



THE NEW YORK PATENT, TRADEMARK AND  
COPYRIGHT LAW ASSOCIATION

# NYPTC BULLETIN

VOLUME 25

MARCH/APRIL 1986

NUMBER 4

## News From the Board of Directors

At its October, 1985 meeting, the NYPTC Board of Directors adopted the following resolution:

Resolved, that this Association supports enactment of legislation establishing that each importation into, and each first sale in, the United States, of a product made by a process patented in the United States, shall be an act of infringement of that process patent, irrespective of where the process is carried out; but opposes imposing liability for infringement on subsequent users or sellers of that product.

The Board also voted to accept the invitation of Judge Lawrence W. Pierce of the Second Circuit Court of Appeals to participate in a patent-related exhibit in

November, 1987 at the U.S. Courthouse in Foley Square.

At its November, 1985 meeting, the Board voted to communicate its endorsement of Kenneth Kuffner, Donald Banner, Donald Duval and Douglas Henderson as candidates for the Court of Appeals for the Federal Circuit.

During the February, 1986 Board Meeting, there was a report that John Tramontine, Dave Mugford and Herb Blecker had met with Grover Rees, Deputy Assistant Attorney General of the Department of Justice, to express the Association's desire to fill a future vacancy on the Court of Appeals for the Federal Circuit with a qualified candidate having an expertise in patent law.

counterfeiting suit differs from a typical trademark litigation. The penalties against the counterfeiter should exceed the ordinary cost of doing business in order to give the trademark owner a reputation of aggressiveness in the relevant industry. This will also cause counterfeiters to go elsewhere and will result in more favorable settlements.

Springut recommended that one group should handle all counterfeiting matters, whether in-house or outside. This permits the group to maintain a total picture of a company's counterfeiting problems.

At the commencement of a litigation, Springut suggested certain procedural steps to assure adequate relief, such as ex parte motions for expedited discovery, temporary restraining orders and seizure orders. As many issues as possible should be resolved on the papers. Since many of the issues in these discovery and motion papers usually are the same, they are adaptable for use in other cases.

Springut thought that motions for summary judgment also were useful in resolving the issue of liability where there were no genuine issues of fact regarding ownership and validity of the marks and registrations, the defendant's sales of goods of the type claimed to be counterfeit and the non-genuine nature of the goods. A successful motion for summary judgment will save money by eliminating the need for the plaintiff's employees to get involved at the trial. It also will foster settlement by showing a defendant which way the wind is blowing.

In order to obtain necessary information from a defendant, Springut recommended the use of depositions and also subpoenas of bank and telephone toll records to learn the extent of the counterfeiting activities.

Springut explained that prior to the Counterfeiting Act, attorney's fees were awarded under the Lanham Act in exceptional cases. Under the new Act, this item and treble damages are automatically recovered against a knowing counterfeiter in the absence of extenuating circumstances.

## Luncheon Meeting Hears Lecture on Counterfeiting

Milton Springut and Robert S. Groban, Jr., recently spoke at a luncheon meeting of the Association on recent developments in the civil and criminal remedies against counterfeiting. Milt Springut began the discussion of civil remedies with the observation that product counterfeiting is the fastest and most profitable growing business, and possibly the second oldest profession. He cited statistics which conservatively estimated \$20 billion a year in direct losses due to counterfeiting.

While counterfeiting previously was primarily a civil matter, Springut explained that the Trademark Counterfeiting Act has added significant criminal remedies. The new Act was expected to have a deterrent effect. However, it appears at least to date, that it is business as usual in the world of counterfeiting.

Springut suggested that trademark

owners have been left primarily to their own devices in protecting their marks. Anticounterfeiting programs can be expensive, but unfortunately they should be considered a necessary expense of doing business.

A first step in an enforcement program is the cease and desist letter. The letter should request the recipient to cease use of the counterfeit mark, identify the supplier of the counterfeit products, hold all remaining inventory of the products and state the full extent of the recipient's activities in the counterfeit product. Springut recommended sending a cease and desist letter where there is a relatively small amount of goods and where the recipient of the letter is perceived to be somewhat reputable, such as a retailer.

A subsequent step in the program is litigation. Springut emphasized that a

Bob Groban next discussed the criminal remedies available for private parties against counterfeiting. He warned that criminal contempt proceedings had constitutional restrictions and discovery limitations which are not a factor in civil proceedings. This requires the owner to make its case on its own. A trademark owner also may have an obligation to a defendant and must satisfy a heavier burden of proof, namely, proof beyond a reasonable doubt, to get a contempt conviction. Rules of evidence are strictly enforced and mistakes during a proceeding may be fatal to a claim because of a defendant's protection against double jeopardy.

Groban explained that a private party had two alternatives in a criminal matter: either look to a government agency or seek the appointment of a special prosecutor. A prerequisite in either case is that the defendant's conduct be either a criminal offense or in contempt of a prior court order.

Because of the Speedy Trial Act, a trademark owner must be prepared to try a criminal case the very next day. As a result, it should complete any investigation and be able to show probable cause before going to the authorities or to the court. Since it is often difficult to convince the authorities to take action or a court to appoint a special prosecutor, Groban recommended developing a scenario for criminal sanctions as early as possible. Since investigators' reports may have to be turned over to a defendant, care should be taken to make sure these reports are detailed and accurate.

Groban explained that appointment of special or private prosecutors had its origins in the British law system and was not a novel procedure. He noted that approximately thirty states allow private prosecutors in one form or another. He warned that it is an expensive procedure, although it does offer considerable

deterrent effect because of the possibility of incarceration. Discovery obligations on a special prosecutor are great since he must review all files and disclose all exculpatory statements.

Application for appointment of a special prosecutor is made under Rule 42(b) of the Federal Rules of Criminal Procedure where there has been contempt of an existing injunction. It is necessary to go back to the issuing court and show probable cause that a willful violation has been committed. The applicant may also want to show that the matter had previously been presented to the appropriate authorities who had decided not to take action, although presently there does not appear to be a legal requirement to do this. The application should also contain a showing of the legal basis for relief and a statement that criminal contempt is being sought. Groban suggested that before a claim for civil contempt is added you should consider the discovery limitations on a criminal claim imposed by the Fifth Amendment.

Groban warned that the Speedy Trial Act could place a trial on criminal contempt shortly after the proceeding is commenced. A defendant may also request a jury trial. This will result in a tight schedule for pretrial motions and discovery. It also may be necessary to seek a protective order for proprietary information since the proceeding is public.

Groban explained that a special prosecutor did not have the ability to confer immunity or to plea bargain. However, he can recommend that the contempt charge be dropped or that a lesser sentence be imposed if a defendant cooperates. A conviction has brought fines payable to the trademark owners and prison terms ranging up to five years. One court ordered the defendant incarcerated until its fine was paid.

inventor of a new and technically advantageous process is denied exclusive enjoyment of the benefits of his invention when a person who actually practices that process is not amenable to suit, even though the product produced is ultimately introduced into commerce in the United States. This results in substantial diminution of the value of process patents and, therefore, the incentive to make process inventions and disclose them to the public. Inventors are encouraged, instead, to keep their process technology secret to avoid its appropriation by others against whom the inventor has no redress under the patent laws.

To encourage both innovation and dissemination of technical information, process patentees should be provided more extensive remedies than they now have, as S.1543 intends to do. Our association supports, and urges adoption of, legislation that will effectuate that intent.

In making our suggestion for improvements in the bill, we are mindful of the fact that the principal cause of unfairness is the use of the patented process by foreign companies, outside the reach of the present patent law, who then directly or indirectly introduce the product into United States commerce. Legislation closing that loophole may well be all that is required. The patent holder, whether U.S. or foreign, already has a direct remedy against persons who carry out the patented process in the United States. We also are mindful, however, of the consideration that the legislation should not be, or even appear to be, discriminatory against our trading partners.

#### *Suggested Improvement*

S.1543 would attach liability for infringement of a process patent not only to importation of the product, but also to every sale or use of that product in the United States. While we believe that process patentees need an effective remedy against unauthorized use of their technology, our concern is that the remedy proposed goes beyond what the patentee needs. Imposition of liability on users and sellers who are several steps remote from the person who actually uses the process technology may create an unwieldy and unnecessarily burdensome system.

Our suggestion is that the acts of infringement be defined as the importation into, or the first sale in, the United States of the product produced by the patented process. Subsequent sellers and users of the product would, under our proposal, not be infringers of the process patent.

The best explanation of the reasoning underlying our proposal is by way of an illustrative example. Assume Company A holds a patent on a process for making

---

## Testimony of New York Patent, Trademark and Copyright Law Association on Senate Bill S. 1543

### *Introduction*

The New York Patent, Trademark and Copyright Law Association strongly supports the enactment of legislation granting additional, and needed, protection to holders of U.S. process patents. We make the following suggestion to improve S.1543, so that it will provide an effective remedy to the patentee without placing new and unnecessary

burdens on domestic manufacturers and retailers.

### *Summary of Suggested Improvement*

We suggest that the extension of liability provided by the bill be limited to persons who import or make the first sale in the United States of the product produced by the patented process.

### *Background*

Under our present patent law, the

rubber. Company B (a domestic manufacturer) makes rubber which it sells to a tire manufacturer, who sells its tires to an automobile manufacturer, who sells its cars to consumers. Under the present bill, charges of infringement of the process patent could be made against every person in that chain.

The patentee's rights normally will be adequately protected if he has a remedy against the first person who introduces the rubber into United States commerce. That person also will be the United States entity in closest proximity to the person actually carrying out the process and, therefore, the entity that can most effectively know, and control, the process technology used. Where the process is carried out by a domestic manufacturer, it normally will make the first sale. Thus, under our suggestion, there would be no expansion of the current liability of domestic manufacturers and retailers for patent infringement.

If liability for infringement is not cut off at the first sale or importation, Company B will, as a practical matter, be required to indemnify people remote from it in the chain of distribution. It will run the risk of being forced to defend a plurality of suits in inconvenient forums. Even absent a charge of infringement, it may be forced to disclose its secret process technology to a series of users and sellers to reassure them, or allow them to make their own determination, that they are not indirect infringers of any existing process patents.

Furthermore, each person in the chain of distribution usually would be warranting, under Section 2-312(3) of the Uniform Commercial Code, that the product it delivers does not infringe a process patent. Even if such a warranty were expressly excluded, those persons may be deemed joint tortfeasors (infringers) with joint and several liability. Going back to our example, if the patentee chooses to sue the tire manufacturer, and the value of the tire greatly exceeds the value of the rubber raw material, Company B may face damage liability far in excess of the revenue it derives from selling the rubber.

Because importation or first sale would become acts of direct infringement, a foreign manufacturer could be liable as an active inducer of that direct infringement, notwithstanding that the foreign manufacturer did not conduct any infringing activity in the United States, by application of existing law. See, for example, *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137 (7 Cir. 1965), *Engineered Sports Products v. Brunswick Corp.*, 362 F.Supp. 722 (D.Utah 1973) and *Hawni Werke Koerber & Co., K.G. v. Molins Ltd.*, 183 USPQ 168 (E.D.Va. 1974). Thus the holder of a U.S. process patent could have a remedy directly against the foreign manufacturer.

In summary, our Association believes that S.1543 can be improved by a more careful balancing of the needs of process patentees and the burdens imposed on domestic manufacturers and retailers. That

balance can be achieved by defining, as acts of infringement, the importation into the United States, or the first sale in the United States, of a product made by a patented process.

*Proposed Amendment to S.1543*

In the amendment to Section 154 of Title 35, delete "using or selling products produced thereby throughout", and substitute—making the first sale in the United States of a product produced thereby—; and delete the comma after "into".

In the amendment to Section 271 of Title 35, delete "uses or sells" and substitute—makes the first sale—.

*Further Comments*

Our Association understands that other Associations and interested groups will present testimony favoring the deletion of the pre-existing rights provisions of S.1543 and the addition of the presumption provisions found in H.R. 1069 (as proposed new Section 295 to Title 35). We support those proposals but believe it is unnecessary for us to add to the record concerning them. We do note that the presumption provisions, if included, would require revision (by changing "use or sale" to—importation or first sale—) to conform to our suggested amendments to the other sections.

John O. Tramontine, *President*  
The New York Patent, Trademark and  
Copyright Law Association

## Patent Arbitration is Becoming Recognized as a Viable Alternative to Court Litigation

When President Reagan on August 27, 1982 signed Public Law 97-247 the impediments to the settling by arbitration of disputes involving the validity and infringement of patents were removed. P.L. 97-247 (35 U.S.C. and 294) became effective February 27, 1983 and agreements to arbitrate pending as well as future patent disputes could be enforced under Title 9, U.S. Code. (The United States Arbitration Act.)

What has happened since then? Many articles such as Paul D. Carmichael's "The Arbitration of Patent Disputes", *The Arbitration Journal* 1983 Vol. 38 No. 1, p. 3, and John W. Schlicher's "The Patent Arbitration Law: A New Procedure for Resolving Patent Infringement Disputes", *The Arbitration Journal* Vol. 40, No. 4, p. 7, December 1985, have been published.

The American Arbitration Association working with attorneys whose clients were instrumental in securing passage of the

legislation prepared "Patent Arbitration Rules" effective June 1, 1983 that were carefully tailored to make the arbitral process a desirable way for the settlement of disputes involving patents. A blue ribbon panel of patent arbitrators was also established at AAA.

The American Arbitration Association held seminars in New York and on the West Coast to discuss the system with patent attorneys. Over the years the patent bar had been conditioned to consider litigation as the only ultimate recourse when negotiators failed to reach a settlement. Many patent law associations have held seminars or dedicated programs to updating the patent bar on this alternative method of dispute settlement.

At a seminar of the N.J. Patent Law Association held recently, about twenty-five percent of the attorneys present said they would recommend to their clients that consideration should be given to the

use of arbitration for the settlement of disputes involving patents. Presumably, many members of the patent bar, when preparing license agreements, are including arbitration clauses of varying scope and detail. A recent survey of members of your association, the results of which will be reported in detail later, shows that many counsel are now routinely including arbitration clauses in license agreements. This is particularly true in licenses with foreign parties. Such "new" licenses may not have had sufficient time for disputes to have arisen and been submitted under the Patent Arbitration Rules, though eventually they may appear in the statistics. Furthermore, patent arbitration can also occur under the auspices of other organizations, such as the International Chamber of Commerce, or indeed under procedures adopted specifically for the dispute at hand. Since the arbitration process is private, there is no way of knowing just how many agreements have arbitration clauses. Only if there has been an award and the notice has been given to

(Continued on page 4)

## PATENT ARBITRATION

*(Continued from page 3)*

the Commissioner (35 U.S.C. and 294 [d] and [e]) is the matter made public. A check made as of the end of 1985 revealed that no such notices had been filed.

The statistics of the A.A.A. for 1985 indicate that eighteen cases involving patent royalties had been filed under the Commercial Arbitration Rules. Presumably these cases involved only the "commercial aspects" of the license and did not raise issues of validity or infringement.

The statistics also reveal that two cases were filed in 1985 under the Patent Arbitration Rules. Interestingly, as very often occurs in arbitration, both cases were settled and there were no awards—and nothing to file with the Commissioner.

J. Russell Juten

Thomas L. Creel,  
*Chairman Arbitration Committee*

### The New York Patent, Trademark and Copyright Law Association, Inc.

Volume 25      March/April 1986      Number 4

The BULLETIN is published periodically for the members of the New York Patent, Trademark and Copyright Law Association. Annual Non-Member Subscription is \$15.00/year. Single copies \$2.00. Correspondence may be directed to the Chairman-Subcommittee-Bulletins, Howard B. Barnaby, 330 Madison Avenue, Suite 206, New York, NY 10017. Telephone (212) 682-9640.

#### OFFICERS OF THE ASSOCIATION 1985-86

PRESIDENT, John O. Tramontine; PRESIDENT-ELECT, Karl F. Jorda, FIRST VICE PRESIDENT, Paul H. Heller; SECOND VICE president, David H.T. Kane; TREASURER, Mary-Ellen M. Timbers; SECRETARY, Peter Saxon.

#### EDITORIAL STAFF

Committee on Publications, Elsie M. Quinlan, Board of Directors, Liaison; Howard Barnaby, Chairman and Bulletin Editor; Susan H. Rouch, Greenbook Editor.

#### MEMBERS

Howard B. Barnaby, Editor; Gregory J. Battersby, Bradford Breen, Theresa M. Gillis, Gary Gittelsohn, Charles Zeller.

©1986 The New York Patent, Trademark and Copyright  
Law Association, Inc.  
All Rights Reserved.