

COMMENTARY

DOJ Brings Action under 35 U.S.C. §135(c)
United States of America v. FMC Corporation
C.A. 80-1570
(D.C. E.D. Pa.)

The government of the United States, through the Department of Justice, recently brought suit against the FMC Corporation, contending that FMC failed to file copies of all patent interference settlement agreements with the Patent and Trademark Office as required by 35 U.S.C. §135(c). The initiation of a suit under this section of the Patent Act is unprecedented, and FMC has responded with a motion to dismiss for failure to state a claim upon which relief can be granted.¹ Prosecution of this type is unique because §135(c) has previously been used only as a defense, never to create a cause of action.

The section in question reads as follows:

(c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent and Trademark Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement of understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved

Although this provision does not expressly authorize or preclude a suit of this type, there are a variety of factors, relevant to 35 U.S.C. §135(c) in particular, and the Patent Act as a whole, which FMC has brought to light in a memorandum in support of its motion, and which bear examination with respect to the cause of action.

It is a unique feature of the Patent Act that any one of its provisions which creates a cause of action will specifically designate in whom that right of action is vested.² 35 U.S.C. §135(c) does not have such desig-

¹ Federal Rule of Civil Procedure 12(b) (6).

² 35 U.S.C. §145 "An applicant dissatisfied with the decision of the Board of Appeals may . . . have remedy by civil action"

nation. Of precedential note is the fact that in the eighteen years since enactment of §135(c), it has never been used in the manner contemplated by the government in *FMC*. Neither the government nor a private party has ever initiated an action under 35 U.S.C. §135(c). The statute has always been used as a defense in infringement suits in the same manner as the equitable doctrines of misuse or “unclean hands.”

In relation to the misuse defense is the actual sanction that the statute

... shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference....

As is pointed out in *FMC*'s memorandum, unenforceability is a recognized concept in patent law and has evolved from misuse cases. Misuse is an equitable defense that may be raised by any party against whom a patent is asserted. If misuse is found, the patent is then held unenforceable. In essence, 35 U.S.C. §135(c) creates another category of misuse, the nonfiling of patent interference settlement agreements, to which the usual sanction of unenforceability is applied.

The government, in its response to the motion to dismiss, has placed primary reliance on analogy to a 1967 Supreme Court case, *Wyandotte v. United States*.³ This case was brought under §15 of the Rivers and Harbors Act of 1899. It dealt with whether the government could obtain in personam jurisdiction over owners of negligently sunken barges, and whether civil action could be taken against the barge owners, even though the statute authorized only criminal liability. The Supreme Court, in holding for the government on both points,

35 U.S.C. §146 “Any party to an interference dissatisfied with the decision of the board of patent interferences . . . may have remedy by civil action . . .”

35 U.S.C. §281 “A patentee shall have remedy by civil action for infringement . . .”

35 U.S.C. §288 “Whenever, without deceptive intention, a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid.”

35 U.S.C. §289 “Whoever during the term of a patent for a design, without license of the owner uses the patented design for the purpose of sale . . . shall be liable to the owner to the extent of his total profit . . . recoverable in any United States district court having jurisdiction of the parties.”

35 U.S.C. §291 “The owner of an interfering patent may have relief against the owner of another by civil action . . .”

35 U.S.C. §1498 “Whenever an invention described in and covered by a patent . . . is used or manufactured by or for the United States without license . . . the owner's remedy shall be by court action against the United States in the Court of Claims . . .”

³ 389 U.S. 191 (1967).

found that the government was the principal beneficiary of the Act. The Department of Justice has interpreted this to hold that anytime the United States government is a principal beneficiary of a law, it then has a right of action under such law.

However, the Supreme Court, in the *Wyandotte* decision, also discussed the fact that navigable waters of the United States are public property of the nation. When the Court held that the government had a right of action, it was because it could sue to protect its interests.⁴ All the cases cited in this portion of *Wyandotte* dealt with subject matter in which the United States actually has a *property* interest.⁵ This portion of the opinion indicates that for the United States to have a right of action it must at least have a *property* interest in the subject matter in dispute, and may, in addition, need to be the principal beneficiary of the law.

In *FMC*, the government has no property interest whatsoever in the patent or the settlement agreements. In order for the government to have a right of action under the *Wyandotte* standard, it must have some property interest that has been damaged. The government in *FMC* has no damaged property interest to confer standing.

Both parties to the action have cited legislative history of 35 U.S.C. §135(c) in support of their respective positions. Although legislative history may oftentimes be ambiguously interpreted, perhaps the most telling portion of that history is a statement by then Commissioner of Patents and Trademarks, David Ladd:

... the bill is an effort to strike a balance in consideration on the one hand of the customary confidentiality in which a businessman carries on his business in relationship to his competitors, and on the other hand, the desirability of allowing Government agencies which are concerned with policing violations of antitrust laws, with access to the information.

If *FMC*'s motion to dismiss is denied and the Department of Justice is allowed to prosecute under this new cause of action, then the balance desired will be lost. The government will not only be allowed to interfere directly in domestic business agreements, but the possibility for its interfering in international agreements involving foreign law⁶ will also be available. Either possibility raises a variety of policy questions

⁴ 389 U.S. 191 at page 201 (1967).

⁵ *Cotton v. United States*, 11 Howard 229 (1851)-public land.

United States v. San Jacinto Tin Co., 125 U.S. 273 (1888)-public land.

Sanitary District v. United States, 266 U.S. 405 (1925)-navigable waters.

⁶ For example, in the complaint the Government alleged failure to file "an agreement entitled 'Canadian Conflict Settlement Agreement' dated September 10, 1968 which concerns settlement of the Canadian... patent interference..."

as to how involved government should be permitted to become in business transactions.

David Highet
Juris Doctor Candidate
Franklin Pierce Law Center — 1982

Data Cash Systems, Inc. v. JS&A Group, Inc.
No. 80-1085, U.S.C.A., 7th Circuit, Sept. 2, 1980
Slip Opinion

The plaintiff, Data Cash Systems, employed a consultant to design and develop a computer program for an electronic, computerized game to be called "Compuchess". The development program included the installation of the final program in a "Read-Only-Memory" (ROM) computer chip which was then to be manufactured and installed in the circuitry of the game.

The development of the chip and the game were completed in April, 1977, and "Compuchess" was marketed, including the distribution to the public of over 2,500 copies, in the Fall of that year. Although a copyright notice appeared on the source program (software), there was no notice either on the chip or anywhere on the game itself. After problems developed, the source program was registered and a certificate of copyright issued.

In late 1978, defendants, JS&A Group, began marketing a competing computer chess game called, "Chess, One Move Calculation" which used a ROM identical to that of "Compuchess". After other attempts to stop JS&A from distributing its game, Data Cash brought suit in the United States District Court for the Northern District of Illinois, Eastern Division¹, for copyright infringement and unfair competition.

The District Court, after hearing the plaintiff's argument which mainly defended its rights against forfeiture of copyright, denied the plaintiff a preliminary injunction against further distribution and granted the defendants summary judgment on the plaintiff's claim of copyright infringement. The adjudication of the second count, that of unfair competition, was suspended pending the appeal by plaintiff of the court's decision on the first count.² In making its decision, the district court held that the ROM was not a "copy" as contemplated by the copyright law and therefore its reproduction did not constitute an infringement.

¹ 480 F. Supp. 1063, 203 U.S.P.Q. 135. (1978).

² 28 U.S.C. 1292(A)(1).

The court of appeals affirmed the district court decision. However, the court of appeals held that the matter of forfeiture was dispositive of the case since there had been no proper notice and there had been a public distribution of the product. In holding that forfeiture was the basis for its decision, the appeals court could not have ignored the matter of whether or not the ROM was a copy. Indeed, forfeiture could only have been found to have occurred by the improper publication of a "copy". Thus, the court of appeals, in its holding, clearly reversed the district court and found the ROM to be a "copy" of the source program. The court of appeals did not comment on the decision below, however, nor did either party argue for its reasoning.

After determining that, because of forfeiture, the ROM was in the public domain, the court addressed the question of whether the 1909 or the 1976 Copyright Act was the applicable law. The plaintiff (appellant in the court of appeals) argued that the 1976 Act applied because the act of infringement took place after the effective date. The court disagreed since public distribution took place before the effective date and the forfeiture of copyright occurred upon that publication without proper notice.³

The plaintiff also argued that publication had been "limited" due to restrictions which are to be implied by the nature of "Compuchess". The court quickly disposed of this argument, citing the definition of a "limited" publication as stated in *White v. Kimmell*.⁴

The plaintiff then asserted that, since it was led to believe that the ROM program could not be deciphered without a printout, the publication without notice was a "mistake". The court held that this kind of "mistake" had not been contemplated by the legislature in that section⁵ of the Copyright Act of 1909; and that the burden of proper notice still remained with the plaintiff. Thus the court of appeals found entirely different grounds for its decision than the district court.

The decision of the court of appeals in this case should be of considerable concern to attorneys and judges considering copyright claims involving "new technology". How did the court come to the conclusion that the ROM was a "copy" subject to the forfeiture provisions of the Copyright Act of 1909?

The 1909 Act was not clear concerning what was and was not a "copy". That definition was supplied, however, before the effective date of the Act in the seminal case, *White-Smith Music Pub. Co. v. Apollo*

³ 17 U.S.C. Chapter I, 10 (1909).

⁴ 193 F. 2d 744, 92 U.S.P.Q. 400 (9th Cir. 1952).

⁵ 17 U.S.C. Chapter I, 21 (1909).

Co.⁶, in which the court held a copy to be “a written or printed record of (a musical composition) in intelligible notation”.⁷ In 1972, a specific exception was made to that definition in an amendment to the Copyright Act making sound recordings (phonorecords) copyright subject matter.⁸ No other exception was made under the 1909 Act. Therefore, the ROM, a non-written, unintelligible record and not a “phonorecord” could not be considered subject matter of copyright and was consequently not a “copy”.

Assuming that there is a proper argument that this case might be decided under the 1976 Copyright Act⁹ (no such argument was made), we now consider the effect of that Act on the decision. The 1976 Act significantly broadened the definition of copyright subject matter through a greater specificity as to the interpretation of the term “writings” as used in the U.S. Constitution.¹⁰ However, the Act specifically denies protection to works used in “conjunction with automatic systems . . .”¹¹, relegating such works to have only those rights under the laws in effect prior to January 1, 1978. Thus, if the applicable law was the 1976 Copyright Act, the plaintiff would still be denied protection as described under the 1909 Act.

Judge Flaum of the United States District Court reached the only available decision based on a logical interpretation of the copyright laws. On the other hand, the 7th Circuit Court of Appeals, in not explaining how it determined that the ROM was proper subject matter of copyright, subject to forfeiture, merely muddied the already churning waters of the rights of intellectual property owners.

Our final question is whether or not Data Cash Systems still has a source of relief in the second count of its claim under the state law of unfair competition. The decision of the court of appeals, which sets forth the law of the case, would appear to answer, no. Using the rationale of the court of appeals, it can be shown as in the *Sears-Compco*¹² cases that, since Congress did contemplate this subject matter in the copyright law, all rights were preempted by the federal

⁶ 209 U.S. 1; 28 S. Ct. 319 (1908).

⁷ *id.* at 17.

⁸ Public Law 92-139, 85 Stat. 391, Act of October 15, 1971, Effective, February 15, 1972.

⁹ 17 U.S.C. Chapter 1, 102 (1976).

¹⁰ U.S. Const. Art I, 8, Clause 8.

¹¹ 17 U.S.C. Chapter 1, 117 (1976).

¹² *Sears Roebuck & Co. v. Stiffel Co.* 376 U.S. 225, 140 U.S.P.Q. 524 (1964) *Compco Corp. v. Day Brite Lighting Co.*, 376 U.S. 234, 140 U.S.P.Q. 528 (1964).

copyright act, extinguishing other claims. If, however, the district court theory of the case is followed, an argument based on that of *Goldstein v. California*¹³ should be made which would state that since Congress had not chosen to occupy the field of this product, state laws of misappropriation and unfair competition apply.

Winfield S. Smyth
Juris Doctor Candidate
Franklin Pierce Law Center — 1982

Author's Note in Press:

H.R. 6933, a comprehensive patent reform bill, was signed into law by President Carter on December 12. It includes an amendment to 17 U.S.C. 117 which appears to have broadened the scope of copyright to include works used in conjunction with computers. The amendment appears at first reading to have given proper authority to the holding of the appeals court thereby.

New Matter: 35 U.S.C. 132

The opinion (*Eli Lilly and Company v. Premo Pharmaceutical Laboratories, Inc., et al.*, 207 U.S.P.Q. 719) of the Court of Appeals, Third Circuit, constitutes a giant step forward in the interpretation of "new matter" precluded by 35 USC 132. The pertinent issues presented on appeal are succinctly stated: First, Premo argued that the district court erred in holding that, although structurally obvious in light of prior art, cephalixin was nevertheless patentable because it yielded the unanticipated and non-obvious characteristic of one hundred percent absorbability into the blood stream. Second, it urged that, even if the district court did not so err, Eli Lilly's patent is invalid because the company did not adequately disclose the absorbability trait in either the patent or in the patent application. Third, it claimed the patent is invalid because Eli Lilly disclosed the trait in an amendment to the original Abstract of Disclosure in violation of the statutory prohibition against introducing new matter by amendment. Fourth, it maintained that the patent is invalid because the unexpected property in fact was discovered by someone other than the persons listed in the patent application as the inventors.

The Court recognized that the determination whether a new drug is non-obvious should be based on a consideration of the properties exhibited by the drug as well as the chemical structure of the drug. Reliance was placed on *In re Papesch*, 137 U.S.P.Q. 43 (C.C.P.A.

¹³ 412 U.S. 546, 178 U.S.P.Q. 129 (1973).

1963), for the proposition that “[t]here is no basis in law for ignoring any property in making such a comparison”. The district court correctly considered all properties of the claimed compound in assessing its obviousness. According to the Court, anything short of full patent protection for structurally obvious, but biologically non-obvious, new drugs that meet the other statutory criteria “would discourage both the inspiration-perspiration process of the laboratory and the incentive to publicly disclose products of value to mankind.”

The real advancement over prior art — cephalixin’s one hundred percent absorption rate — was totally unexpected, even by the chemists who proposed its synthesis. No reference, however, was made in the application (which matured into the patent in issue) to such absorption rates, and the issue was raised as to whether a non-disclosed property could be relied upon as a basis for establishing patentability. In an abstract to the patent on cephalixin, which was added by amendment to the application prior to the issuance of the patent, Eli Lilly specified that cephalixin is “especially of interest for its use as an antibiotic when administered by the oral route.” Although the application did not expressly identify the non-obvious trait — the one hundred percent rate of absorption — the information Eli Lilly did supply was such that the nature of the trait could readily be identified by a person skilled in the prior art. Under these circumstances, the non-obvious trait may be said “to flow inherently” from the properties and data supplied in the application and accompanying documents.

The Court stated that the 1968 amendment did not disclose an invention, process, or apparatus that was not described in the 1962 application. Rather, the 1968 amendment “completed” the prior disclosure by identifying and “clarifying” some of the properties of cephalixin, as well as its salutary performance as an oral antibiotic. Inasmuch as a chemical compound and its properties “are one and the same thing”, newly discovered properties of the compound not disclosed in the original specification or abstract may be added by amendment without being treated as “new matter” under §132.

The nature of “new matter” is considered in some detail in the opinion of the Court of Customs and Patent Appeals for *In re Oda, Fujii, Moriga, and Higaki*, 170 U.S.P.Q. 268, 270, 271 (C.C.P.A. 1971), which points out that “new matter” is a technical term in patent law — a term of art; its meaning has never been clearly defined for it cannot be.

The holding in the *Eli Lilly* case is in complete accord with the established practice of permitting an applicant to refile an application

claiming new chemical compounds and to rely on the filing date of his parent application even though he inserts in the refiled application properties (not disclosed in the parent application) upon which patentability is predicated. The subject opinion of the Court of Appeals, Third Circuit, condones the additional step of authorizing an applicant to amend his disclosure to include such properties without having to refile his application and incur the expense and loss of time that necessarily accompanies such refiling.

A discussion of the need to disclose a property relied upon to distinguish over prior art is presented in the opinion for *In re Davies and Hopkins*, 177 U.S.P.Q. 381, 384, 385 (C.C.P.A. 1973), wherein the Court pointed out that evidence of undisclosed advantages that "would inherently flow" from what was disclosed in the specification was accepted in *Zenitz* [*In re Zenitz*, 142 U.S.P.Q. 158 (C.C.P.A. 1964)] and in *Khelghatian* [*In re Khelghatian*, 150 U.S.P.Q. 661 (C.C.P.A. 1966)] but that a basic property or utility must be disclosed in order for affidavit evidence of unexpected properties to be offered; reference was made to *In re Lorenz*, 142 U.S.P.Q. 101 (C.C.P.A. 1964) in support of the latter proposition.

In addition to the facts that the very property — the one hundred percent rate of absorption — relied upon was not present in the disclosure and that which was introduced by amendment was merely the advantageous use of the antibiotic when administered by the oral route, the opinion for the *Eli Lilly* case further considers an issue of inventorship. As the one hundred percent absorption rate relied upon for patentability was actually discovered by a biochemist who was not one of the named inventors, Premo argued that the true inventive entity was not properly reflected by the named inventors. The Court decided that the fact that a person other than the named inventors *discovered* the non-obvious trait possessed by cephalixin does not make that person an *inventor* of cephalixin for purposes of §116. It was beyond question that the named inventors were the only persons who performed the synthesis that created the patented product. In the words of §116, cephalixin was "made by" the two named inventors, not by the biochemist who first noted that the organic chemists' predictions had been realized. This holding appears to confirm a view expressed in "It's Time to Quit Playing Inventorship Roulette", *Journal of the Patent Office Society*, Vol. 56, No. 7, page 472, July 1974.

Irwin M. Aisenberg
Partner — Berman, Aisenberg &
Platt, Washington, D.C.

