

COPYRIGHT FEES INCREASED

An act (Public Law 89-297) amending the Copyright Law by providing for an increase in fees was recently signed by President Johnson and became effective November 26, 1965. The new fee schedule is as follows:

Item	New fees
All registrations (except renewals)	\$6.00
All renewals	4.00
Additional certificates	2.00
Other certifications	3.00
Assignments, &c. (containing not more than 6 pages and not more than 1 title)	5.00
Each additional page or title	0.50
Notice of use (containing not more than 5 titles)	3.00
Each additional title	0.50
Notice of intention to use (containing not more than 5 titles)	3.00
Each additional title	0.50
Searches (hourly fee)	5.00

The fee for the recording of notices of intention to use is new. The registration fees for commercial prints and labels remains at \$6.00 and the \$0.50 charge for additional pages and titles included in the recording of documents and notices of use remains unchanged.

COMMITTEE ON ARBITRATION MEETS WITH EXPERTS

Some time ago the American Arbitration Association asked the NYPLA to participate with it in reviewing and improving arbitration procedures as they apply to patent cases and in insuring the appointment of competent arbitrators in such cases.

Panel Discussions Held. The NYPLA Arbitration Committee, under the chairmanship of Cameron K. Wehringer, concluded that the best thinking available should be focused on this problem. To this end the NYPLA committee met on November 18th with several prominent attorneys who are well versed in arbitration matters. The discussion included specific questions posed by our committee. This meeting was limited to arbitration as applied to copyright matters.

CALENDAR

Jan. 26, 1966—Forum meeting at Hotel Piccadilly.

“Court Review of Patent Office Decisions” by Joseph Schimmel.
Reception 5:30 p.m., dinner 6:30 p.m.

Feb. 16, 1966—Meeting on NYPLA suggestions to President's Commission.

PATENT TAX PROBLEMS DISCUSSED AT FORUM

The first NYPLA Forum Meeting of the current season was held on November 17, 1965, at The Columbia University Club where a capacity audience filled the main dining room to hear a discussion of the tax aspects of patents. The audience took an unusually active part in the discussions.

The forum panel consisted of John F. Costelloe, Esq., of the firm of Chadbourne, Parke, Whiteside & Wolff and also an adjunct Professor of Law at New York University, and Dayton R. Stemple, Jr., Esq., of Liddy, Sullivan, Hart, Daniels & Stemple. The meeting was under the chairmanship of Edward Halle, Chairman of the Committee on Meetings.

Proceeds of Sale of Patent as Capital Gains. The forum discussion centered principally about the tax treatment of the proceeds of sale of a patent as capital gains under Sec. 1235 of the IRS Code.

Sec. 1235 was characterized by Mr. Costelloe as providing “instant long term” capital gains treatment for the proceeds of the sale of inventions by an inventor whether professional or amateur and who can deduct expenses of inventing.

It was noted that the benefits of Sec. 1235 are not available to corporations but only to individuals. Likewise, non-residents of the United States are not entitled to the benefits of Sec. 1235. Accordingly, it may be better in a given instance for non-residents to incorporate since they are already excluded from the benefits of Sec. 1235 by their non-residence.

Mr. Costelloe noted that the individual inventor under Sec. 1235 is known as a “holder” and pointed out that backers (or “angels”) of holders may also qualify as holders entitled to the benefits of Sec. 1235.

Patent Attorney as Holder. The question was raised as to whether or not the patent attorney for an inventor can qualify as a “holder” if he agrees to handle the situation for the inventor on a contingency-fee basis. Mr. Stemple expressed the view that it is worth trying to accomplish this purpose and suggested the following procedure. First, arrange a conference with the inventor; next, a search to determine whether his ideas are novel; then prepare a contract on a contingency basis providing that a specified percentage of the resulting patent is to be assigned to the attorney in consideration of the value owed for the past services, e.g. conference and search, and for future legal services. It was emphasized that the contract should specify that services including the conference and search have a stated value and have already been rendered and are in consideration for the attorney's share along with future specified legal services.

Mr. Costelloe suggested that in such contingency situations there may be some merit in the attorney putting up a certain amount of money, rather than merely relying upon the value of certain services rendered and to be rendered.

Continued on page 2

PATENT TAX PROBLEMS DISCUSSED BY COSTELLOE AND STEMPLE AT FORUM

Continued from page 1

Corporate Backers Excluded. During the discussion it was noted that the benefit of Sec. 1235 is available to an individual backer but not to a corporate backer.

A backer must come into the picture before *actual* reduction to practice of the invention in order to qualify for Sec. 1235 benefits. However, it was suggested that "actual reduction to practice" under Sec. 1235 may be construed to mean reduction to practice for commercialization rather than simply building or practicing the invention successfully.



Tax panelists John F. Costelloe and Dayton R. Stemple, Jr.

Mr. Stemple suggested that it is preferable that the buyer pay the appropriate part of the purchase money directly to the attorney as owner of a percentage of the patent or invention, rather than pay the attorney's share to the inventor where the attorney is to qualify as a backer.

It was observed that a backer cannot qualify under Sec. 1235 unless there is a qualified individual inventor serving as the holder. It was also observed that there may be joint inventors under the Section both of whom are qualified holders.

It was suggested that one should be able to deduct patent expenses immediately even if the inventor is an amateur. The question was then presented as to preparatory costs when the inventor has not yet generated income. Mr. Costelloe thought that this would not be deductible except by write-off against later income or profits.

Mr. Costelloe raised the question of the situation where the patent is later held invalid.

Mr. Stemple suggested that unless there was fraud there would be no problem of qualifying under Sec. 1235, at least until the courts finally held the patent invalid.

Trade Secrets. Mr. Stemple observed that the benefits of Sec. 1235 may possibly be available in a trade secret situation and suggested there may be some authority for this position.

It was pointed out that there are limitations on the family relationship of the parties involved in the Sec. 1235 situation. For example, the category of backer is available to a brother or sister but not to a parent, spouse or child, nor to an employee. In a given situation the relationship of the parties should be checked in the light of the provisions of the Section.

Purchase by Corporations. The provisions of both Sec. 1235 and Sec. 1239 of the IRS Code should be considered in situations involving purchase of a patent by a corporation, especially where the inventor owns stock in it. A corporation can be a purchaser under Sec. 1235 if the inventor holds less than 25% of the stock thereof. Under Sec. 1239 of the IRS Code however it is possible for the inventor to hold up to 80% of the stock.

The professional inventor can deduct all current actual expenses as long as they are not capital investments, if he sells all or a substantial part of the rights to a patent.

Questions may arise as to whether or not an inventor can divide and sell off portions of his patent according to subject matter or geographical areas. The various circuits do not agree as to whether or not the inventor can divide his patent up as to fields or areas of use, but it seems to be generally agreed that it is proper to divide up the patent as to geographic areas, so long as the portion sold is completely divested without restraint.

Exclusive Licenses Considered as Sales. It now appears that the IRS accepts the fact that an exclusive license is considered a sale under the provisions of the IRS Code. However, it was suggested that the exclusive license must be for the life of the patent and it is best to avoid any limitations on the purchaser's rights or control.

A member of the audience questioned whether or not a patent holder may sell an exclusive license on one of two species claimed in his patent. While the answer does not seem to have been adjudicated it would appear to be safer to sell the whole patent, according to the panelists.

SECOND CIRCUIT REVERSES TRADEMARK RULE IN MONSANTO v. PERFECT

The opinion in *Monsanto Chemical Co. v. Perfect Fit Products Co.* 146 USPQ 512 (2d Cir. 1965) (See Recent Cases of Special Interest, BULLETIN, Vol. 5, No. 1, October 1965) has overturned a long standing and much debated rule of recovery in trademark cases in the Second Circuit.

Trademark Acrilan Involved. This case involved a suit, by a manufacturer of acrylic fiber sold under the trademark ACRILAN, against the defendant who infringed the ACRILAN trademark by using it on mattress pads that contained little or no acrylic fiber. Some of the materials used in the infringing pads were waste products and other fibers that did not have the characteristics of acrylic fiber. The defendant's mattress pads rapidly deteriorated after purchase and did not provide the advantages claimed for ACRILAN acrylic fiber on the defendant's labels, thus presenting to purchasers an un-

favorable picture of products made with ACRILAN acrylic fiber.

The District Court found that the defendant's conduct involved infringement, unfair competition and a willful, preconceived plan to trade upon the plaintiff's good will. The court below granted an injunction and attorneys' fees but found that the plaintiff had failed to prove it had sustained any damage. In addition it held that the successful plaintiff could not be awarded profits, because the parties were not direct competitors. Both parties appealed, the defendant on the award of attorneys' fees and their amount and the plaintiff on the denial of damages and an accounting of profits.

The Court of Appeals affirmed the decision below on all issues except the denial of an accounting for profits and remanded the case to the District Court for such an accounting.

Continued on page 3

THE BOARD OF GOVERNORS

Because the Association's expenses have risen as a result of increased services to its members, the Board of Governors raised a question at its last meeting as to whether it should continue the policy of **subsidizing NYPLA dinners**, many of which have been run at a loss. It was pointed out that an increase in annual dues may be the only alternative. The Meetings Committee was therefore requested to set the dinner fees at a figure more nearly commensurate with the actual cost. • • • Bob Ossan of the Public Information and Education Committee expressed disappointment at the small registration at the **Patent Seminar** sponsored by The NYPLA at Brooklyn Polytechnic Institute in July. The committee is now proposing to direct its efforts to placing the patent story before the membership of the local engineering societies. • • • It was reported that **Inventor's Day** at the New York World's Fair, which was organized by The NYPLA under the direction of Ed Halle, was a great success and afforded some fine publicity for the patent system.

Al Haffner was directed to prepare a letter for transmittal on behalf of the Board to the Commissioner of Patents and the Secretary of Commerce reaffirming the Association's opposition to **moving the Patent Office** to any location which would not be readily accessible from downtown Washington.

A Special Committee has been appointed to follow the work of, and make recommendations to, the **President's Commission on the Patent System**. This was established in response to Dr. Ransom's letter requesting our cooperation in the Commission's work. The committee will be under the supervision of its chairman Albert C. Johnston, but will be directed by its vice chairman W. Houston Kenyon, Jr. It has been constituted from committee chairmen who are working in the critical areas involved, and will include: W. J. Barnes, J. T. Kelton, Allen G. Weise, D. P. Chernoff, C. C. Remsen, Jr., J. R. Shipman, and W. R. Woodward.

Monsanto v. Perfect Reversed in Second Circuit

Continued from page 2

The Trademark Right. The Court of Appeals based its order for an accounting on § 35 of the Lanham Act which provides for the award of profits, damages and costs "subject to the principles of equity." The court recognized that the right to an accounting has heretofore been limited by the Second Circuit because of its particular view of the nature of the trademark right. This view is that the trademark right is a means of protecting a businessman from injury caused by another's use of his trademark and that a monetary award of damages or profits is warranted only where actual loss is shown to have occurred. The decisions following this view awarded profits only where the parties had competed and it could be presumed that trade had been diverted from the trademark owner.

The court, finding support in a decision of the Supreme Court and decisions by the First, Third and Tenth Circuits, adopted the alternative view of the trademark right, i.e. that it is a form of property and as such an accounting could be justified on the theory of unjust enrichment where used by another even though no loss of trade could be proven.

RECENT CASES OF SPECIAL INTEREST

Infringement—Venue. The requirement of 28 U. S. C. § 1400(b), that for proper venue in a patent infringement action the defendant must have committed acts of infringement in the judicial district, is met where it is shown that the defendant was contributing to the infringement and inducing the infringement in the district, **Leach v. Penick & Ford, Ltd.**, 147 USPQ 203 (S. D. N. Y. 1965). When venue is questioned by a pre-trial procedural motion, it need not be proven that the infringement actually took place; otherwise the merits of the case would be reached. The admission by the defendant that its personnel discussed the use of the allegedly infringing process in the district satisfies the venue requirement.

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Trademarks—Deceptive. The fact that a mark has geographic significance while the goods to which the mark is applied are not made in the area referred to does not per se mean that the mark is deceptive as applied to the goods within the meaning of § 2(a) of the Trademark Act. The test to be applied is whether or not such geographic significance would induce prospective purchasers into buying applicant's products on the basis of this supposed geographic origin, in that the products possess some superior qualities or other attributes because of such origin, **In re Van Son Holland Ink Corp.**, 147 USPQ 292 (P. O. Tm. Trial & App. B'd 1965). The mark "Holland" together with a representation of a windmill when applied to printing trade products was found not to induce in purchasers in the printing trade any belief that the products would have special qualities due to their geographic origin.

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Patents—Parties. Whether a transfer of a particular right or interest under a patent is an assignment or a license depends, not upon its name, but upon the legal effect of its provisions. An agreement that A grants B the sole and exclusive right and license to manufacture, use and sell products and processes under a patent except that A reserves the right to make, use and sell such products and to convey to purchasers thereof the right to use such processes is not an assignment of the entire patent, **Agrashell, Inc. v. Hammons Products Co.**, 147 USPQ 347 (8th Cir. 1965). The rights reserved to A are inconsistent with the acquisition by B of the full rights in the patent. The fact that the agreement gives B the right to sue in its own name is of no significance since the ownership of a patent is a requisite to the right to sue for infringement. To maintain a patent infringement suit, B must join his assignor, A. A motion to dismiss for failure to join an indispensable party may be brought either before or after pleading. The defense of failure to join an indispensable party cannot be waived. Further, it is the duty of the court to assure itself that jurisdiction is present, and if it is not, the action must be dismissed.

PATENT OFFICE STAFF CHANGES

C. Morten Wendt has recently been appointed Director of Trademark Examining Operations, and John V. Merchant has joined the staff of the International Patent and Trademark Affairs Office of the U. S. Patent Office.

JOHNSON SIGNS PRACTICE BILL— PATENT OFFICE SOLE EXCEPTION

S. 1758, popularly known as the "Practice Before Agencies" Bill, was recently signed into law by President Johnson. The bill requires that lawyers qualified to practice before the highest court in their states be admitted to practice before all Federal agencies. The bill abolishes special examinations and admission procedures which were promulgated by several of the Federal agencies. The sole exception set forth in the bill is practice before the Patent Office in *patent* matters. The Patent Office is permitted to qualify practitioners before it.

The bill was stated by one of its sponsors, Rep. Richard N. Poff (R. Va.), to guarantee the private citizen the right to make "his own unfettered choice of an attorney to represent him when involved in a dispute with his government." Under the new bill, a lawyer in good standing in his own state is automatically admitted to practice by filing a statement setting forth that he is a member in good standing of his state bar. The American Bar Association supported the bill for many years.

Patent Office Exception. The bill states that it shall not apply to practice before the Patent Office with respect to *patent* matters which will continue to be governed by 35 U. S. C. §§ 31-33. The Office is expected to continue to administer its qualifying examinations and other admission procedures. Practice in *trademark* matters before the Patent Office is within the scope of the bill, but this does not constitute a change since the Patent Office did not previously have special requirements for the qualification of trademark practitioners.

The NYPLA had strongly supported the Patent Office exception to the bill. In April, 1964, in a letter prepared by the then chairman of the Patent Office Affairs Committee, Edward Halle, and signed by the then NYPLA president, Ralph L. Chappell, it was urged that Patent Office practice required a special degree of technical competence which the average general practitioner did not have, and that for the protection of the public as well as for the benefit of the Patent Office, the special requirements should be maintained (NYPLA Bulletin Vol. 3, No. 7). The letter was sent to Rep. Edwin E. Willis of the House Judiciary Committee.

WALTER H. FREE

Walter H. Free, a member of our Association since 1927, passed away December 2, 1965, at his Bronxville, N. Y. home. He was 67 years of age.

Mr. Free was born in Davenport, Iowa, and received a Bachelor of Science degree from George Washington University. After studying law at Georgetown University, he moved to New York City and was admitted to the New York Bar in 1933. He became a partner of the firm of Hoguet, Neary & Campbell (now Brumbaugh, Free, Graves & Donohue) in 1934, this association continuing until his death.

Mr. Free was a past member of the Board of Governors of The NYPLA and was active on many professional, educational and charitable committees and boards. He is survived by his widow, three daughters, seven grandchildren, and two brothers.

NEW MEMBERS JOIN ASSOCIATION

The following new members were elected to membership in the Association at the October Board of Governor's meeting: Allan H. Bonnell, Nicholas L. Coch, Leonard R. Fellen, Edward J. Fitzpatrick, Fred Floersheimer, Richard J. Holton, Richard A. Joel, Richard M. Rabkin, Karl F. Ross, Lawrence J. Swire, Patrick J. Walsh, Peter Weiss, Leo A. Plum, Jr., David Dick, George J. Darsa, Samuel B. Smith, Jr., and Paul Lempel.

NEW U. S. TRADEMARK RULES PUBLISHED

The recently revised *Rules of Practice In Trademark Cases* were published in the October 16, 1965, issue of the Federal Register (Vol. 30, No. 201) and became effective on the date of publication.

PRESIDENT'S PATENT COMMISSION

The NYPLA has upon request submitted a number of suggestions to the President's Commission. The Committee on Meetings is now planning a discussion of these suggestions for its February meeting.

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