions in connection with stock offerings to the public. This poses a potentially serious problem for patent attorneys, particularly when they are held out as experts in the offering documents and the subsequent performance of the stock does not reach expectations because of various patent-related issues covered by the involved opinions e.g., infringement of third party patents, issuance of patents on the core technology, etc. Unfortunately, the

Committee did not get to substantively consider this issue during the past year but hopes to report to the Association on these issues during the coming year.

Committee on Legislative Oversight and Amicus Briefs

Vincent N. Palladino, Chair

The Committee on Oversight and Amicus Briefs prepared a draft letter for president Bill Gilbreth's signature regarding Senator Dennis DeConcini's bill S. 1854. The president wrote to Senator DeConcini on March 18, 1994, expressing the Association's support for (i) publication of patent applications 18 months after filing; (ii) measuring a patent's term from the application filing date; and (iii) provisional protection between publication and patenting.

The Committee also considered the desirability of preparing an amicus brief in *Hilton Davis Chemical Co. v. Warner-Jenkinson Co. Inc.*, Civ. No. 93-1088 (Fed. Cir. 1993). A decision was made not to prepare a brief in that case involving en banc review of equitable considerations under the doctrine of equivalents.

Committee on Meetings and Forums

Marilyn Matthes Brogan, Chair

In 1993-94, the Meetings Committee conducted a series of eight monthly luncheon meetings at the Cornell Club. Speakers included individuals from the U.S. Customs Service, the U.S. Patent and Trademark Office and NBA Properties, as well as Judge Plager of the C.A.F.C. The luncheons were well attended, averaging from 80 to 100 plus attendees at each luncheon.

The Meetings Committee also coordinated a joint meeting with the International Patent Club, which was held on October 4, 1993. At that meeting, the NYIPLA co-sponsored a talk by PTO Commissioner Bruce Lehman.

Committee on Professional Ethics and Grievances

Alfred P. Ewert, Chair

During the past year, the Committee on Professional Ethics and Grievances investigated two matters raised by Association members. In one matter, a member com-

plained that a former employer was making it impossible for her to obtain employment. The Committee investigated the matter but was unable to find any evidence of impropriety on the part of the accused member.

The Committee also received a complaint concerning a firm that was using the title "Feiereisen & Kueffner, Intellectual Property Matters" for the practice of intellectual property law. The concern was that the name was in violation of the Code of Professional Responsibility of the State of New York because Mr. Feiereisen is a registered patent agent but not a member of the bar. This matter is presently being investigated by the Committee.

Committee on Public Information and Education

Thomas H. Beck, Chair

The activities of the Committee on Public Information and Education primarily involved organizing the 1994 Inventor of the Year program and the William C. Conner Writing Competition. The Committee evaluated three entries for the Inventor of the Year award and made recommendations to the Board of Directors. The Board selected Dr. David Auth, who was nominated by Bill Dippert.

The Committee also evaluated thirteen entries for the writing competition. The Committee recommended that the award go to George Likourezos of Touro College Jacob Fuchsberg Law Center. The Committee also solicited comments on how it could improve and expand its ongoing efforts.

Committee on Publications

Gregory J. Battersby, Chair

The Publications Committee was extremely active during the past year. The NYIPLA *Greenbook* for 1993-94 was distributed to all members in late September, 1993. The Committee is currently working with Pat Razzano to expedite the appointment of Committee assignments for 1994-1995 to again permit an early publication of next year's *Greenbook*.

Publication of the *Bulletin* on a bi-monthly basis continued. Features included a column on NYIPLA Board meetings by Bill Dippert, Recent Decisions of Interest by Tom O'Rourke, Pending Legislation by

Ed Kelly, as well as a President's Corner by Bill Gilbreth. The Committee also ran an interview with Judge Ward of the Southern District of New York which was conducted by Committee member Mary Lee Jenkins.

The Committee launched a new publication this year entitled *Intellectual Property Law Annual 1994*, which included chapters on 1993 highlights concerning patents, trademarks, copyrights, licensing, litigation, foreign practice and other areas. Copies of the *Annual* were distributed free to all NYIPLA members in March of this year. Additional copies are being marketed to non-members at a cost of \$49.95 a copy. It is hoped that this *Annual* will become a regular publication of the Association.

Committee on Trade Secret Law and Practice

Melvin C. Garner, Chair

During the 1993-94 year, the Trade Secret Law and Practice Committee engaged in two projects. First it jointly hosted, with the AIPLA Trade Secret Committee, a meeting with a delegation from the Japan Federation of Bar Associations on December 8, 1993. Japan has recently enacted a trade secret statute. As a result, the bar in Japan is very interested in learning how to implement the legislation, particularly, in learning how to prevent disclosure of secret information during litigation. At this meeting, a brief description of U.S. trade secret law was presented by the AIPLA committee, and the chair of this committee also gave a talk on the use of protective orders in trade secret litigation. Members of both committees provided the Japanese guests with samples of protective orders.

Secondly, the Committee considered law review articles analyzing the Uniform Trade Secret Act, which has been adopted by about forty states and the District of Columbia. The Committee was interested in finding out if there had been any difficulties encountered by litigants or the courts in operating under the Act. In summary, the Committee concluded that there have been no major problems with the Act, except that it has not been adopted in a uniform fashion by the states. Thus, the purpose of the Act, which was to harmonize the laws of the states in this area, has been defeated to a certain extent. ■

NEWS FROM THE BOARD OF DIRECTORS

by William H. Dippert

The Board of Directors met on April 12, 1994. Ira Levy and Peter Saxon were present as guests. William Gilbreth presided.

There was discussion concerning the monies left from a past joint program. Mr. Filardi made a motion that \$3000 be distributed to each association involved in the joint meeting, which motion was seconded by Mr. Goldstein and passed unanimously.

Mr. Gilbreth extended congratulations to Mr. Creel and to Horizon Conference Corp. for a successful Judges Dinner. He also commented that Horizon had indicated that it would like a three-year arrangement with the Association to enable it to upgrade its software, etc. Mr. Gilbreth recommended that such an arrangement be reserved for the incoming President and suggested that it be put on the agenda for the next meeting.

Mr. Gilbreth reported that the ADR Seminar was cancelled for poor attendance, which was due in part to delay from various snow storms. He suggested that after the experience with this program, it may not be good in the future to plan a one-day seminar on the same day as the Judges Dinner.

Mr. Gilbreth reported that the brunch for honored guests was "a big hit." Not only was the brunch very cost-effective, but the judges seemed to enjoy it immensely. Mr. Gilbreth suggested that the brunch be repeated in the future.

There was discussion about the manner in which judges were introduced at the Judges Dinner. Mr. Gilbreth suggested that the Board talk to Horizon about soliciting feedback from the judges in this regard.

Mr. Gilbreth reported that he has written to the Governor and our Senators concerning the Association's willingness to provide input on intellectual property matters. There has been no response at all thus far, and he will pursue this further.

With regard to the Madrid Protocol seminar, Howard Barnaby reported that it was a great success. There were 62 attendees, 22 of whom were from the Association.

Mr. Goldstein reported that plans for the annual meeting are progressing. Ira Levy, who is working with Mr. Goldstein on the Annual Dinner, reported that their committee is considering various ways to increase attendance.

Mr. Gilbreth reported that the Public Information and Education Committee will make the decision on the writing competition and will report to Board members in about two weeks.

There was extensive discussion concerning selection of the Inventor of the Year. Of the three candidates nominated by the Public Information and Education Committee, Dr. David C. Auth, inventor of the ROTABLATOR® device and Chairman, CEO and President of Heart Technology, Inc., was chosen as the 1994 Inventor of the Year.

Mr. Gilbreth led discussion concerning the program in Washington to celebrate Judge Rich's 90th birthday. Peter Saxon will attend this meeting on behalf of the Association, at which time he will present a scroll to Judge Rich from past Presidents of the Association. By unanimous motion, Judge Rich was elected to life membership.

Mr. Dippert presented a list of 17 applicants for membership in the Association. By unanimous motion the applicants were approved for membership.

The Board of Directors next met on May 26, 1994, following the Annual Meeting. Pasquale Razzano presided.

Mr. Razzano led discussion concerning a long-term arrangement with Horizon Conference Corp. Mr. Razzano appointed a special committee consisting of Mr. Goldstein and Mr. Barnaby to pursue the possibility of the two- or three-year agreement with Horizon and to report back to the Board.

Mr. Filardi proposed that the Association use profits from joint seminars for how-to seminars for young lawyers. After a brief discussion of this topic, it was agreed that the topic would be held over to another meeting.

In addition, Mr. Barnaby reported that Professor Hanson of Fordham wants the Association to participate in an ADR program tentatively scheduled for next April. The consensus of the Board was to pursue this. Mr. Barnaby will confer with Charles Baker.

PENDING LEGISLATION

by Edward P. Kelly

PATENTS

This past winter, the Clinton administration announced that it would not resume negotiations with U.S. trading partners to harmonize the various patent laws of each country. Those negotiations included, among other issues, proposals to convert the U.S. patent system to a first to file system rather than a first to invent. This issue is therefore on hold at least for the near future. Nevertheless, there have been significant international developments that will affect U.S. patent law. For instance, the adoption of the GATT agreement led to the introduction of fast track legislation that provides for a twenty-year patent term that would run from the date of filing of the application (many countries already operate on this system).

Additionally, the Clinton administration recently fulfilled a promise to Japan by introducing legislation in the House through Rep. William Hughes that would provide for a twenty-year patent term from the date the application is filed in exchange for Japan's promise to permit the filing of applications in English at its patent office. The House bill also provides for filing of provisional applications which would consist of specification and drawing but would not require claims.

Last winter, Senator DeConcini (D-Ariz.) also introduced legislation (S. 1854) that would extend the patent term from seventeen years from the issuance of the patent to twenty years from the date that the patent application was filed. Unlike the House bill, DeConcini's bill also contained a provision that provided that a patent application would be published eighteen months after filing. Patent applications are currently maintained in secret at all times until the issuance of the patent.

At the time he introduced his bill, Senator DeConcini stated that the 20-year term running from the date of filing the application would avoid perceived problems in U.S. industry where patent applicants may have intentionally slowed the issuance of

their patent and obtained the patent as much as 10 years after the filing date—thereby extending the right to exclude granted by the patent law. According to DeConcini, these patents have a detrimental effect on certain industries because they surface years after other companies have already invested in these industries. In some instances, a company receives a patent on basic technology after a long delay in the application thereby gaining a competitive edge over other companies. According to DeConcini, the competitive edge is not justified because the disclosure of the information never took place under the current patent system until the issuance of the patent.

RECOVERY OF ATTORNEY FEES AGAINST U.S. GOVERNMENT

A patent owner may recover reasonable and entire compensation from the government's unauthorized use of the patented invention in patents brought against the government in the United States Claims Court. See 28 U.S.C. 1498.

Representative Martin Frost (D-Texas) recently introduced a bill that would amend section 1498 to provide that reasonable and entire compensation shall include the owner's reasonable costs in pursuing the action. Representative Frost later amended his bill to clarify that reasonable costs include reasonable fees for expert witnesses and attorneys. However, those remedies would only be available to independent inventors, a non-profit organization, or an entity that held no more than 500 employees at any time during the five-year period preceding the use or manufacture of the patented invention by or for the United States.

Representative Frost's bill has been referred to the Judiciary Committee.

ACCELERATING THE PROVISIONS OF THE GATT AGREEMENT

In past year, the United States has signed the North American Free Trade Agreement with Mexico and Canada and concluded the negotiations of the Uruguay round of GATT-TRIPS Agreements. Both of these agreements contain significant intellectual property reforms in the form of multilateral agreements where each coun-

try agrees to afford reciprocal intellectual property protection. While the TRIPs Agreement effects 115 nations, not all of the nations are required to accede to the requirements of the TRIPs agreement immediately. Developed countries like the United States have one year after the execution of the TRIPs Agreement to revise their intellectual property laws. However, certain developing nations have five years from the date of execution of the TRIPs Agreement and the least developed countries have ten years to bring their domestic laws into compliance. If these countries allow the full five and ten years respectively to pass before conforming their laws, then the losses incurred by U.S. businesses for failure to protect their intellectual property in foreign countries will continue in the interim.

Senator William Roth (R-Delaware) has introduced a bill (S2173) to give developing countries an incentive to meet their obligations under the TRIPs Agreement prior to the agreed upon time limits. Included in the bill are provisions that would prevent the Administration from entering free-trade agreements with any country that has not already fully implemented the TRIPs provision. Another provision would allow the U.S. Trade Representative under the special 301 provision to consider whether a country has implemented TRIPs. The special 301 provision allows the U.S. Trade Representative to identify and impose sanctions against those countries that deny adequate protection for intellectual property.

The Bill has been referred to the Committee on Finance. ■

MARK YOUR CALENDAR!

October 7-9, 1994

The New York Intellectual Property Law Association and the Patent and Trademark Institute of Canada

Joint CLE Program

at The Sagamore Resort
in Lake George, NY

RECENT DECISIONS OF INTEREST

by Thomas A. O'Rourke

PATENTS

In *In re Schrader*, 30 USPQ 2d 1455 (Fed. Cir. 1994), a decision issued April 13, 1994, the Court of Appeals for the Federal Circuit affirmed a decision of the Board of Patent Appeals and Interferences which rejected all the claims pending in an application for lack of statutory subject matter under 35 U.S.C. §101. The Federal Circuit determined that the claims at issue, which were directed to a method for competitively bidding on a plurality of related items, such as continuous tracts of land, claimed an unpatentable algorithm.

The application covered a novel method for conducting an auction, in which the items for auction are offered to bidders and entered into a record. Bids are then accepted on the items. The patent claims covered a method of determining from the bids a "completion," which is defined in the specification as completing a sale of all the items being offered at the highest offered total price. See *id.* at 1546.

The Board had affirmed the Examiner's rejection on the grounds of lack of subject matter. The Board concluded that the claims (1) covered only information exchange and data processing, (2) covered only a mathematical algorithm or mathematical calculation steps, and (3) were unpatentable under *Ex Parte Murray*, 9 USPQ 2d 1819 (Board of Patent Appeals and Interferences 1988), under 35 U.S.C. §101.

On appeal, the Federal Circuit cited the *Freeman-Walter-Abele* test for determining whether a patent claim contains a mathematical algorithm, which calls for the following analysis: (1) whether a mathematical algorithm is recited in the claims, and (2) whether the claim is directed to an algorithm that is not applied to or limited by physical elements or process steps.

On appeal, the CAFC first determined that the claims at issue contained an algorithm. Second, despite the applicant's arguments, the CAFC concluded that the claims cover only an algorithm. The Court

found that the only physical effect or result covered by the claims is the entering of bids on a record. The Court stated that the step of entering data into a record is inherent in any algorithm, and as such does not make the claim more than an algorithm. *See id.* at 1458. The CAFC contrasted other cases in which it had concluded that the claims covered more than an algorithm by pointing out that in those cases the "claims all involved the transformation or conversion of subject matter representative of or constituting *physical activity or objects.*" *Id.* (emphasis in original). The Court added that the applicant's claims "except for incidental changes to a 'record,' do not reflect any transformation or conversion of subject matter representative of or constituting *physical activity or objects.*" *Id.* (emphasis added).

TRADE SECRETS

Implied duty not to disclose a business owner's manufacturing process was held to have been created when the process was revealed during the course of negotiations for the sale of a business in *Phillips v. Frey, CAS, No. 93-5162, May 11, 1994.*

In *Phillips*, the plaintiff designed a single-pole tree stand for deer hunters. The stand was manufactured by Phillip's Company, Ambusher, Inc. The defendants, Arnold, Collins and Frey, approached Phillips with the intention of buying the stands; however, the sale never went through. The defendants eventually produced copies of Phillip's stand under the name Buck-Pro Inc. resulting in the suit by Phillips for misappropriation of his product design and manufacturing process. Phillip's alleged process was divulged in a videotape given to the defendants and also in person by Phillips while giving on-cite tours of Ambusher. At the time Phillips sent the videotape to the defendants, he indicated that there was a specification book, without which "this information is no secret." The Court enjoined the sale of Buck-Pro stand and accessories and awarded Phillips actual and punitive damages.

Buck-Pro (Collins, Arnold & Frey) appealed and argued that a finding of trade secret misappropriation amounted to a miscarriage of justice as there was no trade secret disclosed. They argued that the only

trade secret was the specification book which they never received. Alternatively, Buck Pro argued that its products were designed and manufactured by reverse engineering and cited *E. I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, (5th Cir. 1970). Judge Garza discussed factors that establish trade secret misappropriation under Texas law and stated that misappropriation was established by showing; (a) that a trade secret existed, (b) that it was acquired through a breach of confidence, and (c) that it was used without authorization from the plaintiff. In rejecting the first argument, and finding that the manufacturing process was misappropriated and not the design, he defined a trade secret as any formula used in business which gives the owner the opportunity to obtain an advantage over his competitors who do not know how to use it. He added that this trade secret was divulged during business negotiations in the videotape and in person on Ambusher's on-cite tours.

In his rejection of the arguments in the alternative, Judge Garza acknowledged that trade secret law does not protect against discovery by fair and honest means such as an independent accidental disclosure or reverse engineering. However, he found that Buck-Pro had acquired the process through improper means. Further, he was not persuaded by Buck-Pro's reliance on the proposition that an implied confidential relationship may be defeated if the disclosing party voluntarily conveys a trade secret to another without litigation upon its use, a proposition cited in *Burten v. Milton Bradley Co.*, 763 F.2d 461 (1st Cir. 1985). In rejecting this argument, Judge Garza pointed out that, where the actions of the parties and the nature of their relationship taken as a whole establish the existence of a confidential relationship, it is not necessary that there be an express agreement. Judge Garza stated that Phillips took the precaution not to disclose the secret to anyone until the sales negotiations began; at this time Phillips disclosed a confidence that placed Buck-Pro under a duty to keep the secret. He further distinguished *Smith v. Snap-on Tools Corp.*, 833 F.2d 578 (5th Cir. 1988) in which no confidential relationship was found to have existed between a corporation and an inventor who gave a trade secret on his own initiative without requesting that the information be held in

confidence. He found that, although Phillips never requested that the secret be held in confidence, both parties mutually came to the negotiating table and the disclosure was made within the course of negotiations for the sale of business and that the defendants should have known that the information was a trade secret and disclosed in confidence. The district court's judgment was affirmed.

COPYRIGHTS

In *Satellite Broadcasting and Communication Association of America v. Oman*, No. 93-8395, (11th Cir. March 24, 1994), the U.S. Appeals Court for the Eleventh Circuit held that the Copyright Office's ruling that satellite carriers are not "cable systems" eligible for compulsory licensing under Section 111 of the Copyright Act was a valid exercise of the Copyright Office's statutory authority to interpret the Copyright Act.

In 1992, the Copyright Office promulgated a new regulation providing that satellite carriers were not cable systems within the meaning of Section 111. See 57 Fed. Reg. 3284, 3290-91. Section 111 of The Copyright Act defines a "cable system" as follows:

A facility located in any state — that in whole or in part receives signals transmitted or programs broadcast by one or more television broadcast stations — and makes secondary transmissions of such signals or programs by wires, cable or other communications channels to subscribing members of the public who pay for such a service.

The case arose when the Satellite Broadcasting and Communication Associations (hereafter referred to as SBCA), collectively with other satellite carriers, brought an action challenging the Copyright Office's 1992 regulations.

The district court found on summary judgment for SBCA and held that the regulations conflicted with the Eleventh Circuit's judgment in *National Broadcasting Co. v. Satellite Broadcast Networks, Inc.*, 940 F.2d 1467, (11th Cir. 1991).

The Court of Appeals reviewed the district court's grant of summary judgment. The Court first considered the grounds on which the Copyright Office promulgated the regulations. Judge Kravitch observed that the 1992 Copyright Office rule

is based on the following grounds:

1) Satellite facilities are not located in any state, let alone in the same state. The copyright office found this to be a critical requirement of section 111(f);

2) Section 111(f) is "clearly directed to localized retransmission services, based on the section's provision that two or more cable systems in contiguous communities — operating from one headend" constitute one "cable system" for purposes of determining royalties;

3) The definition of "a distant signal equivalent" by reference to television stations within whose service area the cable system is located is similarly inapplicable to satellite carriers;

4) The legislative history is devoid of any indication that Congress considered satellite carriers when enacting the compulsory license scheme.

Citing *Chevron U.S.A. Inc. v. National Resources Defense Council, Inc.*, 467 U.S. 837 (1984), the Court further noted that the Copyright Office's authority must be upheld unless their actions are arbitrary, capricious or mani-

festly contrary to the provisions of the Copyright Act. The Court declined to follow *Lechmere Inc. v. NLRB*, 112 S.Ct. 841 (1992) which stands for the proposition that a court once having determined clear meaning of a statute must adhere to its decision in terms of the *stare decisis* rule. In declining to follow *Lechmere* as argued by appellees, the Judge distinguished the statutory scheme in *Lechmere*, observing that it was clear that in the Section in question, § 8(9)1 under NLRA, that the class of people protected were employees. He stated that in the instant case, Section 111(f) was vague as to whether it includes satellite carriers. He further observed that the Court of Appeals was at liberty to review its interpretation in *Satellite Broadcast Networks* because at the time it was decided the clear meaning of Section 111(f) was not addressed.

The Judge concluded that the Copyright Office validly exercised its authority, thus reversing and remanding the decision of the District Court.

The New York Intellectual Property Law Association, Inc.
 Telephone (212) 697-4028
 Telefax (212) 682-9648

July/August 1994
 Volume 34 Number 6

The BULLETIN is published periodically for the members of The New York Intellectual Property Law Association. Annual Non-Member Subscription is \$15.00/yr. Single copies \$2.00. Correspondence may be directed to the Bulletin Editor, Gregory J. Battersby, P.O. Box 1311, Three Landmark Square, Stamford, CT 06904-1311. Telephone No. (203) 324-2828.

Officers Of The Association
 1994 - 1995

President: Pasquale A. Razzano; President-Elect: Thomas L. Creel; 1st Vice President: Martin E. Goldstein; 2nd Vice President: Edward V. Fillard; Treasurer: Howard B. Barnaby; Secretary: William H. Dippert; Immediate Past President: William J. Gilbreth.

Committee on Publications: Chairman and Bulletin/Greenbook Editor: Gregory J. Battersby.

Editorial Staff
 Marylee Jenkins, Serle Ian Mosoff, Thomas A. O'Rourke, Lisa Pieroni, Henry Sacco, Charles J. Zeller.

The views expressed in The BULLETIN are the views of the author except where Board of Directors Approval is expressly indicated. Copyright © 1994 The New York Intellectual Property Law Association, Inc.

All Rights Reserved

JOIN THE EXPERTS.

Subscribe to: *The Licensing Journal*®

The Licensing Journal is the exclusive publication for people who need top notch advice in the rapidly growing field of licensing. Every issue brings you expert information from a panel of professionals who are leaders in the licensing industry and in the intellectual property and entertainment law bars. And, each key topic is addressed in an authoritative and thorough manner, offering information on pertinent subjects such as: License Agreements; Trademarks; Trade Secrets; International Trade Commission Actions; Dilution; Copyrights; Patents; and Technology Licensing. In addition, there are monthly features covering highlights of recent licensing law, events in the merchandising business world, and pertinent book reviews.

If you act now and order a year's prepaid subscription, you will receive a handsome three ring binder to organize and maintain your *Licensing Journal* library, as a free gift.

Name _____
 Firm _____
 Address _____
 City _____ State _____ Zip _____
 Country _____ Telephone _____

- One Year Subscription - U.S. \$170
- Two Year Subscription - U.S. \$280
- One Year - Foreign \$185
- Two Year - Foreign \$300

Mail to:
The Licensing Journal
 P.O. Box 1169, Stamford, CT 06904-1169