



THE NEW YORK PATENT, TRADEMARK AND COPYRIGHT LAW ASSOCIATION

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PRESIDENT'S CORNER

The Chair of our Annual Judges Dinner, William J. Gilbreth, reports that arrangements are on schedule for what is expected to be a most entertaining and gala event. Russell Pelton, who has sung the National Anthem at the Dinner for many years asked that we find an appropriate replacement for him for this and future Dinners. At this year's Dinner, it required four attorneys to replace Russ. A Barber-shop Quartet of David Weild, Rory Radding, Meyer Gross and Thomas Nesbitt, will lead us this year.

The Advisory Commission on Patent Law Reform has now proposed specific recommendations for changes to our patent system. Among the more controversial recommendations is: (1) deletion of the best mode requirement from Rule 112; (2) permitting a third party requestor broad participation in reexamination, including consideration of Rule 112 violations; (3) adoption of a first-to-file system; (4) permitting a third party prior user rights; (5) changing *In re Hilmer* to allow a foreign-originated application to serve as prior art from its priority date; and (6) permitting assignee filing. It is likely that once the Commission issues a final report, the Administration will then sponsor a bill incorporating its key recommendations, including adopting first-to-file with an appropriate package of changes. Your Association, through its Committees, especially the U.S. Patent Law Committee under Chair John D. Murnane, the Harmonization Committee under Chair William J. Brunet and the Litigation Practice Committee under Chair Berj A. Terzian, is providing additional recommendations to the Advisory Commission in order to continue its active participation in all phases of the proposals to reform the patent laws.

The Association has now advised the

National Inventors Hall of Fame that it will support the concept of a new home for the Hall of Fame and will support educational programs in connection with that Home. The final scope of our support has not yet been determined; however, we will make a significant pledge providing appropriate financial support and will provide the Hall of Fame with opportunities to inform our membership of its construction proposals and educational programs.

The Annual Dinner of the NYPTCLA will be held on Thursday, May 21, 1992. This year's festivities will include installation of new Officers and Board Members, presentation of the award for the Inventor of the Year and presentation of awards to the winners of the Judge William C. Connor Writing Competition.

The speaker at the Annual Dinner will be the Honorable Alfred M. Wolin, who recently decided the *Honeywell vs. Minolta* patent litigation on autofocus technology. In addition, it is expected that Judge William C. Connor will attend personally to present the prizes in the Writing Competition. Judge Connor, a former President of our Association, has been voted a Life Member of the NYPTCLA. He joins a select field of only 27 Association Members who have been voted to life membership in our 70-year history. This promises to be an exciting event and the Officers and Board join in extending each member an invitation to attend.

Howard Barnaby, our Treasurer, reports that plans are well underway for the Washington weekend culminating in the swearing-in ceremony for candidates for admission to the Supreme Court of the United States on June 15, 1992. Dinner arrangements in honor of our candidates for admission have just been concluded. Only a few more candidates can be accepted, so please let Howard know, at your earliest convenience, if you wish to attend.

The United States Patent and Trademark Office has invited the NYPTCLA to participate in the Trilateral User Group Meeting scheduled February 20 and 21 in Tokyo, Japan. Representatives from the European Patent Office, the Japanese Patent Office and several national bar groups will be present. It is expected that harmonization issues will be discussed and a full report will be provided to our membership by Mike Meller, our representative.

Please take note that the new rules affecting the duty of disclosure will take effect on March 16, 1992. The disclosure rules will apply to all applications pending on or after that date. As you may know, under amended Rule 1.56 information is deemed material to patentability, when, by itself or combined with other information, it either (1) establishes a prima facie case of unpatentability of a claim or (2) it refutes or is inconsistent with a position (a) opposing an argument of unpatentability relied on by the Office or (b) asserting an argument of

CALENDAR OF EVENTS

May 3-6, 1992

United States Trademark Association
Annual Meeting, Toronto, Canada

May 13-15, 1992

American Intellectual Property Law
Association, Spring Meeting, Minneapolis
Marriott City Center

patentability.

A prima facie case of unpatentability is established when the information compels a conclusion that a claim is unpatentable under the preponderance of evidence, burden-of-proof standard, wherein each claim term is given its broadest reasonable construction before any consideration is given to evidence which can be submitted in an attempt to establish a contrary conclusion.

Please note that under amended Rule 1.97 there are new standards for the timely filing of an information disclosure statement. Prior to the mailing of either a final action or a notice of allowance, an information disclosure statement must be considered by the Patent Office upon payment of an appropriate fee or by making an appropriate certification. After the mailing of the final action or a notice of allowance (but before payment of the issue fee) information must be considered if a proper certification is provided, a petition is filed requesting such consideration and a petition fee is paid. Other significant changes have also been made. Our members are encouraged to promptly familiarize themselves with the new disclosure rules.

Please note that the Continuing Legal Education Weekend which has been traditionally scheduled during the first week in November has been rescheduled to a weekend in September, 1992. The date and place of the CLE Weekend will be provided to you in the near future.

—Peter Saxon

“MOTIVATION” OR “OBVIOUS TO TRY”

IS THERE A DIFFERENCE?
IS IT A PROPER TEST OF
OBVIOUSNESS?

by James W. Badie

INTRODUCTION

Early decisions of the Patent and Trademark Office (PTO) Board of Appeals (Board) and the Court of Customs and Patent Appeals (CCPA) required that for a

claimed invention to be held obvious under 35 U.S.C. 103 over one or more references, the cited reference(s) must clearly “suggest” the invention. For whatever reasons, however, the PTO began to apply a different standard in obviousness rejections, based on the so-called “obvious to try” standard rather than the “suggestion” test. The obvious to try standard, however, was quickly rejected by the CCPA by repeatedly holding that obvious to try is not a proper standard of rejection under the statute.

Recently, however, particularly in the 1980's, the PTO has been applying the so-called “motivation” test in rejections under 35 U.S.C. 103. In making such rejections, the PTO examiners and the Board typically state that based on the disclosure of one or more reference(s) one skilled in the art “would be motivated” or that the prior art provides the “motivation” to do what the inventor has done. Although the Court of Appeals for the Federal Circuit (CAFC or Fed. Cir.) still applies the suggestion test in determining obviousness of an invention, several CAFC cases have relied on motivation or lack thereof in making such determination.

A. Criteria for Obviousness

In determining the obviousness of an invention, the statute, 35 U.S.C. 103, mandates consideration of “the subject matter as a whole” at the time the invention is made. The PTO, the CCPA and the CAFC have also made it clear that hindsight reconstruction of references in light of applicant's disclosure is to be avoided in making such determination. See *In re McLaughlin*, 170 USPQ 209 (CCPA 1971).

B. Disclosure or Suggestion by Reference(s) at the Time the Invention was Made

Early decisions of the PTO and the CCPA have repeatedly adhered to the requirement that where two or more references are combined to negative patentability of an invention, the question to be asked is: does the prior art suggest doing what applicant has done? *In re Pennington*, 113 USPQ 81, (CCPA 1959); *In re Wesslau*, 147 USPQ 391 (CCPA 1965); *Ex parte Walker*, 135 USPQ 195 (PO Bd. App. 1961); *Ex parte Lennox*, 144 USPQ 224 (PO Bd.

App. 1964). In *Pennington*, supra, the CCPA emphasized that the invention may consist of the conception of the general results wished for and/or the actual means of achieving that result, and said, at page 85:

Once having appreciated this problem, it might be said that one skilled in the art would construct appellant's apparatus without the further use of the inventive faculty. This latter possibility does not detract from the inventive nature of the initial concept.

In determining unobviousness of claims to an adjustable collapsible chair, the court in *In re Hortman*, 121 USPQ 218 (CCPA 1959) said, at page 219:

For, though the structure may be but a simple expedient when the novel concept is realized, that structure may not be obvious to the skilled worker in the art where the prior art has failed to suggest the problem or conceive of the idea for its elimination... (Emphasis supplied).

Thus for years, before rejecting an invention for obviousness both the PTO and CCPA looked for a suggestion in at least one reference which could lead one skilled in the art to the claimed invention. But, as discussed below, the PTO got off this track.

C. Application of “Obvious to Try” as Standard of Obviousness

Probably beginning in the 1960's, the PTO began rejecting claims under 35 U.S.C. 103 if the examiner or the Board determined that in view of the disclosure(s) of the reference(s), the claimed invention was obvious to try. In the often cited case of *In re Tomlinson*, 150 USPQ 623 (CCPA 1966) the court reversed the Board's rejection that the claimed invention was “obvious to try.”

The appealed claims in *In re Antonie*, 195 USPQ 6 (CCPA 1977) were for a wastewater treatment device in which a semi-immersed contactor (disk) is continuously rotated in order to aerate the microorganisms that grow on the contactor and the wastewater itself. The cited reference disclosed all the basic features of the device except the ratio of tank volume to contactor area of 0.12 gal./sq. ft. This limitation was considered to be critical to the efficient operation of the device. In reversing the Board, and disagreeing with the minority, the court emphasized that it is the invention as a whole and not just some part of it that

must be obvious under 35 U.S.C. 103. The court said, at page 8:

The PTO and the minority appear to argue that it would always be *obvious* for one of ordinary skill in the art to try varying every parameter of a system in order to optimize the effectiveness of the system even if there is no evidence in the record that the prior art recognized that particular parameter affected the results. *Obvious to try* is not the standard of 35 U.S.C. 103... (Emphasis supplied).

Thus, for years, the CCPA, and later the CAFC rejected obvious to try as a standard of obviousness under 35 U.S.C. 103 but required that the reference(s) must suggest the claimed invention as a whole. *In re Goodwin*, 198 USPQ 1 (CCPA 1978); *In re Geiger*, 2 USPQ 2d 1276 (Fed. Cir. 1987); *In re Stencel*, 4 USPQ 1071 (Fed. Cir. 1987); *In re Fine*, 5 USPQ 1596 (Fed. Cir. 1988); *Merck & Co., Inc. v. Biocraft Laboratories, Inc.* 10 USPQ 1843 (Fed. Cir. 1989).

D. "Motivation" as a Standard for Rejection of Obviousness

Even though for decades since the enactment of the 1952 Patent Act, the PTO, the Board and the courts have consistently looked for a *suggestion* in the prior art in order to sustain a rejection under 35 U.S.C. 103, in recent years the term "motivation" had been used, sometimes alone, and at other times mixed with such terms as "incentive" or "suggestion" in obviousness rejections. Webster's New International Dictionary, second edition (1957) defines motivation as follows: "to provide with or base upon a motive, to move; impel; induce; incite."

Thus, rejection of an invention based on motivation from the prior art implies that the prior art moves, impels, induces or incites one skilled in the art to make the invention. However, as previously discussed, applicant's disclosure is not supposed to be relied on, or even known, to a person skilled in the art or any other person for that matter. Therefore, how can one be moved, impelled, induced or incited to do that which he is not aware of, or to solve a problem which he never knew it existed?

How and why the term motivation emerged and crept into the vernacular of obviousness rejection is not entirely clear. Is motivation synonymous with suggestion, or is it, in reality, another way of

saying that it is obvious to try?

In re Gyurik, 201 USPQ 552 (CCPA 1979) involved an appeal from rejection of claims to certain anthelmintic thio-group containing compounds. The prior art disclosed structurally similar sulfinyl-containing compounds made from the *thio compounds as intermediates* but the thio compound was never isolated in the prior art process nor its properties ascertained. The Board agreed with the examiner's rejection that since the thio compounds were structurally similar to the sulfinyl compounds and the prior art disclosed the latter compounds, albeit as intermediate, the claimed invention was *prima facie* obvious. The CCPA reversed, stating, at page 557:

An element in determining obviousness of a new chemical compound is the *motivation* of one having ordinary skill in the art to make it. That motivation is *not abstract*, but practical, and is always related to the *properties or uses* one skilled in the art would expect the compound to have... (Emphasis supplied).

The court did not find the "necessary motivation or any "other evidence of motivation" to be present in this case.

Although the court did not explain what it meant by "motivation" or what "other evidence of motivation" would have rendered the claimed compound obvious, it appears that the court was looking for some disclosure or *suggestion* of the property or use of the intermediate product which would have led one skilled in the art to "isolate" the intermediate compound if that person was so inclined to or had any reason to do.

While the CCPA did not find the "necessary motivation" in *In re Gyurik*, supra, in *In re Payne*, 203 USPQ 245 (CCPA 1979) the court found that such motivation was present since the prior art disclosed structurally similar compounds and the properties between the claimed compound and the prior compounds were sufficiently similar. Once again, the court did not explain what it meant by presence of motivation. Was the court talking about the prior art disclosure which, for all practical purposes, suggested the claimed invention, or was the court saying that in view of the prior art, it would be *obvious* to one skilled in the art to try to make the claimed compound? Based on the court's historical rejection of obvious to try, it is perhaps more reasonable to infer that what the court truly meant was that the prior art *suggests*

doing what applicant has done.

In re Dillon, 16 USPQ 2d 1897 (Fed. Cir. 1990) involved an appeal from the rejection of claims directed to a composition comprising a hydrocarbon fuel and a sufficient amount of a tetra-orthoester so as to reduce the particulate emissions (soots) from the combustion of the hydrocarbon fuel. The appeal also involved claims for a method of reducing particulate emission from combustion of hydrocarbon fuels using tetraoester. There was no dispute that the combination of tetra-orthoester with hydrocarbon fuel, for any purpose, was not shown in the prior art. It was also undisputed that the use of tetra-orthoesters to reduce soot from combustion of hydrocarbon fuel was not shown or suggested in the prior art.

The Board rejected the claims because the primary reference disclosed hydrocarbon fuel compositions containing *tri-orthoesters for dewatering the fuel* and a secondary reference disclosed the use of *both tri-orthoesters and tetraorthoesters as water scavengers for hydraulic fluids* (non-hydrocarbon). Based on its finding of equivalents from the secondary reference, the Board concluded that there was a *reasonable expectation* that tri-orthoester and tri-orthoesters would behave similarly in hydrocarbons. The Board however, never mentioned motivation in its rejection.

The court agreed that the Board had established a *prima facie* case of obviousness and reaffirmed, at page 1901:

... that structural similarity between claimed and prior art subject matter, proved by combining references or otherwise, where the prior art gives *reason or motivation* to make the claimed composition, creates a *prima facie* case of obviousness. . .

It might be asked what is the "reason or motivation" for one skilled in the art to mix tetra-orthoester with a hydrocarbon fuel unless the object was to solve the problem of particulate emissions? Absent any disclosure of the problem or suggestion for its solution, how could the references motivate a person skilled in the art to make such a composition? Why would one skilled in the art even attempt to make such a composition unless he or she was impelled by reading applicant's disclosure? But as previously noted, reliance on applicant's disclosure is improper in arriving at obviousness or non-obviousness of an invention.

So how does one skilled in the art become "motivated" absent any suggestion in the references? Isn't, in reality, such a rejection tantamount to holding that once a person skilled in the art becomes aware of applicant's disclosure, the problem and the solution, then it would be *obvious to try* to do what applicant has done?

Most recently, in *In re Ball Corp.* 18 USPQ 2d (Fed. Cir. 1991), the court without mentioning motivation, affirmed the Board because it found that the invention was *suggested* by the references. The court *reaffirmed* its *precedents* that *prima facie* case of obviousness is established when the teachings from the prior art *suggest* the claimed invention, and that reasonable likelihood of success is sufficient to establish *prima facie* obviousness.

CONCLUSION

Inventors, the public and the bar will be better served by adhering to the traditional and well-established standard of suggestion as a basis of rejection of obviousness under 35 U.S.C. 103. As applied by the PTO, the Board and the CAFC, the requirement of motivation is too vague and, therefore, improper basis for such rejection. It has at least the ring of obvious to try unless it is adequately defined or explained to clarify its exact import in the context of such rejection. A rejection based on motivation in the abstract is inadequate and is tantamount to stating that the prior art is a basis for *motivation to try* or *obvious to try* to do what applicant had done. ■

NEWS FROM THE BOARD OF DIRECTORS

by William H. Dippert

At a meeting of the Board of Directors on November 19, 1991, Howard Barnaby provided the Treasurer's Report, which was accepted. Also, Mr. Barnaby reported on efforts to remove from the membership list those who had not paid 1990-1991 dues. Letters were to be sent to provide 30 days'

notice to pay such dues.

A brief report from Virginia Richard concerning the Madrid Protocol meeting was circulated. This will be followed by a detailed oral report at the next Board Meeting.

The admission to membership of foreign patent "attorneys" was discussed. This issue will be referred to the License to Practice Committee for consideration.

The recent CLE weekend was reported to be a great success. Judges Connor, Rader and Ward enjoyed the weekend, and all participants in the programs were well prepared. Information concerning the location and timing of the 1992 CLE weekend will be provided by Andrea Ryan at future Board meetings.

Two recent requests for Amicus Curiae briefs were discussed. The Board declined to file a brief in either instance.

Next, the status of the NIH patent application concerning identifying segments of the genetic code without identifying their purpose was discussed. The NIH will advise Ms. Ryan if, and when, a decision is made to publish the application.

A report from Berj Terzian, Chair of the U.S. Patent Law Committee, concerning proposed changes to the Federal Rules was circulated. The Board agreed that the proposed rule changes would create significant problems for intellectual property litigation and that either intellectual property matters should be excluded from the proposed rule changes or other provisions should be made.

Charles Baker reported on the proposed National Inventors Hall of Fame in Akron, Ohio. After discussion by the Board, Mr. Saxon agreed to write to the NIHF to request that an appropriate representative address the Board in the future. Also, the Board agreed that the Association would not commit itself in any way until it is possible to determine the interest and commitment of other participants.

Twenty-three applicants for membership were considered, and their applications were approved.

Mr. Saxon provided a brief report on the Chicago IPLA Dinner. He mentioned that Judge Nies was the speaker and that the Chicago IPLA extended itself in every way to make our presence welcome.

The Board of Directors met on December 17, 1991. Andrea Ryan reported that CLE Chair Edward Vassallo will canvass

the Poconos and other alternative sites with regard to the 1992 CLE weekend. She will report what progress has been made in this respect at the next Board Meeting.

Howard Barnaby discussed letters sent to members who had not paid 1990-1991 dues. There has been limited response, including several promises to pay. With respect to the "promised" back dues, Mr. Barnaby will contact those individuals again if payment is not made by December.

Peter Saxon led discussion concerning a listing of firms or corporations with five or more Association members. The Board approved Mr. Saxon's plan to have the Committee on Admissions contact certain law firms with a large number of non-member attorneys to encourage additional membership in the Association.

John Pegram reported on the U.S./JPO Council Meeting in Tokyo. Issues discussed at the meeting included (1) the state of the Japanese Patent Office; (2) the searching system; (3) multiple claim problems; (4) agreement to post-issuance opposition as compared to pre-issuance opposition and (5) agreement to filing with an English language text, to be followed by a later filed Japanese language text. Mr. Pegram felt the meeting was very informative and that the Japanese see the value in maintaining a strong Japanese/U.S. relationship. He asked the Association to consider future contributions to the hosting of JPO Officials.

Mr. Pegram led discussion concerning the Legislative Initiation Committee at AIPLA. This Committee is soliciting input regarding a "first to file" system, especially in view of its impact upon litigation.

Leonard Mackey reported on the fundraising efforts for Inventure Place. The National Inventors Hall of Fame Foundation (NIHF) has responsibility for raising funds for Inventure Place, and he encouraged the Board to contact the NIHF with specific questions. Mr. Mackey also encouraged the Board to appoint a specific contact person for this purpose. In response to a suggestion from Mr. Saxon, the Board agreed that a formal fundraiser from the NIHF should address the Board.

The admission of twelve applicants for membership was approved.

Pasquale Razzano reported on a possible joint meeting with Canadian patent attorneys in 1994. A location in upstate New York is under consideration. ■

EMERGING TECHNOLOGIES: AN OPTION IN THE ExMSE PROGRAM

Dr. Joel Adler from the School of Engineering and Applied Science at the University of Pennsylvania, has provided the membership with information about Penn's unique approach to educating patent law professionals in the "emerging technologies." Interested members should review the accompanying letter and fold-out brochure in the center of the *Bulletin* which provides general information on the Executive Master of Science in Engineering (ExMSE) program.

Participants in the program who accumulate 20 course-units earn the Executive Master of Science in Engineering degree. Additionally, a 10 course-unit diploma in "emerging technologies" has been designed for individuals who wish to become current in emerging technologies, but who desire no additional graduate degree or comprehensive coverage of business management disciplines. Such individuals might be professionals working in patent law, economic policy or interdisciplinary research.

New advanced technology courses in the ExMSE program focus on fundamental and emerging technologies, their scientific and engineering principles, current applications and status and their potential for society and the economy. The technology areas covered in the emerging technologies curriculum include: Robotics and Automation, Microelectronics, Telecommunications, Biotechnologies, Advances in Chemical Engineering, Photonics, Computer Visualization, Artificial Intelligence and Concurrent Engineering.

The standard, more comprehensive, ExMSE curriculum combines this knowledge base of advanced technologies with relevant courses on social and economic factors. Individuals enrolling in the emerging technologies option may wish to substitute, on a limited basis, some of these courses in their curriculum.

The emerging technologies option meets on alternate Saturdays during a nine-

month period (September-May) each year, with a break during the winter holidays. The total number of contact hours for this option is 200, and total days in residence is approximately 35. Tuition is \$11,750 per year. ■

PENDING LEGISLATION

by Edward P. Kelly

DESIGN PROTECTION

The patent laws currently provide patent protection for any new, original and ornamental design for an article of manufacture. (See 35 U.S.C. § 171). A design patent, however, must meet the same conditions of patentability as a utility patent, including the condition of non-obviousness. Numerous design patents have been held invalid on obviousness grounds in recent years (See Cong. Rec. 2/7/89, P.E. 377 (Remarks of Rep. Moorehead (R.-Ca.))). Those who look to the copyright law to provide protection for an industrial design would probably find that the design does not qualify. The Copyright Act currently denies protection for the design of useful articles except for any original aspect of the design that has an independent identity apart from the useful article.

The House has held hearings in recent years on the adoption of a statutory scheme that would fill the void between patent and copyright law and grant protection for useful industrial designs. Bills introduced in the House in past years, if adopted, would have added a new Chapter 10 to the Copyright Statute to grant protection to industrial designs of useful articles. The protection would be afforded to those designs that fall outside the scope of the protection afforded by design patents, copyrights and trade dress law. The bills (H.R. 902-Moorehead, H.R. 3017 Gephardt (D.-Mo.) and H.R. 3499 (Moorehead-Kastenmeier (D.-Wis.))) all were similar to the extent that they provided for 10 years of protection and excluded protection for commonplace designs or designs that are dictated solely by utilitarian functions. In past years, this legislation has faced opposition from certain industry groups. For instance, the

aftermarket automobile replacement parts industry has feared that if design protection were afforded to the various parts of a car, i.e., fenders, the original equipment manufacturers would control the industry for replacement parts. The insurance industry also was not satisfied with that result because replacement parts are generally cheaper when purchased from an aftermarket supplier. The publishing industry also feared that if protection were afforded to certain typeface designs, publishers could be liable for reproduction and distribution of materials using protected typefaces. Representative Gephardt's bill (H.R. 3017) excluded automobile replacement parts from protection but granted protection for typeface designs. H.R. 902 and H.R. 3499 did not provide for typeface protection.

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

A consensus could not be reached on these bills during the 101st Congress. Representative Richard Gephardt introduced a new design protection bill (H.R. 1790) that is similar to the bills introduced in previous years. H.R. 1790, however, was retitled "Protection of *Original* Designs of Useful Articles." The emphasis on "original" is intended to eliminate protection for commonplace designs. A design is "original" if it is the result of the designer's creative endeavor that "provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source" (see Section 1001(b)). Like prior bills, H.R. 1790 would attempt to exclude certain elements of an automobile replacement part from protection. The bill excludes from protection "that portion of the article shape dictated by the mechanical interface, perimeter, or envelope restrictions necessary to permit the physical and functional substitution of an article." Designs of motor vehicle glass including windshields and side and rear view glass are specifically excluded from protection under the bill.

Unlike its predecessor bills, H.R. 1790 contains a public use bar. Protection would not be afforded to designs "embodied in a useful article that was made public by the designer or owner in the United States or a foreign country more than 1 year before the date of the application for registration."

The House Subcommittee on Intellectual Property and the Administration of Justice recently held hearings on H.R. 1790. Rep. Moorehead, a long time proponent of industrial design protection, supported the bill on the asserted ground that it would stop the off-shore production of auto replacement parts, that he contends, has eliminated manufacturing jobs in the United States. Rep. Paul Kanjorski (D.-Pa.), a former supporter of the bill, however, questioned whether, given the design protection under the bill, the major U.S. automakers would necessarily produce the replacement autoparts in U.S. factories. In the event they did not, the legislation, according to Rep. Kanjorski, would result in protection for autoparts made outside the U.S., while preventing the development of aftermarket manufacturing companies in the U.S. William J. Cunningham, testifying on behalf of the AFL-CIO, suggested that the bill cover only designs for products that are manufactured in the United States.

Representatives of consumer and retail organizations also expressed opposition to H.R. 1790 on the ground that design protection could lead to higher prices if it eliminates off-brand competition. Rhonda Parish, testifying on behalf of the International Mass Retail Association, stated that the existing protection afforded by trade dress that has acquired secondary meaning is sufficient to eliminate knock-off products. Mark Silbergeld, testifying on behalf of Consumers Union, raised questions about the volume of litigation that could result from the bill. He noted that the design registration would not be subject to meaningful examination, believing that defendants would constantly litigate the issue of "originality" of the design.

PATENTS AND TRADEMARKS

State Immunity

In recent years, several circuit and district courts have held states immune from liability under the Eleventh Amend-

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

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

Bills were introduced last year in both the House (H.R. 3886) and Senate (S. 2193) that would eliminate state immunity for patent infringement. Those bills provided that all patent infringement remedies including treble damages and attorneys' fees for willful infringement would be available against a state.

Senator DeConcini (D.-Ariz.) introduced two bills (S. 758 and S. 759) earlier this year that would eliminate state immunity for patent infringement, trademark actions brought under the Lanham Act and actions brought under the Plant Variety Protection Act. The Senate Subcommittee on Patents, Copyrights and Trademarks in approving S. 758 and S. 759 considered, but rejected, an amendment submitted by Senator Charles Grassley (R.-Iowa) earlier this year. The amendment would have limited those instances in which a party could recover attorney's fees and limited relief under the bills to actual damages. Recovery of attorney's fees would only be allowed in suits brought by businesses with not more than 500 employees, tax exempt organizations and individuals with a net worth of not more than \$1 million. Senator Grassley had previously attempted, albeit unsuccessfully, to add these restrictions to the Copyright Remedy Clarification Act

that abrogated state immunity for copyright infringement. The Senate Judiciary Committee recently approved S. 758 and S. 759 without any amendments.

COPYRIGHTS

Labelling Of Altered Films

The United States became a signatory to the Berne Convention two years ago. Among the rights afforded under the Berne Convention is an author's moral right in his work. A moral right is an inherent right of an author to claim authorship of a work and prevent its destruction or alteration. At the time the United States joined the Berne Convention, the U.S. copyright laws did not specifically provide for moral rights. Congress ultimately decided, however, that the copyright law existing at the time provided all the moral rights necessary to join the Berne Convention. Congress subsequently passed legislation last year that granted limited moral rights to creators of visual works of art to prevent the destruction or alteration of their works.

The creators of motion pictures also had sought similar rights to prevent alteration of their films. Early on, however, it became apparent that granting a right to prevent alteration of a film could create havoc in the world of film making and film distribution. Movies are generally collaborative efforts made for hire. A grant of moral rights for films could interfere with the marketing and distribution rights of the copyright owner. Movies also exist in multiple copies unlike original works of visual art. The focus, therefore, turned to actions that authors could take to let the public know that they were viewing a materially altered film. Rep. Robert Mrazek introduced a bill last year that would amend Section 43 of the Lanham Act to require the labelling of materially altered films. The amendments would require that each public exhibition and materially altered copy of a film include a label indicating that the film has been altered, the nature of the alteration and whether the original author of the film objects to the alteration. The bill requires the distributors of materially altered films to contact the original authors to obtain objections. The bill also provides for statutory damages of up to \$100,000.

Senators Alan Simpson (R.-Wyo.) and

Howard Metzenbaum (D-Ohio) recently introduced a counterpart bill to H.R. 3051. S. 2256 contains labelling requirements for materially altered films similar to those contained in H.R. 3051. Under S. 2256, a material alteration includes, but is not limited to, the processes of colorization, lexiconning (alteration of a film's soundtracking), time compression or expansion (speeding up or slowing down a film), and panning and scanning (changing the movie's dimension and perspective to fit a wide-screen movie into a T.V.'s dimensions). Any film that is materially altered would have to contain a label that clearly and conspicuously disclosed that the film had been materially altered from the form in which it was first released, the nature of the alteration and whether the author objected to alteration.

Unlike its House counterpart, however, S. 2256 would prevent an artistic film creator from receiving more than \$1 for waiving the right to object to material alteration. In introducing the bill, Senator Simpson explained that this provision will prevent film creators from using their newly created right as leverage in contract negotiations with studios. Under S. 2256, once a distributor of a materially altered film has contacted the authors of the film to determine whether there is an objection, no subsequent commercial users need to contact the author, unless that user makes additional alterations.

Tax Consequences of Business Acquisitions

The acquisition of an entire business usually involves the purchase of both tangible and intangible assets. For the buyer, the IRS currently provides an amortization deduction for acquired intangible assets if they have an identifiable value separate from goodwill and a determinable useful life. Under current law, goodwill, and in most instances trademarks and tradenames, are not depreciable because they are deemed to have an indeterminable useful life. Acquired patents and copyrights, however, are depreciable if they are assigned an identifiable value in the course of the transaction. Generally, the value of copyrights and patents cannot be amortized when they are acquired in a bulk transfer of business assets.

The buyer's primary incentive is to maximize the amount of the purchase price allocated to allowable depreciable intangible assets, thereby resulting in more depreciation deductions to reduce taxable income over the life of the assets. The nature of this tax treatment has led to disputes over the type of intangible assets acquired as well as disputes over the amount of the purchase price attributable to particular intangible assets.

Representative Dan Rostenkowski introduced a bill (H.R. 3035) last July that would alleviate these controversies by simplifying the amortization rules when a business is acquired. The bill would allow amortization of acquired intangible assets such as goodwill, trademarks and patents and copyrights acquired in a bulk transfer over a single 14-year period. The bill as originally introduced would apply only prospectively to property acquired after the date of enactment.

During the House Ways and Means Committee hearings on H.R. 3035, Representative Rostenkowski stated that he would consider arguments in favor of making this legislation retroactive in light of the numerous pending cases that would be affected. The Treasury Department and the General Accounting Office both voiced support for the bill during the hearings but opposed retroactive application. Representatives of the software industry questioned whether the single 14-year amortization period would be detrimental to copyrighted software that generally has an economic life of less than 14 years. Representatives of the American Electronics Association, the Software Publishers Association and the Computer Equipment Manufacturers Association all spoke against H.R. 3035 on that ground. Representatives of the American Bar Association Section on Taxation spoke in favor of the bill and the single recovery period but suggested that the Treasury Department should study whether the useful lives of intangible assets vary widely among different industries.

A modified version of H.R. 3035 now appears in a comprehensive tax proposal recently introduced by Rep. Rostenkowski and Rep. Richard Gephardt. The bill is entitled "Tax Fairness and Economic Growth Act of 1992." The modifications relate to the treatment of computer software. Under the modified bill, certain

computer software would not be entitled to the 14 year amortization rules. ■

RECENT DECISIONS OF INTEREST

by Thomas A. O'Rourke

COPYRIGHTS —TERMINATION RIGHTS UNDER §304(C)

In *Larry Spier Inc. v. Bourne Co.*, 43 BNAPTCJ 270 (2d Cir. Jan. 9, 1992), the Second Circuit Court of Appeals held that a songwriter's widow and children's rights to terminate an assignment of "music assets" were unabridged by the songwriter's will. In a case of first impression, the Court stated that allowing a songwriter's testamentary intent to dominate termination rights under §304(c) would undermine the intent of Congress.

Dave Dreyer took part in writing five songs, the copyright interest to which was assigned to Irving Berlin, Inc., the respondents' predecessor in interest. The first copyright term to these songs expired between 1953 and 1959.

In 1951 Dreyer assigned the renewal right to the copyrights to Bourne Co. Bourne thereafter renewed the assigned copyrights. These copyrights were to expire between the years 2000 and 2006.

In 1967, Dreyer died leaving a 1965 will. Under the will, Dreyer placed, inter alia, the copyright and renewal rights thereof in a testamentary trust from which income would be distributed to Dreyer's wife, son, daughter and mistress. In 1981, Dreyer's family attempted to recapture ownership of the copyrights by terminating the assignment to Bourne Co. Later, Dreyer's family executed an assignment of the purported reacquired copyrights in the songs to Larry Spier, Inc. When Bourne Co. refused to recognize the termination and the reassignment, Larry Spier, Inc., brought suit.

Section 304(c) of the Copyright Act gives an author, his wife or his children the right to terminate the grant of a transfer or license of the renewal rights or any right under it made by the author "otherwise than

by will."

Bourne argued that Dreyer's family had no termination rights since Dreyer's will conveyed the copyrights and renewal rights before any termination rights had vested. The district court agreed. However, the Second Circuit of Appeals reversed. The Court held that:

In view of the unqualified and unambiguous language of the assignment agreement, Dreyer did not have any "right under" the renewal copyrights remaining at the time he executed his Will. Literally, all of Dreyer's rights already had been transferred to Bourne in 1951, notwithstanding the language employed in Dreyer's Will to describe the assets placed in the testamentary trust.

While the 1951 assignment agreement may have constituted a "publishing contract" as that term is used in Dreyer's Will, the agreement did not reserve to Dreyer any "right under" the renewal copyrights for purposes of Section 304(c) because it expressly granted all such rights to Bourne.

Thus, none of Dreyer's testamentary transfers actually involved a property right covered by Section 304(c). Rather, all rights to which Section 304(c) refers had been transferred from Dreyer to Bourne by ordinary contract in 1951 (i.e., "otherwise than by will," in the language of the statute). Therefore, the Dreyer family had the right, under the statute, to terminate the 1951 assignment and recapture the renewal copyright for the family. Accordingly, post-termination assignments of the renewal copyrights by members of the Dreyer family to Spier were not invalid under Section 304(c).

LANHAM ACT — ABANDONMENT

In *Silverman v. CBS, Inc.*, 870 F.2d 40 (2d Cir. 1989), the Second Circuit Court of Appeals held that an infringement suit cannot excuse non-use of a trademark. However, recently, in *Stetson v. Howard D. Wolf & Associates*, 43 BNAPTCJ 346 (2d Cir. Feb. 6, 1992), the same court held that the time spent by a manager of a singing group litigating ownership of the name of the group, "The Diamonds," was not a period of non-use.

During the 1950's a singing group called "The Diamonds" had a number of hit songs. In 1958, Nathan Goodman, who was the group manager, obtained exclusive rights in the tradename and later obtained outright ownership. In 1967, Goodman, while continuing as manager, licensed the use of the tradename to the group. The group, however, did not pay the royalties that incurred under the license.

In 1973, a court adjudicated Goodman as the owner of the name and granted royalties and an injunction against further un-

authorized use of the name. However, one of the singers Stetson continued to perform in a group using "The Diamonds" as its name. In 1974, a second group led by singer Duncan was licensed by Goodman to use the name. Ultimately, Diamond Productions, Inc., acquired all rights in the name from the Goodman family and estate.

In 1984, Stetson sued Duncan and Howard G. Wolf & Associates for infringement, contending that Goodman had abandoned the tradename as evidenced by Goodman's failure to use the name between 1968 and 1973. The district court however, held that Goodman "never intended to abandon" the name. On appeal, the Second Circuit agreed with Stetson that the district court's "intent to abandon" test was in conflict with the holding in *Silverman*. The court stated:

Based on the *Silverman* analysis, a court must look to the trademark holder's occupation or business to determine what constitutes use of the mark. For example, in this case, if the Diamonds singing group held the trademark to its name and ceased touring, making and releasing records, and receiving royalties, it would be deemed to have ceased use of its trade name because the public would no longer identify the group name with its members. In cases of the kind before us, where a group's manager holds the trademark, non-use becomes a more difficult inquiry because the mark receives its public recognition through the visibility of the performers. Yet the manager's actions certainly contribute to the group's publicity. By arranging tours, organizing record production, negotiating contracts, finding television and radio spots, and performing other managerial activities, the manager works to increase the popularity of the group by expanding its public exposure. But what activities must the manager engage in to constitute use when the performers turn their backs on their agreement with him?

The Court affirmed the district court's decision by holding that *Silverman* was inapplicable to the present facts.

PATENTS — OBVIOUSNESS

In *In re Jones*, 43 BNAPTCJ 379, the Federal Circuit refused to adopt the solicitors' contentions that "[t]he relative size of the genus disclosed by the prior art [is not] a controlling factor in determining whether a *prima facie* case of obviousness exists for a species encompassed within the described genus."

The Court distinguished the holding in *Merck & Co. v. Biocraft Labs, Inc.*, by stating:

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We decline to extract from *Merck* the rule that the Solicitor appears to suggest that regardless of how broad, a disclosure of a chemical genus renders obvious any species that happens to fall within it. In *Merck*, at issue on appeal was whether claims to a composition of two diuretics, amiloride and hydrochlorothiazide, present in a particular "medically synergistic" weight ratio, would have been obvious in view of a specific prior art disclosure of amiloride in combination with hydrochlorothiazide, one of 1,200 such combinations disclosed in the prior art reference.

Based on the facts before it, including evidence at trial that the experimentation needed to arrive at the claimed dosage was "nothing more than routine," ... the court affirmed the trial court's determination of obviousness. In contrast, though the prior art discloses potentially infinite genus of "substituted ammonium salts" of dicamba, and lists several such salts, the salt claimed here is not specifically disclosed. Nor, as we have explained above, is the claimed salt sufficiently similar in structure to those specifically disclosed in the prior art as to render it *prima facie* obvious. Every case, particularly those raising the issue of obviousness under section 103, must necessarily be decided upon its own facts.