



THE NEW YORK PATENT, TRADEMARK AND
COPYRIGHT LAW ASSOCIATION

NYPTC BULLETIN

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PRESIDENT'S CORNER

At the last meeting of the Board of Directors most of our time was spent discussing two proposed rule changes by the Patent Office which are of significance to practitioners. These involve a broadening of the public's right to participate in reexamination procedures, and a proposal to modify Rule 56 to establish a "but for" standard, and to facilitate a purge of any conduct contrary to the Rule. The Board was opposed to the proposed changes in the reexamination procedure and had reservations about the proposed changes in the standard of conduct under Rule 56, which will be addressed at its next meeting.

REEXAMINATION PROCEDURES

The Patent Office has proposed permitting greater participation by the public in reexamination procedures (1086 OG 445-448, January 5, 1988). The Amendment provides a person requesting reexamination with the opportunity to respond to any position taken by the patent owner during the reexamination proceeding and includes Section 112 as an issue to be addressed. Under the proposal, the requestor has the opportunity to appeal decisions which are favorable to the patentee to

the Board of Patent Appeals and Interferences and to the United States Court of Appeals for the Federal Circuit.

The notice by the PTO states that this procedure will provide a more expeditious and less costly alternative to patent litigation and "to obtain a decision as to the patentability of subject matter which may be given preclusive effect."

Opponents of these amendments point out that the Patent Office has in the past had difficulty in dealing with such inter-parties disputes. Concern exists that this procedure

would, in fact, delay the progress of litigations. The proposal also fails to address deficiencies from the standpoint of the patent owner, i.e., there are differences in the law applied by the courts and by the PTO in a reexamination proceeding, such as the presumption of validity, burden of proof and interpretation of claims. A more fundamental question is whether our judicial and patent systems should move toward the removal of the issue of patent validity from the Federal District Courts and vest that responsibility in the PTO.

CALENDAR OF EVENTS

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| March 23, 1988 | Joint Meeting with Association of the Bar of the City of New York. Judge William Mulligan will speak on "Opportunities for Minorities in Property Law" at the Bar Building. |
| March 24-25, 1988 | ABA-PTC Section: Intellectual Property Law-Agency, Licensing, Litigation & Corporate Practice (Arlington, VA). |
| March 25, 1988 | NYPTCLA 66th Annual Dinner in Honor of the Federal Judiciary. Hon. Charles L. Brieant, Chief Judge, United States District Court for the Southern District of New York, Guest Speaker (Waldorf-Astoria Hotel, 6:30 p.m., New York City). |
| April 21, 1988 | Conn. Patent Law Assoc. Annual Judges Dinner. Hon. Jean F. Bissell, U.S. Court of Appeals for the Federal Circuit, Guest Speaker (New Haven, CT). |
| April 25-26, 1988 | PLI: Current Developments in Copyright Law (New York City). |
| April 26, 1988 | Fourth Annual Joint Seminar Program (The New York Penta Hotel, New York City, 9:15 a.m., \$95.00 Registration Fee). |
| May 1-4, 1988 | U.S.T.A. Annual Meeting (Phoenix, AZ). |
| May 4-6, 1988 | AIPLA Spring Meeting (Philadelphia, PA). |
| May 19, 1988 | Annual Meeting of the Association. Topic to be announced. |
| May 20, 1988 | N.J. Patent Law Assoc.: Jefferson Medal Dinner; Hon. Pauline Newman, Circuit Judge, United States Court of Appeals for the Federal Circuit, Recipient (Florham Park, NJ). |
| June 19-22, 1988 | Assoc. of Corp. Patent Counsel Summer Meeting (Lake George, NY). |

FINAL NOTICE

Support the *Inventor Of The Year* program by sending your nomination to Julius Fisher, 405 Lexington Avenue, New York, New York, 10174. Ph: (212) 986-4090. The period to submit nominations is extended to April 15, 1988. Copies of the nomination forms can be obtained from Julius Fisher.

THE PROPOSED STANDARD OF CONDUCT/RULE 56

The Patent Office has been considering replacing Rule 56 with a new rule, 57, which would provide for the following changes:

(1) A "but for" standard. The materially standard of "information important to a reasonable examiner" would be changed to "information that the involved individual knows or should have known would render unpatentable any pending claims."

(2) The filing of information disclosure statements would be mandatory, within 3-6 months of the filing of an application. These may be supplemented under defined conditions.

(3) A failure to disclose information can be "cured" prior to issuance of a patent. There are several complex variations on this theme in the Rule under consideration.

A major problem with the Rule being considered is that it does not comport with the law set forth by the Court of Appeals for the Federal Circuit. Unless the law is changed by legislation, we would have a situation where the practitioners complying with the PTO rules could be misled into failing to adhere to a stricter standard followed by the courts.

COMMENTSSOLICITED

The Board of Directors and the appropriate committees of your Association have the foregoing under active consideration. We would appreciate receiving your comments or suggestions.

Paul H. Heller, President
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HARMONIZATION SIMPLIFIED

by S. Devalle Goldsmith

There has recently been complicated (and, at times, heated) discussion of international harmonization of patent laws and practice. It would seem to be in order to try for some simplification, or even harmony, in the discussion of harmonization itself. It is hoped that the present paper will contribute to such simplification.

In the first place, it should be realized that two types of harmonization are involved: (1) procedural harmonization, for example of filing formalities and the like; (2) substantive harmonization of basic patent law, what subject matter is patentable, and enforcement of patents. It is unclear why anyone should be against procedural harmonization. We have already accomplished much in that direction by international agreements such as the Patent Cooperation Treaty (PCT).

Substantive harmonization, on the other hand, involves horses of a different color (perhaps in some aspects a Trojan horse), and more difficult to harness. We would scarcely consider it suitable, or proper in the sense of international comity, to ask the French, German or Japanese to change their general legal systems to conform to ours. Yet we do not hesitate to propose substantive changes in their patent laws.

Procedural harmonization is helpful, i.e. it is easier to use two systems of procedure if they are the same, and it should be possible to secure such harmonization by relatively minor changes on each side. Substantive harmonization, however, is more difficult to accomplish because it may involve departure from basic systems of law and philosophy. But it is true that substantive harmonization would be of great value, especially if we could get other systems to incorporate what we consider the best points of our own.

Obviously, if users of other systems think that their systems are better than ours they will not change unless they can get us to incorporate in our system what they consider to be the good points of theirs. Therefore, simplified, substantive harmonization must be a "package" concept: to get what we want, what are we willing to give up? The purpose of the following analysis is to present these *quid pro quos* in a simple way.

Here are some of the principal substantive changes in foreign patent systems which I think we want:

1— A grace period against bars of publication or use of the invention running back from the filing or priority date of a patent application.

2— Additional areas of patent protection, at least for chemical compounds, food, and drugs.

3— A "whole contents" bar (i.e. anything disclosed in an earlier — filed but later — published application) not applicable to

obviousness as well as novelty.

4— Better procedures for enforcing a patent, at least providing some way to ascertain the process being used by an alleged infringer.

5— Disclosure of the "best mode" known to the inventor for carrying out his invention.

6— Protection for a "first-to-invent" prior user of an invention if we change over to a "first-to-file" system.

To get some or all of the above, we would presumably be under pressure to give up some or all of the following substantive features of our patent law:

1— A "first-to-invent" system, including a provision for determining priority of invention, and for the grant of a patent to the first-to-invent but second-to-file in some circumstances.

2— A grace period applying to 3rd-party disclosures as well as disclosures of the invention itself, with provision for "swearing back" of a third party disclosure within the grace period.

3— A "whole contents" bar based on the actual U.S. filing date (Hilmer doctrine), and applying to obviousness as well as novelty.

4— Maintaining secrecy of patent applications until the inventor is sure of getting some patent protection, thus enabling abandonment of a patent application, and keeping an invention secret if patent protection cannot be obtained.

So the bottom-line for harmonization, simplified, is "What do we get and what do we give?"

ANNUAL MEETING

MAY 19, 1988

5:00 pm — 6:30 pm

NEW YORK HELMSLEY
at 212 East 42nd Street

followed by

INVENTOR OF THE
YEAR AWARD
PRESENTATION

and

Dinner

Hon. Robert W. Sweet,
Speaker

LEGISLATIVE ACTIVITIES DISCUSSED AT JOINT DINNER MEETING

by Basam E. Nabulshi

A joint meeting of the NYPTCLA and the NJPLA was held on January 21, 1988 to discuss current legislative activities related to intellectual property. Guest speakers were Mitchell E. Ostrer, Legislative Director for Senator Frank Lautenberg, and Thomas Mooney, Minority Counsel for the House Patent, Trademark & Copyright Subcommittee.

In view of the numerous and widely diverse legislative activities currently pending on Capitol Hill related to patents, trademarks, copyrights, and unfair competition, clearly Mr. Ostrer and Mr. Mooney faced a formidable task in the brief time allotted. However, both speakers brought special insights into the behind-the-scenes factors that are influencing and guiding the legislation currently under consideration and study.

SENATE PERSPECTIVES

At the outset, Mr. Ostrer noted the increased awareness on Capitol Hill of the importance of protecting American intellectual property to safeguard U.S. technological leadership. The global competitiveness of American industry is dependent to a large degree on this technological leadership. Fueling this Congressional awareness are estimates as to the cost of piracy to the U.S. economy. For example, in 1982 an ITC Report estimated that 5-1/2 billion dollars in lost sales could be attributed to piracy of U.S. intellectual property in just five surveyed industrial sectors. Mr. Ostrer reported that current piracy cost estimates circulating on Capitol Hill range from 8 to 20 billion dollars in annual lost sales with a resulting loss of hundreds of thousands of jobs. Thus, Congress is anxious to shore up U.S. intellectual property protection wherever possible.

Mr. Ostrer's remarks were primarily directed to two bills pending in the Senate

as part of the Omnibus Trade and Competitiveness Bill: (1) amendments to Section 337 of the Tariff Act and (2) process patent legislation.

Section 337 provides a remedy against the importation into the U.S. of patented articles (or articles made by a patented process), the effect of which is to substantially injure an industry efficiently and economically operated in the U.S. Relief under Section 337 is available from the International Trade Commission.

Thus, in order to exclude infringing imports from the U.S., it is therefore not only necessary to prove patent infringement, but it is also necessary to show injury to an efficiently and economically operated domestic industry. Mr. Ostrer reported that the pending bill seeks to eliminate this injury requirement.

Moreover, the bill seeks to modify the definition of AN "industry" to permit more patent owners to seek redress from the I.T.C. In particular, Mr. Ostrer noted the inability of non-manufacturing U.S. patent owners, e.g., universities, to exclude infringing imports simply because they license, rather than practice, their technology. To protect the economic stakes of these patent owners, the bill recognizes that significant U.S. investments in research and licensing activities should be sufficient to permit the patent owner to bring action before the I.T.C.

Other features of the proposed amendments to the Tariff Act are: (1) a 90-day time period for the I.T.C. to act on temporary exclusion orders; and (2) the granting of authority to the I.T.C. to order seizure and forfeiture of infringing goods. This latter feature of the bill is intended to curtail a practice known as "port shopping," i.e., repeated attempts to import infringing goods until they slip past Customs.

Mr. Ostrer also discussed the present Senate incarnation of process patent legislation. In working toward meaningful legislation in this area, Mr. Ostrer pointed out the conflicting interests of different industries which must be balanced by Congress. Thus, there has been and continues to be a need for negotiation and compromise in developing process patent legislation.

Specifically, Mr. Ostrer (and Mr. Mooney in his House Perspectives) discussed two hotly debated aspects of process patent legislation: (1) a "request for disclosure" provision; and (2) a damage limita-

tion provision. According to the request for of its patents which could conceivably be infringed by the overseas manufacturer of the goods. The damage provision provides that goods in transit, on order or subject to a binding commitment to manufacture, would be excluded from infringement liability, regardless of the method of manufacture. Mr. Ostrer observed that the bill contains many compromises and it is therefore difficult to determine the amount of support it has from the various interested parties.

HOUSE PERSPECTIVES

Mr. Mooney led off his remarks by observing the extent to which the administration and facilities of the Patent and Trademark Office have evolved and improved over the period he has been involved with the House PTC Subcommittee. In fact, Mr. Mooney reminded the attendees that at one point the Patent Office was nearly separated from the Commerce Department. Since that time - perhaps it was a turning point - the operation of the Patent Office has been strengthened, the condition of the public search files has improved, and computerization of the Patent Office has progressed.

Turning to the legislative activities in the House, Mr. Mooney noted that a bill has been introduced to implement the Berne Convention in the U.S. Adherence to the Berne Convention is believed to be important for maintaining a strong U.S. presence in the fast-growing global information industry. Moreover, adherence to the Berne Convention would give the U.S. copyright relations with 24 countries with which it presently has no such relations. The People's Republic of China, with its vast market for copyrighted works, has also signalled that it is considering adherence to the Berne Convention. At present, the Berne Convention has 76 members which include virtually all free market countries, a number of developing nations, and several Eastern block nations.

A second pending House bill relating to copyright protection is the Satellite Home Viewer Copyright Act. Mr. Mooney observed that this bill seeks to work out a problem that exists with common carriers that are now "super stations."

Turning to patents, Mr. Mooney noted that the House has completed hearings and

is considering a bill which would impose a two-year moratorium on the granting of patents for new animal life forms. Mr. Mooney discussed the moral, legal and constitutional issues which have surfaced since the PTO's announcement in April 1987 that it would begin granting patents on new animal life forms. Groups ranging from farm groups to animal welfare groups to church groups to industrial interests are keenly interested in this area. The debate on this issue promises to be interesting, though politically difficult.

With regard to the proposed I.T.C. amendments discussed by Mr. Ostrer, Mr. Mooney noted that House conferees are afraid that the damage limitation provision is potentially a giant loophole. As to the disclosure provision, Mr. Mooney suggested that a requirement that a patent owner must disclose to a competitor its patents which relate to a product would turn business practice upside down. However, Mr. Mooney suggested that further opportunities for compromise exist.

Mr. Mooney observed that other active intellectual property areas in the House include design protection (hearings to be held), the possibility of implementing a first-to-file standard of patentability to U.S. patent law, and the USTA's recommended changes to the Lanham Act.

CLOSING THOUGHTS

Mr. Ostrer and Mr. Mooney congratulated the intellectual property bar for its contributions to and support of legislative efforts. With so many legislative initiatives related to intellectual property currently active, clearly a tremendous amount of effort lies ahead, both for Congress and the intellectual property bar.

EMPLOYMENT COMMITTEE NEWS

The Employment Committee serves the Association and the PTC Bar in bringing together prospective employers and employees in the field. The Committee maintains current registers of professional openings and candidates seeking employment. We also respond to inquiries of executive recruiting agencies retained to fill specific openings.

Prospective employers listed with the Committee receive resumes of candidates on a continuing basis over a period of four months and are relisted on request. Resumes of employment candidates are kept active as long as the candidate desires. The Committee also encourages, counsels, and aids law students in seeking employment in the profession.

At the present time, the Committee is seeing a relatively low level of activity from both employers and employees, and we encourage members of the Association to use the Committee. Contact the Chairman, Patrick J. Walsh, Stamford, Connecticut, (203) 967-4144, or any of the Committee members listed in the Greenbook. ■

OTHER OMNIBUS TRADE REFORMS

by David J. Lee

Last issue I reported on the history and status of process patent reforms contained in omnibus trade bills of the Senate and House. In this issue, I will review the history and status of some other patent law reforms set forth in one or both of the omnibus trade bills. These reforms are set forth in one or both of the omnibus trade bills. The reforms relate to the doctrine of patent misuse, to the doctrine of *Lear v. Adkins* ("Lear") and to Section 337 of the 1930 Tariff Act.¹

I. MISUSE REFORM

In March 1983, the Administration proposed legislation to enable a domestic industry to compete more effectively in foreign markets. A principal element of this proposal was elimination of the defense of patent misuse in a number of specified circumstances "unless such conduct, in view of the commercial circumstances in which it is employed, is likely substantially to lessen competition..." The full text of the proposal is reproduced below:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following, unless

such conduct, in view of the commercial circumstances in which it is employed, is likely substantially to lessen competition: (1) licensed the patent under terms that affect commerce outside the scope of the patent's claims, (2) restricted a licensee of the patent in the sale of the patented product or in the sale of a product made under a patented process, (3) obligated a licensee of the patent to pay royalties that differ from those paid by another licensee or are allegedly excessive, (4) obligated a licensee of the patent to pay royalties in amounts not related to the licensee's sales of the patented product or the product made by the patented process, (5) refused to license the patent to any person, or (6) otherwise used the patent allegedly to suppress competition.

In the course of subsequent review by the Departments of Justice and Commerce, this proposal was modified to provide that the acts specified would not constitute patent misuse "unless such conduct, in view of the circumstances in which it is employed, violates the antitrust law..."

In September 1983, the Administration sent its legislative proposal to Congress under the title "National Production and Innovation Act of 1983." The rationale underlying the proposed limitations on patent misuse was expressed thusly:

New subsection 271(d) carefully limits the patent misuse doctrine but does not eliminate it. Courts will still have the discretion to refuse to enforce a valid, infringed patent on competitive grounds whenever the challenged conduct violates the antitrust laws, as well as on grounds not related to competition (e.g., fraud on the Patent Office). This will give patentees greater flexibility in realizing the full benefits of their patents and thereby encourage investment in research and development.

In September 1983 the Administration's proposal was introduced in the Senate by Senator Thurmond (R-S.C.) (S. 1841) and in the House by Representative Moorhead (R-Cal.) (HR 3878). The misuse reforms of the bill were the subject of testimony before the Senate Subcommittee on Patents, Copyrights and Trademarks in April 1984. The testimony generally favored the proposed reforms, although one witness (representing the IPO) suggested that the categories of conduct recited in the misuse proposal might need clarification.

In the end, the Administration's bill was not well received. Neither the Senate nor the House took action on it during the 98th Congress.

The Administration renewed its efforts to limit the scope of patent misuse late

in the 99th Congress. In April 1986, the administration announced its intention to present Congress with the "Intellectual Property Rights Improvement Act of 1986," a legislative program intended to "encourage innovation, promote research and development, and stimulate trade by strengthening the protection given intellectual property rights." This legislation set forth the same proposal to limit patent misuse that the Administration had made in 1983. It was introduced in the House by Representative Fish (R-N.Y.)(HR 4808) and in the Senate by Senator Thurmond (R-S.C.)(S. 2525). Again, it was not well received. Neither the Senate nor the House passed any part of the bill.

The Administration tried once again in the 100th Congress. In early 1987, the Administration sent to Congress a draft "Trade, Employment and Productivity Act of 1987." This bill repeated the misuse reforms that the Administration sought in the previous two sessions of Congress. The bill was introduced in the Senate by Senator Dole (R-Kan.)(S. 539) and in the House by Representative Michel (R-Ill.)(HR 1155).

Many aspects of the bill met with resistance from Congress. The House was unwilling to accept the patent misuse reforms. The Senate agreed with the concept of patent misuse reform, but revised and simplified the Administration's proposal before passing it in August 1987 as part of the Senate's omnibus trade bill. The revised version adopted by the Senate (S. 1420) reads as follows:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his or her licensing practices or actions or inactions relating to his or her patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws.

This provision is currently being debated by the Senate and House. While previously considered noncontroversial—at least relative to measures like process patent reform—the most recent word from Congress is that the House opposes the Senate's version of patent misuse reform.

II. LEAR REFORMS

In June 1983, Senator Mathias (R-Md.) introduced in the Senate a bill (S.

1535) proposing a number of reforms to the patent laws. Senator Mathias had "consulted with a number of patent authorities from various U.S. industries to develop a bill that [would] strengthen the patent system..." He had concluded, in part, that *Lear* and its progeny raised a problem:

Court decisions have established the right of a patent licensee to challenge the validity of the licensed patent. Case law, however, may have shifted the balance of rights in such challenges too far in favor of the licensee, allowing undue leverage against the licensor. The changes proposed in the bill would insure the right of the licensor to continue to receive the contracted royalty payment during the time his or her patent is under challenge, or to terminate the license if he or she chooses.

The Senator's legislative solution read as follows:

(a) A licensee shall not be estopped from asserting in judicial action the invalidity of any patent to which it is licensed. Any agreement which purports to bar the licensee from asserting the invalidity of any licensed patent shall be enforceable as to that provision.

(b) In the event of an assertion of invalidity by the licensee in a judicial action, licensee and licensor shall each have the right to terminate the license at any time after such assertion. Until so terminated by either party, the licensee shall pay and the licensor shall receive the consideration set in the license agreement.

In November 1983, Representative Kastenmeier (D-Wis.) introduced in the House similar legislation (H.R. 4529). The problem, as the Representative perceived it, was this:

Since the Supreme Court decision in *Lear*...the law has been settled that a party with a license from a patent holder may challenge the validity of the patent and continue to use the license. As the Court reasoned in *Lear*, to hold otherwise may work to encourage the continued existence of dubious patents. The perpetuation of the advantageous market situation afforded by patent protection should be balanced by a relatively open process to challenge patent validity. In the years since *Lear*, however, some commentators have suggested that the pendulum has swung far toward protecting the rights of licensees in patent validity suits... For example, some courts have permitted a licensee to challenge the validity of a patent by seeking a declaratory judgment, pay license royalties into an escrow account, and still be able to use the patent license if the patent is found valid... This situation is unfair to patent holders because they are forced to remain cash starved during the pendency of the patent validity litigation. The imbalance caused by this approach is par-

ticularly acute for a patentee who was forced to license the product in the first place because of a lack of adequate capital to work or produce the invention.

The Representative's proposed legislation was as follows:

(a) A licensee of a patent shall not be estopped from asserting in a judicial action the invalidity of that patent. Any agreement, or provision thereof, between a licensee and a licensor the purpose of which is to bar the licensee from asserting the invalidity of the patent involved shall be unenforceable as to that agreement or provision.

(b) In the event of an assertion by a licensee in a judicial action of the invalidity of the patent involved, the licensee and the licensor shall each have the right to terminate the license at any time after such assertion, after giving at least thirty days notice of such termination to the other party to the license. Until so terminated, the licensee shall pay and the licensor shall receive the consideration provided for in their license agreement.

(c) For purposes of this section—
(1) the term "licensee" means a person who is granted, directly or indirectly, from the holder of rights in a patent a license under the patent to manufacture, use, or sell the patented invention; and

(2) the term "licensor" means the holder of rights in a patent who, directly or indirectly, grants to another person a license under the patent to manufacture, use, or sell the patented invention.

On the House floor, the Representative raised several questions about his proposal, expressing hope that these would be addressed more fully in later hearings.²

The Mathias and Kastenmeier bills were the subject of hearings in the Senate and House. The Commissioner of Patents testified in both Senate and House hearings. He stated that the *Lear* reforms would foster a fairer balance of rights between licensor and licensee, but also would increase federal interference in licensing. He proposed that the bills be modified to insure that patent licenses not be made unenforceable because inconsistent with federal goals. In House hearings, the IPO testified strongly in favor of the House bill, while a patent law expert from New York testified that "the proposal now put forth goes too far... it would have a chilling effect on a licensee's willingness to challenge validity."

When the House Subcommittee on Courts, Civil Liberties and the Administra-

tion reported out patent reform legislation in September 1985, *Lear* reforms were nowhere to be seen. Although *Lear* reforms were reported out by the Senate Judiciary Committee, they later disappeared when the Senate voted to adopt the House version of patent reform legislation.

Lear reforms were adopted and urged by the Administration in the 99th Congress. The Administration's "Intellectual Property Rights Improvement Act of 1986" set forth the following *Lear* reforms:

(a) A licensee shall not be estopped from asserting in a judicial action the invalidity of any patent to which it is licensed. Any agreement between the parties to a patent license agreement which purports to bar the licensee from asserting the invalidity of any licensed patent shall be unenforceable as to that provision.

(b) Any patent license agreement may provide for a party or parties to the agreement to terminate the license if the licensee asserts in a judicial action the invalidity of the licensed patent, and, if the licensee has such a right to terminate, the agreement may further provide that the licensee's obligations under the agreement shall continue until a final and unappealable determination of invalidity is reached or until the license is terminated. Such agreement shall not be unenforceable as to such provisions on the grounds that such provisions are contrary to federal patent law or policy.

The rationale for this proposal was expressed as follows:

New section 296(a) codifies the holding of *Lear*... that a licensee cannot be estopped, by agreement or otherwise, from contesting the validity of a patent to which it is licensed. New section 296(b) addresses issues over which courts have differed in the years since the *Lear* decision; namely, the rights of the parties with respect to termination of a license and payment of royalties if the licensee challenges the validity of the licensed patent. New section 296(b) would give the parties broad discretion to define these rights during the license negotiation process. It makes clear that the parties may provide for termination by licensor and/or licensee in the event of such a challenge, and, if the licensee has a right to terminate, for the licensee's obligations to continue pending adjudication of validity. In this way, patent licensors can bargain for provisions they feel necessary to assure the realization of their rights in an invention, while licensees can bargain for provisions they feel necessary to protect their interests if they choose to challenge validity.

The Administration's bill was introduced in the House by Representative Fish (R-N.Y.)(HR 4808) and in the Senate by

Senator Thurmond (R-S.C.)(S 2525). As noted, it failed to pass either the Senate or the House.

The Administration continued to seek *Lear* reforms in the 100th Congress. Its "Trade, Employment and Productivity Act of 1987" proposed the *Lear* reforms the Administration had sought in 1986. But neither the bill in general nor its *Lear* reforms in particular was passed by the House. In the Senate, the Administration's *Lear* reforms were added to a Senate patent reform bill in the same amendment that added the Administration's version of misuse reform.

The status of *Lear* is uncertain. The latest news in Congress is that the House is opposed to it.³

III. SECTION 337 REFORM

In September 1985, Senator Lautenberg (D-N.J.) introduced a "bill to amend the Tariff Act of 1930 to enhance the protection of intellectual property rights" (S. 1647). The Senator noted that the bill was "a compliment, and certainly not a substitute for process patent law reform... a recognition of the problem posed by the infringement of intellectual property rights and the need for a variety of solutions."

The principal change proposed by Senator Lautenberg was to the requirements of Section 337 that imports have an "effect or tendency ... to destroy or substantially injure an industry, efficiently and economically operated ..." 19 U.S.C. § 1337(a). The Senator proposed that these requirements be eliminated:

Where trade affects the rights of patent, copyright, or trademark owners in the United States, there ought not be such obstacles to relief. To exclude certain imported goods, it should be enough that the articles infringe a patent, or are made abroad by the unauthorized use of a process that is patented here.

Intellectual property owners covered by the bill need not prove that a whole industry is threatened with destruction or substantial injury. Infringement is sufficient injury.

Also, an inventor would not have to prove that its industry is efficiently and economically operated. Indeed, some small high technology firms may not have the chance to get started, and to become economical, before they are challenged by pirates.

The bill also: required the International Trade Commission ("ITC") to act promptly on interim requests for relief pending final resolution of a complaint,

confirmed that a party subject to an exclusion order bears the burden in subsequent ITC proceedings of establishing the absence of infringement; granted the ITC power to order forfeiture of articles imported in violation of a protective order; accelerated the grant of limited exclusion orders in cases of default; broadened the availability of ITC cease and desist orders; and increased the penalties for violation of those orders.

The Lautenberg bill touched off a flurry of activity in both the Senate and House during the 99th Congress. In the Senate, after Senator Lautenberg introduced a revised version of his bill (S. 1869), separate bills were introduced by Senators Roth (R-Del.)(S. 2449) and Thurmond (R-S.C.)(S. 2525). In the House, bills were introduced by Representatives Moorhead (R-Cal.)(HR 3776), Dingell (D-Mich.)(HR 3777), Frenzel (R-Minn.)(HR 4312), Kastenmeier (D-Wis.)(HR 4539), Erdreich (D-Ala.)(HR 4585), Duncan (R-Tenn.)(HR 4751) and Fish (R-N.Y.)(HR 4808). In the end, the House settled on a revision of the Kastenmeier bill (HR 5686), but the Senate refused to pass on it because the Senate bill that contained Section 337 reforms had not yet been finalized.

The interest in Section 337 reform remained high during the 100th Congress, particularly after the Administration came out strongly in favor of strengthening Section 337. In 1987, bills proposing modification of Section 337 were introduced in the Senate by Senators Lautenberg (D-N.J.)(S. 468; S. 486), Bentsen (D-Tex.)(S. 490), Dole (R-Kan.)(S. 539) and Thurmond (R-S.C.)(S. 635). The Senate ultimately settled on the Section 337 reforms spelled out in Senator Bentsen's bill.

In the House, 1987 saw the introduction of bills by Representative Gephardt (D-Mo.)(HR 4800), Michel (R-Ill.)(HR 1155), Kastenmeier (D-Wis.)(HR 1509) and Roth (R-Wis.)(HR 1603). The Kastenmeier bill, with modifications, was the bill ultimately adopted by the House.

Were the only trade issue before Congress this year reform of Section 337, the prospects for legislation would be good. The differences between the two proposals are relatively minor. The appendix sets forth a side-by-side comparison of the current Senate and House proposals for Section 337 reform, followed by a comparison of the two proposals prepared by Senate and House staffers.

ENDNOTES

¹ 395 U.S. 653 (1969).

"First, is this change necessary in light of recent case law of a similar nature... On the other hand, it is possible to argue that the lack of uniform case law on these questions is sufficient reason to provide for a nationally applicable result balancing the competing interests. Second, since the effective date provisions of the bill have the net effect of changing the nature of the contractual arrangements between the parties by modifying the nature of available judicial remedies, it must be questioned whether this bill should be prospective only in effect. The third, and more fundamental question, is whether permitting termination of the license agreement by the licensor after a challenge to the validity of the licensed patent will be used punitively to prevent the assertion of patent invalidity. Hopefully,....such questions will be addressed more fully in the hearing process."

³ On March 3, Representative Kastenmeier (D-Wis.) introduced a bill that would replace 271(d) of the patent laws with detailed definitions of patent misuse and revoke the right of a patent owner to remedies for patent infringement while misuse is taking place. See 35 PTCJ 371 (March 10, 1988). ■

RECENT DECISIONS OF INTEREST

By Thomas A. O'Rourke

PATENTS—DOCTRINE OF EQUIVALENTS

In an en banc decision, the Court of Appeals for the Federal Circuit held that the doctrine of equivalents is applied on an "element-by-element" basis. In *Pennwalt v. Durand-Wayland, Inc.* 4 U.S.P.Q. 2d.1737 (Fed. Cir. 1987), the patent in suit related to an automatic fruit sorter. Plaintiff contended that there was infringement under the doctrine of equivalents because defendant's sorter did in a computer what

the patent did with hard wired circuitry.

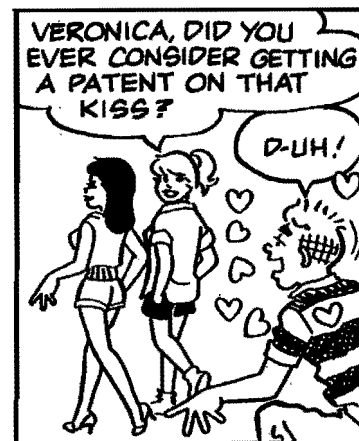
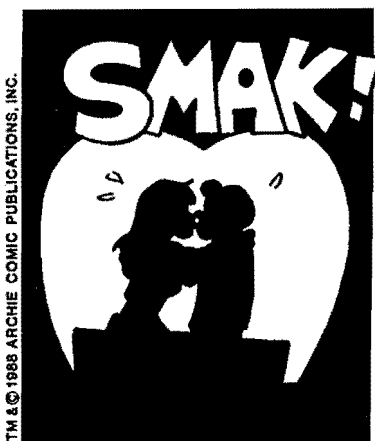
It was held by the District Court that Durand's device used different elements than those disclosed in the patent. The C.A.F.C. rejected Pennwalt's argument that the patent was infringed under the doctrine of equivalence because:

"infringement can only be found if the different elements and operations are legal equivalents of those disclosed in the patent in suit." (4 U.S.P.Q.2d. at 1740)

The C.A.F.C. went on to the state that:

"the district court correctly relied on an element-by-element comparison to conclude there was no infringement under the doctrine of equivalents..." (4 U.S.P.Q. 2d. at 1740)

The four dissenting members of the Court objected to the Court's sub silentio overruling of *Hughes Aircraft Co. v. U.S.*, 717 F. 2d 1351 (C.A.F.C. 1983). The dissenters concluded that:



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"it should be beyond dispute that infringement could not have been found in *Hughes* under the analysis announced by the majority today. (4 U.S.P.Q. at 1745).

PATENTS—ATTORNEYS FEES

Attorney fees were awarded recently in connection with a reissue proceeding brought under the now repealed Dann amendments governing inter partes protests in reissue proceedings. In *PPG Industries, Inc. v. Celanese Polymer Specialties*, 35 BNA PTC 370 (C.A.F.C. March 10, 1988), Celanese was awarded its attorneys fees in connection with the reissue proceeding was mandatory and not optional. The District Court that ordered Celanese's participation had intended to substitute the Patent Office proceedings for a Court trial.

The C.A.F.C. distinguished the recent Supreme Court decision *Webb v. Dyer County Board of Education*, 471 U.S. 234 (1985). Webb held that attorneys fees are not available in non-mandatory, non-judicial proceedings where the party has the option of proceeding before a Court unless the party seeking the attorneys fees can show that the work was both necessary and useful. The C.A.F.C. distinguished Webb on the ground that Celanese had no option available to it except to proceed in the reissue proceeding. Accordingly, attorneys fees could be awarded to Celanese for the reissue proceedings.

PATENTS—CONFLICTS OF INTEREST

Attorneys who prosecuted a patent application in the Patent Office are not precluded from representing a company challenging the validity of that patent where the attorneys did not have an attorney-client relationship with the current patent owner. This was the result reached by the C.A.F.C. in *Telectronics v. Medtronic, Inc.*, 35 BNA PTCJ at 205 (Fed. Cir., January 14, 1988). The District Court denied Medtronic's motion to disqualify on the condition that Telectronics not raise issues of fraud or misconduct in the Patent Office and restricted the obviousness proof to art discovered after the patent issued. On appeal, the C.A.F.C.

affirmed and held that assignment of a patent does not transfer the attorney-client relationship to the new owner of the patent.

PATENTS—ATTORNEY-CLIENT PRIVILEGE

While an alleged infringer may rely on an attorney opinion to refute a charge of willful infringement, the reliance on such an opinion can waive the attorney-client privilege for all attorney opinions. In *Abbott Laboratories v. Baxter Travenol Laboratories*, 35 BNA PTCJ at 246 (N.D. Ill. January 28, 1988), the defendant produced three opinions of non-infringement in order to refute a charge of willful infringement. Abbott moved to compel production of all opinions relating to the patents. In granting the motion to compel, the District Court noted that:

A party claiming good faith reliance upon legal advice could produce three opinions of counsel approving conduct at issue in a law suit and withhold a dozen more expressing grave reservations over its legality.

Accordingly, the privilege was waived and the Court compelled production of all the opinions.

COPYRIGHT—ATTORNEYS FEES

A defendant who was enjoined from further copyright infringement and ordered to pay statutory damages was awarded attorneys fees as a prevailing party in *Warner Bros. v. Dae Rim Trading, Inc.* 35 BNA PTCJ at 277 (S.D.N.Y. February 11, 1988). In Warner Bros., the issues at trial were whether defendant's infringement was willful, and whether statutory damages, costs and attorneys fees are due Warner. Warner Bros. sought \$10,000.00 in statutory damages without making any attempt to show any actual damage. The District Court held defendant's infringement to be innocent and awarded Warner the minimum statutory damages of \$100.00. The Court rejected Warner's request for attorneys fees because, according to the Court Warner was not the prevailing party as: "Warner continued to litigate after it clearly became unreasonable."

Thus, the Court awarded defendant its costs and reasonable attorneys fees. ■

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