THE NEW YORK PATENT, TRADEMARK AND COPYRIGHT LAW ASSOCIATION

NYPTC BULLETIN

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PRESIDENT'S CORNER

Any year is 365 days long, but some years seem to go more quickly than others. When this happens to me, as it did this year, I find myself looking back at what I have accomplished in order to verify that, in fact, a year has passed. This was not the "ideal" year in my career to be president. Too many things were happening in my department for me to be the active president I intended to be. But 1992-93 was "my year" and in spite of time pressures and other demands, because we had good board members and committee chairs, we accomplished enough this year to be able to look back with satisfaction on the Association year 1992-93.

Three board members who helped us through this year are completing their terms and I would like to thank them for three years of service: Bob Baechtold, Dave Mugford and Virginia Richards.

Dale Carlson and the Committee on License to Practice Requirements have helped the Association come into the 1990's as the New York Intellectual Property Law Association, Inc.

The CLE Committee, under Ed Vassalo's chairmanship, has run two excellent CLE programs this year. The Fall CLE Weekend in Princeton last September was not widely attended but those who went were treated to, among other things, a lively debate on the powers of the Commissioner of Patents & Trademarks. Harry Manbeck and Judge Wohlin's observations and comments were memorable.

The committee also hosted the Ninth Joint Patent Seminar at a new and improved location (Grant Hyatt). Crowds once again flocked to this informative and inexpensive program. I have proposed to Bill Gilbreth that perhaps we should consider doing a similar program in the fall.

The patent harmonization seminar in March was well attended and well run. Mike Meller, Bill Brunet and their respective committees on Foreign Patent Law and Patent Harmonization should be proud that the material from this program is likely to be used by the Clinton Administration to educate themselves on the complex issues involved in harmonizing the world's patent laws. This program was run at Fordham Law School and we hope to continue this relationship with Fordham.

Ed Filardi and the Host Committee have planned a reception for the ABA Intellectual Property Section in August at the United Nations Delegates Lounge. We hope to see you all there.

The Judges' Dinner, with speaker Mayor Ed Koch, was a social and financial success.

We didn't draft any new legislation or testify before any Congressional committees, but this year was a time of political transition. I will leave those loftier tasks to the next President, Bill Gilbreth, and the others who come after me.

Thank you for your support this year. I'm happily joining the ranks of the "Past Presidents."

– M. Andrea Ryan

CALENDAR OF EVENTS

June 14-July 30, 1993	Seventh Annual Intellectual Property Summer Institute Sponsored by Franklin Pierce Law Center, Concord, NH
June 17-18, 1993	Fourth Annual Licensing Law Institute Sponsored by Prentice Hall Law & Business Englewood Cliffs, NJ
June 20-23, 1993	Association of Corporate Patent Counsel, Coeur d'Alene Resort, Coeur d'Alene, Idaho
June 24-25, 1993	Practising Law Institute Intellectual Property/Antitrust program, PLI Training Center, New York, NY
August 5-12, 1993	ABA-PTC Section, Annual Meeting, New York Marriott Marquis, New York, New York

OTHER PEOPLE'S MONEY: PROCEDURES AND PITFALLS IN HANDLING CLIENT FUNDS

This article is reprinted with permission from the pamphlet, "Other People's Money," *published by the Committee on Professional Discipline of the Association of the Bar of the City of New York, in association with Coopers & Lybrand.*

The basic rule is simple. A lawyer who, as an incident to professional practice, holds money belonging to another, whether a client or a third party, must keep that money in a separate account maintained in a banking institution.[1] The account must be identified as an "Attorney Special Account," an "Attorney Trust Account," or an "Attorney Escrow Account."[2] This money may not be commingled with money belonging to the law office or to the lawyer personally. The new bounced check rule, which went into effect January 1, 1993, provides a fitting opportunity to revisit these important obligations and to reinforce the fine points of their observance.

Safeguarding money being held for a client is of such significance that the biennial New York State lawyer re-registration form requires a signed certification by each attorney that he or she has read the pertinent section of the Lawyer's Code of Professional Responsibility as adopted in New York and is in compliance with it in all four departments of the Appellate Division and with the related rules of the First and Second Departments. It is well to note that these rules of the two downstate departments allow random reviews and audits of all attorney financial records to ascertain compliance with the Code by attorneys within those jurisdictions.[3]

Observing strict fiduciary duty is basic to the handling by an attorney of the funds of another and ought to be automatic and unequivocal. Nonetheless, a substantial portion of complaints against lawyers stem from mishandling of clients' funds. In some cases, defalcations have been deliberate and calculated, and in many other instances carelessness and ignorance have led to difficulties and at least the appearance of impropriety. In an age in which the social value of lawyering—if not overlawyering—and the ethics of lawyers are being severely criticized, increased awareness of and control over mishandling of client funds can yield dividends in the form of much needed public approval of attorneys' self-policing efforts.

THE RESPONSIBILITIES OF THE ATTORNEY

The attorney must deposit into one or more escrow accounts all funds that belong in whole or in part to a client or a third party, even if those funds presently or potentially belong to the attorney. The portion that belongs to the attorney may be withdrawn when due unless there is a dispute over the lawyer's right to receive it. The disputed portion may not be withdrawn from the escrow account until the dispute is finally resolved.[4]

The attorney has the responsibility for identifying to the banking institution those accounts intended to hold money that belongs to clients or third parties, or to which such persons have a direct claim. The lawyer is responsible also for seeing that the account is given the special distinctive title identifying it as an escrow account, and for obtaining checks and deposit slips bearing the special designation.[5] In light of the bounced check rule as of January 1, 1993, it is essential for all attorneys to confirm to each of the applicable banks which of their accounts are escrow accounts and therefore subject to the rule.

A separate escrow account may be maintained for each client or matter, or a single account may serve as the repository of funds belonging to many clients provided that the attorney maintains appropriate and adequate records of the account.

Recordkeeping Procedures

1. Signatory. As signatory for any escrow account, use only an attorney admitted to practice in New York State.[6]

2. Notification. Promptly notify the client or third party of the receipt of funds in which the person has an interest.[7] Deposit the entire amount intact in the appropriate escrow account, and make entry on the duplicate deposit slip sufficient to identify each item.

3. Payment. When the client or third party requests payment of funds held by the attorney to which the person is entitled, pay over such funds promptly.[8] Withdraw or disburse funds from escrow accounts only by authorized wire transfer or by check payable to a named payee, not to cash.

4. Account books. Maintain journal and ledger books with entries for all receipts and disbursements incident to the attorney's practice of law, including funds placed in escrow accounts and those placed in the attorney's business or office accounts. Make all entries at or near the time of the act, condition or event recorded.[9] Include sufficient text explanation of each entry to document it for audit purposes. Reconciliations of balances of all journals, ledgers, checkbooks, bank statements and other financial records should be prepared monthly.

5. Missing client. If money held by the attorney is payable to a client but the client cannot be found, apply to the court where the relevant action was brought, or if no action was commenced, to the Supreme Court in the county where the attorney's office is located, for an order directing payment to the attorney of the attorney's fee and disbursements, and to the clerk of the court of the balance due the client.[10]

6. Dissolved firm. Upon the dissolution of any firm of attorneys, one of the members of that firm, or a successor firm, must maintain the required records for the mandated periods.[11]

7. Interest. Any interest payable on escrow account belongs to the client or other person whose money earned the interest. The only exception is interest on money deposited in an IOLA[12] account, which is payable directly by the banking institution to the IOLA Fund. There is no obligation under the disciplinary rules to place client or third party escrow funds in an interest-bearing account rather than in an IOLA account, but the prudent-person requirements of agency law may require that large sums and long-term deposits be held in a money-market account or under a certificate of deposit.

8. Real Estate Deposit. If the attorney holds in escrow the deposit down payment of the buyer of a previously-occupied one-

or two-family house, a condominium unit, or a cooperative apartment, a 1991 statute[13] ...ifies the attendant fiduciary obligations ... stipulates that the real estate purchase contract must identify the escrow agent and the bank where the escrow funds are to be held until the title closing. These escrow funds are to be held in the same manner as all other escrow funds held by the attorney, and are not to be commingled with the attorney's personal or business accounts.[14]

9. Advance legal fees. If the lawyer-client fee agreement stipulates that an advance of legal fees or a retainer becomes the property of the attorney when paid, it should be deposited in the attorney's office or business account and not in the escrow account,[15] but under most circumstances must be refunded at the close of the retention to the extent that it has not reasonably been utilized. On the other hand, if the payment is a fixed fee, it is not recoverable by the client if it is at all reasonable in amount as to the agreed upon service rendered. If the fee agreement is silent or provides that the retainer remains the property of the client until earned, it must be held in an escrow account until earned. In every instance other than the ...sonable fixed fee, any unearned funds ...maining at the end of the engagement must be returned to the client.[16]

Computerized Recordkeeping

Administering multiple, active escrow accounts by hand in paper ledgers can be a daunting task. A less than exhaustive search for licensable software programs to provide computer-based tracking for attorneys' escrow accounts yielded only one system.[17] This four-year-old program, originally developed by a management consultant for his lawyer client, is DOS-based and requires a hard disk drive and at least 480 kilobytes of available random access memory. The program handles an unlimited[18] number of clients and banks, and serves as a journal and ledger for all escrow accounts maintained by an attorney. It also facilitates bank statement reconciliations by allowing for a notation when an item has cleared, and then reporting outstanding uncleared items. The program can produce a variety of reports, and simplifies recordkeeping by asking for ...data and explanatory text entry for each transaction via on-screen entry templates. A supplementary module produces laser-printed checks for individual disbursements as they are entered into the program.

Records Retention

On a current basis, and extending for seven years after the events they memorialize, the attorney must maintain the following records:[19]

1. Records of all deposits in and withdrawals from all escrow accounts and all other accounts that record the operations of the attorney's entire practice of law including his or her escrow accounts. For each deposit, a record must be kept of the date, source and description of each item deposited. For each withdrawal or disbursement, the date, payee and purpose must be recorded.

2. The names of all persons for whom funds are or were held, the sources of the funds for each such person and the names of all persons to whom such funds were disbursed.

3. Copies of all retainer and compensation agreements with clients.

4. Copies of all statements to clients or other persons or entities showing disbursement of funds to them or on their behalf.

5. Copies of all bills rendered to clients.

6. Copies of all records showing payments to attorneys, investigators or other persons, not in the regular employ of the attorney, for services rendered.

7. Copies of all retainer and closing statements filed with the Office of Court Administration.

8. All original checkbooks and check stubs, bank statements, canceled and voided checks, duplicate deposit slips and all other documents relating to all escrow accounts and all other accounts that record the operations of the attorney's practice and business of law.

9. Journal and ledger books showing all receipts and disbursements incident to the attorney's practice of law.

10. Copies of those business records, including client files, reasonably necessary for a complete understanding of the financial transactions of the attorney's practice.

Review and Audit of Records

The records delineated here must be maintained with confidentiality so as not to violate the attorney-client privilege, and must be retained or made available at the principal New York State office of the attorney as required by the Appellate Division or by the appropriate grievance or disciplinary committee.[20]

The records are subject, during the entire period of their retention, to random review and audit by a representative of the Appellate Division, pursuant to a notice or subpoena from the appropriate disciplinary committee.[21]

The attorney must file an affirmation of compliance with the rules governing financial records (22 NYCRR 1200.46 and 603.15 or 691.12) as part of the biennial attorney re-registration procedure.[22] An attorney who does not maintain the accounts and records as stipulated here, or who does not produce the required records as ordered, is subject to disciplinary proceedings.[23]

THE ROLE OF THE BANKING INSTITUTION

Where to Hold Escrow Funds

Attorney escrow accounts must be maintained in a "banking institution," which is defined for this purpose as a state or national bank, trust company, savings bank, savings and loan association or credit union.[24] The banking institution must be within New York State unless the prior written approval of the use of the specific out-of-state bank has been given by the person to whom the funds being held belong.[25] Whether within or without the State, the banking institution holding the account must have agreed to abide by the new bounced check rule, which became effective January 1, 1993.[26] The Lawyers' Fund for Client Protection[27] maintains a central registry of all banking institutions whose agreements to abide by the bounced check rule have been approved. It is important to note that it is the attorney's responsibility to assure that the banking institutions he or she utilizes are those that have agreed to the rule.

The Bounced Check Rule

The bank in which the escrow account is maintained must provide dishonored check reports to the Lawyers' Fund for Client Protection. Such a report must be generated whenever a check that would otherwise be properly payable is dishonored because of insufficient available funds. The report must

be sent to the Lawyers' Fund within five banking days of the dishonor, and will be held by the Fund for ten business days. If during that time a bank error is discovered and the check should have been paid, notice by the bank to the Fund will cancel the previous notice of dishonor. If the bounced check is covered with a subsequent deposit, the account may be cleared, but the dishonor notice will not be rescinded.[28] Following the ten-day waiting period, if the notice of dishonor has not been withdrawn, the Lawyers' Fund must notify the attorney disciplinary or grievance committee in the judicial department that has authority over the attorney maintaining the escrow account. That committee will then investigate the matter. When the committee receives a bounced check notification from the Fund, it will treat the matter as a disciplinary complaint and will send a letter to the attorney calling for submission of bank account records for six months previous to the bounced check. It will follow up on the letter to obtain an explanation for the problem. The view of the disciplinary committee will be that there is a rebuttable presumption that something is wrong. If a satisfactory and proven explanation is given, the "complaint" will be dismissed, but the disciplinary record will not be expunged.

This may be viewed as unfairly creating a disciplinary record when the complaint is dismissed. However, it is consistent with the existing disciplinary structure, where all other complaints lodged against an attorney become part of his or her permanent record, even if they are dismissed as unfounded. Countering this apparent detriment, the record showing that the complaint was dismissed is a permanent vindication of the attorney in the matter. The existence of the bounced check complaint mechanism may also serve as an early warning system to detect signs of possible misuse by a lawyer of funds to which fiduciary duties attach.

KINDS OF ACCOUNTS

IOLA Accounts

"Interest on Lawyer Account" is a program established in 1983 and expanded in 1988 to provide funds for legal services to the poor and to improve the administration of justice in New York. It is administered by the IOLA Fund[29] and is funded by the interest earned on attorneys' escrow accounts used to hold pooled deposits of small sums or money being held only for a short time. Every New York attorney who receives funds belonging to clients must have an IOLA account and must use it to generate interest on a pooled basis from those escrow funds that are not held in accounts which pay interest to the beneficial owners of the funds. Whether funds should be deposited in an individual escrow account or pooled in the attorney's IOLA account is a matter of the lawyer's judgment and discretion after considering the amount of the deposit and the time it is expected to be held. As a guide,[30] if the funds relating to a particular matter are not expected to generate more than $100 in interest, the attorney may wish to elect to hold the funds in the IOLA account. The financial institution that administers the IOLA account will send the interest earned on it directly to the IOLA Fund.

Escrow funds not pooled into the attorney's IOLA account must be kept in one or more escrow accounts whose interest is credited to the beneficial owners of the deposited funds. Completely separate accounts can be used for each client or matter, but the administrative details and paperwork may be disproportionate. On the other hand, the interest generated by a single account would have to be apportioned to the individual clients, with appropriate tax forms prepared.

Master Escrow Accounts

As a practical alternative, at least one bank[31] offers a compromise, which it calls a Master Escrow Attorney Trust Account. The Master Escrow is a non-interest-bearing disbursement checking account. Tied into this disbursement account are any number of individual money-market interest-bearing sub-accounts for each client or matter. Each sub-account is maintained under the social security number or federal taxpayer ID number of the client, with the bank sending individual 1099 tax forms to report the interest. A zero balance can be maintained in the disbursement account until it is necessary to make a payment from one of the sub-accounts. At that point, a telephone authorization is made to the bank to transfer the requisite funds from the sub-account to the disbursement account. A check is then drawn on the disbursement account for the payment. The bank supplies the attorney with monthly statements showing the activity in the disbursement account and all sub-accounts, including balances, deposits, withdrawals and interest credited.

SUMMARY

As stated at the outset, the basic rule is simple: attorneys must hold client and third party moneys in separate accounts at qualified banking institutions. Because lawyers have been holding other people's money since Blackstone was a boy, the application of the basic rule to most every situation has been considered. With the adoption of the bounced check requirements, the clarity of the rule is supplemented by an automatic alarm system which alerts the appropriate department disciplinary or grievance committee of possible violations. Accordingly, a modest amount of attention paid to these simple strictures will save the practitioner a world of woe.

ENDNOTES

[1] Disciplinary Rule DR 9-102(a) of the Lawyer's Code of Professional Responsibility, 22 NYCRR 1200.46(a).

[2] DR 9-102(b)(2), 22 NYCRR 1200-46(b)(2).

[3] *Infra* note 22.

[4] DR 9-102(b)(4), 22 NYCRR 1200.46(b)(4).

[5] DR 9-102(b)(2), 22 NYCRR 1200.46(b)(2).

[6] DR 9-102(e), 22 NYCRR 1200.46(e).

[7] DR 9-102(c)(1), 22 NYCRR 1200.46(c)(1).

[8] DR 9-102(c)(4), 22 NYCRR 1200.46(c)(4).

[9] DR 9-102(d), 22 NYCRR 1200.46(d).

[10] DR 9-102(f), 22 NYCRR 1200.46(f).

[11] DR 9-102(g), 22 NYCRR 1200.46(g).

[12] Interest on Lawyer Account, see infra note 29 and accompanying text.

[13] General Business Law, Article 36-C, sections 778, 778-a.

[14] *Id.*

[15] DR 9-102(b)(3) allows funds belonging to an attorney to be deposited in an escrow account only to the extent "reasonably sufficient to maintain the account or to pay account charges." 22 NYCRR 1200.46(b)(3).

The Ninth Annual Joint Patent CLE Conference chaired this year by NYPTC CLE Committee Chairman Ed Vassallo, was a tremendous success. This year's program was hosted by the NYPTC on April 20 at the Grand Hyatt in New York City. Over 200 lawyers attended the all day session and heard panel discussions on patent litigation, U.S. and foreign patent prosecution, Biotech and unfair competition. The Joint Program is sponsored annually by The New York Patent, Trademark and Copyright Law Association, The New Jersey Intellectual Property and the Philadelphia and Connecticut Patent Law Associations.

In order to help the CLE Committee better meet your needs, we would like you to complete the survey below:

Size of IP Department _____

Primary Practice Area _____

Other Significant Practice Areas _____

How many CLE Programs have you attended in the past 2 years? _____

Would you prefer a one day CLE program during the week, in the city or a three day program on a weekend out of town? _____

How much should a one day CLE program cost? _____ a Weekend? _____

Does your employer pay for CLE attendance? _____

What specific topics would you be most interested in hearing about at a CLE Program?

_____

_____

_____

_____

If a CLE program was held on a weekend, when and where should the program be held?

_____

Please Return your survey to:

Robert E. Rigby, Jr., Esq.
Fitzpatrick, Cella, Harper & Scinto
277 Park Avenue
New York, NY 10172

[16] 22 NYCRR 1200.15.

[17] The ESCROW System™ is owned and licensed by Real-Time Computer Services Incorporated (547 Saw Mill River Road, Ardsley, New York 10502, telephone (914) 693-7000) and is available for $299.

[18] Limited only by the available disk storage space.

[19] DR 9-102(d), 22 NYCRR 1200.46(d).

[20] DR 9-102(h), 22 NYCRR 1200.46(h); App. Div. 1st Dep't Rules 603.15, 22 NYCRR 603.15; App. Div. 2d Dep't Rules 691.12, 22 NYCRR 691.22.

[21] 22 NYCRR 603.15, 691.12.

[22] 22 NYCRR 603.15(d), 691.12(d).

[23] DR 9-102(i), 22 NYCRR 1200.46(i).
[24] DR 9-102(b)(1), 22 NYCRR 1200.46(b)(1).

[25] *Id.*

[26] *Id.*; 22 NYCRR 1300(a).

[27] 55 Elk Street, Albany, New York 12210.

[28] Note that only a check dishonored for insufficient funds triggers the requirement of notice to the Lawyers' Fund for Client Protection. If there is an overdraft that the bank elects to cover by honoring the check, there has been no bounced check, and thus no notice requirement.

[29] Interest on Lawyer Account Fund of the State of New York, 36 West 44th Street, Suite 711, New York, New York 10036, telephone (212) 944-9640 or (800) 222-IOLA.

[30] As recommended by the Interest on Lawyer Account Fund.

[31] The Bank of New York. ■

MAYOR EDWARD KOCH SPEAKS AT JUDGES DINNER

by MaryAnne Dickey

The Honorable Mayor Edward I. Koch was the guest speaker at the New York Patent, Trademark and Copyright Law Association Inc.'s 71st Annual Dinner in honor of the Federal Judiciary. Mayor Koch entertained and enlightened more than 2500 Association members and guests at the dinner at the Waldorf Astoria Hotel on March 26, 1993 with his views on local and international current events.

Leading off his remarks with a personal note, Mayor Koch, who served three terms as mayor of New York City from 1978 through 1989 before losing his bid for a fourth term, commented that when faced with requests from the public to run in the next election, he invariably responds, "No, the people threw me out and now the people must be punished."

Moving on to a variety of social and political topics, Mayor Koch took aim at President Clinton for what he viewed as discarding various commitments relating to political refugees in Haiti, arms to Bosnia, taxes on the middle class and the status of gays and lesbians in the military. Mayor Koch said, "If I had known that that was the way to get elected, to make the commitment and then discard it, how easy life would have been."

Mayor Koch's most pointed criticism was directed toward the plight of the Muslims in Bosnia. Mayor Koch said, "They have a right to die on their feet with arms and they don't have them, and, it is an outrage that the United States has participated in depriving them of arms in my judgment."

Mayor Koch also strongly advocated against sending United States troops into the former Yugoslavia, offering his belief that the European NATO countries are obligated to do so. Mayor Koch surmised, "If we do it, we're nuts."

Having disposed of the situation in Bosnia, Mayor Koch quickly moved on to voice his support for Boris Yeltsin, and, to offer his endorsement of various issues including mandatory jail sentences, the construction of more jails by the federal government and a mandatory peace corps for everyone who reaches age eighteen.

Mayor Koch concluded his remarks with a few humorous anecdotes and received a warmhearted ovation from the Association members and their guests. ■

NEWS FROM THE BOARD OF DIRECTORS

by William H. Dippert

The Board of Directors met on March 16, 1993. Andrea Ryan presided.

Howard Barnaby provided the Treasurer's Report. He indicated that the Association's bank balance is very healthy due to receipts for the Judge's Dinner, the Harmonization Program, the Host Committee function, and the upcoming Joint Patent Seminar. Also, Mr. Barnaby thanked Gregory Battersby for providing a computer program useful for keeping track of certain monies. Upon motion the Treasurer's Report was approved.

Ms. Ryan provided a listing of suggested topics for the speaker for the Judges Dinner. After limited discussion it was agreed to suggest that the speech focus on political matters, including political campaigns and the relationship between politicians and the press.

Mr. Razzano provided a report concerning the Judges Dinner. He indicated that over 2500 persons were expected and that seating at tables in the main ballroom was being increased from 10 to 11 to accommodate the extra attendees. This will avoid use of the Starlight Room as an additional TV room.

Ms. Ryan led discussion concerning the manner in which honored guests would be introduced. There was spirited discussion on this point, after which Ms. Ryan indicated she would take the comments of the Board under consideration.

Mr. Saxon reported on the Harmonization Program. He indicated that a three-ring binder book will be prepared and that the program would be subject to audio and video taping. Also, he reported that 42 individuals have signed up for the program and that about 10 more would be needed to break even. Mr. Saxon suggested that each firm or corporation consider sending one additional person.

Ms. Ryan led discussion concerning the opening on the Court of Appeals for the Federal Circuit, with particular reference to letters sent to Board members by John

Pegram. After discussion of whether Mr. Pegram should receive the Association's exclusive endorsement, it was agreed that the Association would provide a letter of support with reasons for his qualifications. A motion to this effect was approved unanimously.

With respect to the Joint Patent Seminar, Ms. Ryan reported that preparations are moving along and that announcements should be out shortly.

Ms. Ryan led discussion concerning selection of a delegate to the WIPO Harmonization Diplomatic Conference in July. After discussion it was agreed that one of Ms. Ryan, Mr. Razzano, and Mr. Gilbreth would attend as the Association's representative.

Mr. Gilbreth reported that the ABA has decided to nominate Judge Markey and that Judge Rich's former law clerk has withdrawn his efforts on behalf of Judge Rich.

Mr. Creel reported on the annual meeting, where the speaker will be the Dean of Columbia Law School. Also, he indicated that he is hoping to have firms support law student attendees, particularly those involved in the writing competition. Further, with regard to the attendance of past presidents, it was unanimously agreed that the policy of supporting the attendance of past presidents and inviting them to Board meetings, would be continued.

With regard to the ABA Host Committee function, Mr. Filardi reported that about $26-27,000 in contributions has been received. He feels that the solicitation is proceeding well. ■

PENDING LEGISLATION

by Edward P. Kelly

ANTITRUST

Joint Production Agreements

Companies entering joint research and development agreements are, to a degree, insulated from the antitrust laws. The National Cooperative Research Act (NCRA) enacted in 1984, provides that joint R&D ventures challenged as antitrust violations must be judicially reviewed under a rule of reason analysis. A court cannot find a joint R&D venture to be a per se violation. The NCRA also limits the potential liability of joint R&D ventures to actual damages and attorney's fees provided that the joint venture had been disclosed to the Federal government from inception.

Supporters of the NCRA have sought for the past three years to use its provisions to encourage joint *production* ventures. Bills introduced in both the House, H.R. 2264 (Fish R-NY) and Senate, S. 1006, (Leahy D-VT) in recent years would have amended the Act to include joint production ventures. Those bills would have provided that joint ventures entered into for producing a product, process or service must be reviewed under a rule of reason analysis. The bills provided that a court, in assessing the relevant market, could consider the worldwide capacity of suppliers to provide the product, process or service. In the traditional rule of reason analysis, the relevant market is defined by reference to a particular market in the United States only.

Similar bills (H.R. 1313, S. 574) were recently introduced into the House and Senate. These bills require that for a joint venture to qualify, the principal production facilities of the joint venture must be located in the U.S. The bills' provisions currently apply to U.S. companies and foreign companies whose nations' laws afford similar treatment to U.S. companies.

Earlier versions of these bills provided that the bills apply only to joint ventures that operated from facilities located in the United States or its territories. The bills did not apply if more than 30% of the joint venture was controlled by foreign entities. Critics of these provisions stated at the time that discrimination against foreign participation was contrary to existing trade agreements with foreign nations (particularly Canada), as well as the United States' objectives in the current Uruguay round of negotiations in the General Agreement on Tariffs and Trade (GATT). These particular provisions were modified, resulting in the present provisions.

Both bills have been approved by the House and Senate Judiciary Committees.

Biotechnology and Process Patents

Bills are currently pending in the House (H.R. 760) and Senate (S. 298) that would provide patent protection to a biological process that uses a novel and unobvious starting material. At one time these bills were not limited to biotechnology but could have applied to all processes. In order to understand how this change came about, a brief history of these bills is in order.

The bills originated with members of the biotechnology industry who lobbied for legislation that would effectively overrule the Federal Circuit's decision *In re Durden*, 763 F.2d 1046 (Fed. Cir. 1985). That case involved claims to novel compounds, a novel starting material and an allegedly novel process of making the novel compounds. The PTO issued the applicant patents claiming a novel oxime compound and a novel insecticidal carbamate compound. Claims also were issued for a novel oxime compound starting material used in the process of making the compounds. The PTO, however, rejected the applicant's claim to a novel process of making the novel carbamate products from the novel oxime starting materials on obviousness grounds. The Board of Appeals affirmed that decision.

The issue submitted to the Federal Circuit was whether a chemical process for making a product, otherwise obvious, is patentable because either or both the specific starting material employed and the product obtained are novel. The Federal Circuit affirmed the Board of Appeals stating that the novelty of either the starting material or final compound or both do not necessarily render a process of making the compound patentable. In the Federal Circuit's view, the process claim would be subject to an ordinary obviousness analysis.

Although *In re Durden* involved a chemical process, the biotechnology industry seized upon it as having detrimental effects on biotechnology. Critics of *In re Durden* state that the decision may mean that the PTO will not allow claims for processes of making biochemical products where the starting material is novel but an otherwise known process is used to make the final product. The biotechnology industry considers that result unfair. The industry believes that significant invest-

ments in biotechnological processes should be protected. The industry also points out that patents are granted in Europe and Japan on biotechnological processes that would be rejected in the PTO.

The biotechnology industry had also complained about the ITC's inability to bar the importation of drug products manufactured abroad through the use of a biochemical intermediate protected by a U.S. patent. Section 337 allows the ITC to exclude products manufactured abroad by a process patented in the United States. *In the Matter of Certain Recombinant Erythroprotein*, No. 337 TA-281 (1989), Amgen held a patent claiming recombinant DNA sequences, vectors and host cells used to produce the product EPO. The patent did not claim the EPO product. Amgen sought to exclude an EPO product manufactured in Japan through the use of Amgen's patented host cell. The ITC however, refused to bar the importation of the drug EPO based upon Amgen's complaint. The ITC held that it lacked jurisdiction over the complaint because Amgen did not have any process claims. The ITC rejected Amgen's argument that although it did not have any "traditional process claims," the claims were drawn to "living, dynamic host cells that covered both the cells and intracellular processes."

A bill introduced in 1990 by Representatives Rick Boucher (D-VA) and Carlos Moorehead (D-CA) responded to these biotechnology industry concerns. The "Biotechnology Patent Protection Act of 1990" (H.R. 3957) would have amended Section 103 of the patent law to provide that "a process of making a product shall not be considered obvious under this section if an essential material used in the process is novel under Section 102 and otherwise non-obvious under Section 103." The bill also would have altered the results in Section 337 cases by amending that Section to allow the ITC to exclude imported products that "are made, produced or processed under, or by means of, the use of a biotechnological material . . . covered by a valid and enforceable United States patent." Section 271(h) of the patent law also would have been amended under H.R. 3956 to allow recovery in the District Court. Senator DeConcini (D-AR) had introduced an identical bill (S. 2326) in the Senate.

Rep. Boucher later replaced H.R. 3957 with a bill (H.R. 1417) that limited the legislative remedy to an amendment of Section 103 while eliminating the provisions expanding ITC and district court jurisdiction. Senator DeConcini then introduced an identical bill (S. 654). Both bills would have provided the following new subsection (c) to 35 U.S.C. § 103:

> When a process of making or using a machine, manufacture, or composition of matter is sought to be patented in the same application as such machine, manufacture, or composition of matter, such process shall not be considered as obvious under this Section if such machine, manufacture or composition of matter is novel under Section 102 and nonobvious under this section. If the patentability of such process depends upon such machine, manufacture or composition of matter then a single patent shall issue on the application.

The Senate Subcommittee later approved an amended bill substantially similar to S. 654. Under the amended bill, however, the process claims and the machine, manufacture or composition of matter claims may be in different patents as long as they are owned by the same person and set to expire on the same date. The amended version of S. 654 also contained Section 2 entitled "Presumption Of Validity" that would add the following sentence to 35 U.S.C 282:

> A claim issued under the provisions of Section 103(c) of this title on a process of making or using a machine, manufacture, or composition of matter shall not be held invalid under Section 103 of this title solely because the machine, manufacture or composition of matter is determined to lack novelty under Section 102 of this title or to be obvious under Section 103 of this title.

None of these bills made any express reference to being limited to biotechnological processes. S. 654, however, was amended in the Senate last year and was limited to biotechnological processes. A biotechnological process is defined as:

> [A]ny method of making or using living organisms, or parts thereof, for the purpose of making or modifying products. Such term includes recombinant DNA, recorbinant RNA, cell fusion including hybridoma techniques, and other processes involving site specific manipulation of genetic material.

The Senate amendment of S. 654 also reintroduced the provisions that grant the ITC exclusion power over imported products using a patented "biotechnological material."

The two bills currently pending are similar to the amended version of S. 654. The Senate Judiciary Committee has cleared S. 298. The House Committee has not cleared S. 574.

The following bills are currently pending in Congress but have not been the subject of any significant developments since they were reported here.

Fair Use of News Monitoring Services

This bill (S. 23) was re-introduced this past January. Like its predecessor, the bill would extend the fair use defense to news monitoring services that tape portions of broadcast news for sale to their respective clients. The bill would amend Section 107 of the Copyright Act to include "monitoring news reporting programming" as a fair use exception to copyright owners' exclusive rights.

Amortization of Intellectual Property

This bill (H.R.13) would simplify the rules relating to amortization of acquired intangible assets such as goodwill, trademarks, patents and copyrights acquired in a bulk transfer. Under current law, goodwill, and in most instances trademarks and trade names, are not depreciable. The bill would amortize these assets over a 14 year period.

Animal Patenting

This bill (S.387) would place a two-year moratorium on the PTO's granting of animal patents.

Copyright Omnibus Bill

This bill (S.373) would eliminate the Copyright Royalty Tribunal, eliminate mandatory copyright registration and eliminate the filing requirements of the Copyright Statute with respect to security interests and allow secured creditors to limit their filings to UCC filings. ■

RECENT DECISIONS OF INTEREST

by Gregory J. Battersby

UNAUTHORIZED IMPORTATION OF GENUINE GOODS BARRED

The United States Court of Appeals for the First Circuit, in *Societe Des Produits Nestle S.A. v. Casa Helvetia Inc.*, 25 USPQ2d 1256 (1st Cir. 1992), held that the unauthorized importation and sale of genuine goods bearing a true trademark violates Section 32 of the Lanham Act if the goods are materially different since any difference in products bearing the same name is likely to cause consumer confusion and impinge upon the trademark owner's goodwill.

For many years, defendant was the authorized distributor of PERUGINA chocolates in Puerto Rico. In 1988, however, plaintiff forsook defendant and licensed its affiliate as the exclusive distributor in that country. Plaintiff had previously licensed an independent company to manufacture and sell chocolates bearing the PERUGINA mark in Venezuela. These products differed from the sweets sold in Puerto Rico. The terminated distributor then began to purchase the Venezuelan chocolates through a middleman and imported them into Puerto Rico under the PERUGINA mark. The court held that the importation of these gray goods would have been acceptable if they were the same as the product sold in that country. However, since they were different, their importation violated § 32 and § 43(a) of the Lanham Act, since it conveyed the impression that the domestic mark holder intended the importation of such goods into the local market.

NO INFRINGEMENT, "UH-HUH"

The United States District Court for the District of Maryland, in *Takeall v. Pepsico, Inc.*, __F.Supp.__ (D.Md. 1992), held that Pepsi's use of the phrase "You Got the Right One Baby, Uh-Huh" did not constitute an infringement of plaintiff's copyright.

While the court declined to hold that the phrase was not subject to copyright protection, it held that plaintiff's use of the phrase was not so widely disseminated as to support a reasonable fact-finder's conclusion that defendant had access thereto. It held that a conclusion of access could not reasonably be based on inference or deduction from the evidence involving these submissions as there is simply no evidence establishing access on the part of the alleged copiers. Thus, it held that plaintiff's case must fall.

NO CONFUSION BETWEEN VARGA GIRL AND VARGAS

The United States Court of Appeals for the Federal Circuit, in *In re Hearst Corp.*, 25 USPQ2d 1238 (Fed. Cir. 1992), reversed a decision by the Trademark Trial and Appeal Board of the U.S. Patent and Trademark Office denying registration of the mark "Varga Girl" for calendars based on a prior registration for the mark "Vargas" for calendars. The court held that both marks for calendars are sufficiently different in sound, appearance, connotation and commercial impression to negate a likelihood of confusion. ■

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