Applicant's "Right" before Issue of Patent

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Under the Patent Act,[1] an applicant obtains exclusive right to his invention as of the issue of patent by the Commissioner.[2] The duration of a patent starts from the issue, and ends, in principle, as of the expiration of 17 years.[3] Outside the period, whether before or after, the applicant, or patentee, does not have any valid patent right. To what extent does this limit the enforceability of the applicant's possible agreement, especially in the period before issue?

The answer seems that such a contract is enforceable, including the part concerning royalty payment before patent is granted. If so, a patentee may get royalty for a period that is longer than 17 years, depending on the delay in the patent application procedure. Is this situation rational?

1 Issue

The theme of this paper is the possibility of obtaining "royalty," by an agreement entered into under the probability of patent in the future, accruing for the period before the patent is granted. Practically, it is to answer to the following model-case question.

1.1 Model-Case

Suppose a party, Inventor, who developed a new technology and filed a patent application therefor. After the application, Inventor publicly demonstrated the new technology through the process to look for a licensee of the patent that Inventor believed to obtain shortly. Successfully, Inventor found another party, Manufacturer. Manufacturer agreed to enter an agreement with Inventor over the technology. They agreed that Manufacturer would use the technology and pay to Inventor 5 % of the sales as "royalty." The agreement did not regard the fact that the application was still pending: They agreed that Manufacturer should pay regardless of the fact that the patent was not issued yet.

1.2 Reason for Manufacturer

This model-case is not ridiculous. While Manufacturer does not have any need to enter this agreement currently, Manufacturer notes the probability that Inventor will obtain the patent shortly. To make investment without risk, Manufacturer judged to enter the agreement immediately.

1.3 Question

Can Inventor enforce this agreement to collect "royalty" from Manufacturer without holding any valid patent right? Note that the application is still pending. Also note that

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1 35 U.S.C. Sections 1 - 376 (1988).

2 <u>Id.</u>, Section 154.

3 <u>Id.</u>

Inventor had already lost the possible protection under trade-secret state law before the agreement. On these assumptions, Inventor has no protection as against the general public. Even though, is this agreement enforceable?

2 Aronson and Brulotte

One may conclude that, under Aronson,[4] naturally and obviously the agreement can be enforced as they agreed. However, we must note that Brulotte[5] may also be relevant.

2.1 Aronson

The defendant (= licensor) designed a keyholder, and filed a patent application therefor. During the application was pending, the defendant entered into a contract with the plaintiff. They agreed that in return for the exclusive right to make and sell the design plaintiff would pay 5 % of the selling, and that the royalty was to be reduced to 2.5 % if the patent was not granted within 5 years.

The plaintiff (= licensee) had paid the royalty pursuant to the contract, of 5 % within 5 years and 2.5 % from then on. Some 5 years and a half after the contract, the Board of Patent Appeals issued a final rejection of the application, and defendant did not appeal. The plaintiff continued to pay the reduced royalties to the defendant for 14 years after the rejection.

The plaintiff claimed a declaratory judgment that the royalty agreement was unenforceable. It asserted that the state law which might otherwise make the contract enforceable was preempted by the federal patent law.

The District Court supported the enforceability of the agreement, and dismissed the claim. The Court of Appeals reversed. It held that the parties' reference to a pending patent application estopped the defendant (= licensor) from denying that the patent law principles governed the defendant's contract with the plaintiff.

The Supreme Court held the enforceability of the contract, which is a commercial agreement governed by state law, and reversed.

2.2 Brulotte

The plaintiff sold a machine to each of the defendants for a flat sum, and issued a license for its use. Under that license, annual payment of royalty was agreed. The licenses listed 12 patents. Under the agreements, the licenses continued for terms beyond the expiration of all the 12 patents.

The defendants refused to pay the royalty accruing both before and after the expiration of the patents. The plaintiff claimed the same. The defendants argued misuse, which the trial court and the Supreme Court of Washington supported.

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4 Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979).

5 Brulotte v. Thys Co., 379 U.S. 29 (1964).

The Supreme Court reversed. It said as follows: "A projection of the patent monopoly after the patent expires is not enforceable."

3 Analysis of Aronson and Brulotte

Aronson supported the enforceability of an agreement disregarding the fact that the patent had not been issued. In this case, however, the plaintiff filed the complaint after the final rejection of the application by the Patent and Trademark Office. In the model-case, contrary, the application is still pending. Because of this difference, it is possible to distinguish Aronson from the model-case. Therefore, if we think the scope of Brulotte broadly, the conclusion in the model-case would be negative.

3.1 Scope of Brulotte

In Brulotte, the Supreme Court denied the "projection" of patent. The Plaintiff in Brulotte claimed, pursuant to their agreement that was entered within the patent period, "royalty" payment for the period after the patent expiration. The Supreme Court dismissed the claim. The Supreme Court denied the plaintiff's endeavor to get money for the period in which the patent was not valid.

It may be possible to understand Brulotte as a denial of the "royalty" for the period also before a patent is issued, not only after the expiration as in the case. If so, the answer to the model-case would be negative.

Further, it may be easier than in Brulotte to reason the dismissal of the claim in the model-case. It is possible to understand that the agreement in the model-case lacks the consideration. While Brulotte was reasoned by the patent misuse doctrine, more basic reasoning may be possible in the model-case.

3.2 Brulotte and Model-Case

To analyze the scope of Brulotte precisely, we should note the motives on the Manufacturer side to enter into the agreement in the model-case. On the assumption, Manufacturer does not have to enter to the agreement to use the technology: The technology itself is publicly available and no trade-secret protection or the like exists. Nonetheless, it may be reasonable for Manufacturer to enter the agreement. Probably Inventor will obtain the patent soon. Then, if Manufacturer cannot get the license from Inventor, Manufacturer will not be able to use the technology at the plant, and will be forced to incur loss of the investment.

To avoid this risk, in advance, Manufacture should assure that it can continue the use. For this purpose, entering into the agreement at this moment may be reasonable.

On this understanding, the similarity between Brulotte and the model-case is obvious. In both cases, a patentee tried to use a patent right as a leverage to collect "royalty" for period for which the patent was not valid. The court in Brulotte denied such endeavor.

3.3 Scope of Aronson

In Aronson, the court affirmed the claim while the patent had not been issued. It may be possible to interpret that Aronson limited the scope of Brulotte, or that partially denied the same. While in the licensee estoppel context, which may be different from the point here, Prof. Dreyfuss says as follows: "This article, by contrast, argues that Aronson at least partially overruled Brulotte and suggested policies supporting modification of Lear, . . ."[6]

However, it may also be possible to distinguish Aronson from the model-case. In Aronson, the application had been already rejected. In the model-case, the application is still pending. This difference might seem to be trivial. However, the court opinion itself referred, to distinguish the case from Brulotte, to this point.[7]

Even considering this wording, we may be possible to say that Aronson is relevant. In Aronson the plaintiff (= licensee) had paid, during the application was pending, the "royalty" for the period before the rejection and such payment was not repaid. Thus, we may be able to say that Aronson affirmed the validity of the "royalty" payment agreement for the period during the application was pending. Even on this understanding, however, Aronson may be irrelevant since the situation was different from the model-case at the point that the payment had been already made in Aronson.

3.4 Tentative Conclusion

Even with the consideration of Brulotte, we should conclude that Aronson is more relevant to the model-case, and that the answer is positive.

4 Possible Limitation of Aronson

While Aronson, even with Brulotte, appears to render the positive answer to the model-case question, it is possible to interpret Aronson more narrowly referring to other cases. Nonetheless, the answer is positive.

4.1 Distinguish from Trade-Secret Cases

Of course, if Inventor was under the protection under state trade-secret law, the agreement would be doubtlessly enforceable. However, it is different from the model-case.

4.1.1 Kewanee Oil

The Supreme Court in Kewanee Oil[8] supported the enforceability, as against the defendant's argument that the

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6 Dreyfuss, Dethroning Lear: Licensee Estoppel And The Incentive To Innovate, 72 Va.L.Rev. 677, 691 n. 56 (1986).

7 Aronson v. Quick Point Pencil Co., 440 U.S. 257, 264 (1979).

8 Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

trade-secret protection by state law was preempted by the federal patent act, of the state trade-secret law. As stated there, in principle, the protection under state trade-secret law is valid and enforceable. Therefore, also valid and enforceable is a license agreement based on, and with the consideration constituted of, trade-secret protection.

However, the model-case is different. Inventor had lost the protection under state trade-secret law. Thus, this argument based on trade-secret is irrelevant.

4.1.2 Aronson as Trade-Secret Case

Aronson may be understood in this context. In Aronson, at the time of the agreement, the subject design of the license was still under the protection of state trade-secret law. Therefore, it may be possible to understand that the enforceability of the agreement was based upon the trade-secret protection. While the face of the opinion of Aronson does not explicitly refer to that, Prof. Altman appears to take this understanding.[9] This understanding is reasonable since Aronson itself refers to the fact that the design was not in the public domain before the defendant obtained its license to manufacture it.[10]

If we take this understanding, Aronson is not so relevant. On this understanding, we should distinguish the model-case from Aronson, even if we do not care the wording therein about the interpretation of Brulotte, which was referred to above.

However, such limited understanding does not seem to be appropriate. Aronson itself does not indicate such limitation, and most of the writings that refer to Aronson interpret the same as the negation of the preemption by the federal patent law of the state contract law.[11] The reference to not-public-domain situation, cited above, followed by the conclusion that contracts of the category in the context are generally enforceable.

4.2 Relation with Lear

The principal point in Lear[12] was "the death of licensee

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9 Altman, Is There An Afterlife? The Effect Of Patent Or Copyright Expiration On License Agreements, 64 J.Pat.Off.Soc'y, 297, 316 (1982).

10 Aronson v. Quick Point Pencil Co., 440 U.S. 257, 263 (1979).

11 Dreyfuss, Creative Employee And The Copyright Act Of 1976, 54 U.Chi.L.Rev. 590, 645 (1987); McGarity and Shapiro, The Trade Secret Status Of Health And Safety Testing Information: Reforming Agency Disclosure Plicies, 93 Harv.L.Rev. 837, 868 (1980).

12 Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

estoppel."[13] In our context, however, we should note that in Lear the application was pending for long period. While Lear works to the direction to deny the claim in the model-case, it is not decisive.

4.2.1 Lear

The defendant hired the plaintiff to solve gyroscope development problems. They had agreed that the possible invention would belong to the plaintiff, and the plaintiff would license the same to the defendant on a mutually satisfactory royalty basis.

After the development and an application, before a patent is granted, the defendant agreed to pay royalty to the plaintiff notwithstanding the original agreement. The new agreement also provided that, in case of refusal by the Patent Office or subsequent invalidation, the defendant could terminate the agreement. Although the defendant had paid the royalty for some two years, the defendant stopped it because the patent had been not granted yet. Later, the patent was granted. Immediately, the plaintiff claimed the payment. The defendant's defense was, among others, that the patent is invalid. The plaintiff argued that the defendant was barred from questioning the patent by the estoppel due to the agreement. The California Supreme Court supported the plaintiff's argument. The Supreme Court vacated the same and remanded the case denying the estoppel.

4.2.2 Lear as Support of Negative Answer

Lear, after all, denied royalty payment based on an agreement for a period without patent. This leads to the negative answer to the model-case.

Of course, it is noteworthy that in Lear the agreement itself provided that the royalty payment was subject to the validity of the patent. Even though, however, they agreed that the defendant should make payment before the patent was granted. Relying on this point, we may be able to say that also the estoppel, which was denied by the Supreme Court, seems have been agreed. Nevertheless, the Court denied the same.

4.2.3 Understanding of Lear

As shown in the foregoing analysis, in one sense, Lear denied the possibility for a licensor to obtain better and more stable position, than originally under the Patent Act, through contractual arrangement. Further specifically, Lear permitted the escape from the contractual obligation that may conflict with the Patent Act. On these points, it is possible to refer to Lear as support to argue the negative answer to the model-case.

However, Lear's relevancy to the model-case is not large enough to reverse the answer.

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13 Dreyfuss, Dethroning Lear: Licensee Estoppel And The Incentive To Innovate, 72 Va.L.Rev. 677, 683 (1986).

First, as described in Aronson,[14] Lear's "holdings relied on the desirability of encouraging licensees to challenge the validity of patents," while the model-case lacks this type of desirability. "Accordingly, neither the holding nor the rationale of Lear controls when no patent has issued, and no ideas have been withdrawn from public use."[15]

Next, the relevancy of Lear to our question also relies upon the importance of the parties' intention. In other words, it is possible to understand that in Lear the party's intention to have the payment conditional to the patent issue was important, and that, thus, it is irrelevant to the model-case.

4.2.4 Practice in Lear

In addition to the court decision, the practice itself by the parties in Lear is informative to consider the model-case. In Lear, while the contract was entered into before the patent issue after all, at the time of the original agreement for the development, they agreed that the royalty should be paid only after a patent is granted. This practice suggests that the positive answer to the model-case is not so effective in the actual world.

5 Conclusion

Brulotte, in one sense, denied, or showed a "hostile" understanding against, the extension of a patent right to the future beyond patent expiration. This type of interpretation of Brulotte can be found in the concurring opinion in Aronson.[16] On this understanding, Brulotte does not bar the enforcement by Inventor.

This understanding, while the court opinion of Aronson did not take it, goes well with the logic of the court opinion, as well as the conclusion of the other cases. The conclusion to the model-case is positive: The payment agreement is enforceable.[17]

6 Legislative Proposal

The positive answer means that a patentee may get royalty for a period longer than 17 years. On this understanding, additional limitation on the patent duration may be rational.

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14 Aronson v. Quick Point Pencil Co., 440 U.S. 257, 264 (1979).

15 Id.

16 Id. at 267.

17 Nevertheless, there remains the limited possibility to argue that the answer to the model-case is negative solely under state law without conflict with Aronson: It may be that the agreement in the model-case lacks the required consideration.

6.1 Japanese System

The duration of a patent in Japan is principally 15 years from the publication for public examination, which is called _Kohkoku_.[18] _Kohkoku_ takes place after the examination by an examiner at the Patent Office, and gives the applicant a tentative right almost equivalent to the patent right, which is given later.

The monopoly period is limited additionally: It cannot exceed 20 years from the application.[19] This limitation was introduced simultaneously with the establishment of the _Kohkai_ system. Under the _Kohkai_ system, every application is published 1 year and 6 months after the application was filed with the Patent Office.[20] The position of an applicant after _Kohkai_ before _Kohkoku_ is ambiguous. It is provided that an applicant can, after _Kohkoku_ takes place, claim a party who willfully performs the invention to make payment equivalent to the royalty for the period after _Kohkai_.[21] However, an applicant is not entitled to prevent others from performing the invention before _Kohkoku_.

The reason for the introduction of the _Kohkai_ system, accompanied with the ambiguous right of application as well as with the 20 year limitation, was principally to resolve the difficulties due to the delay in the examination.[22] The delay is, in one sense, attributable to the system that requires examination. The introduction of the _Kohkai_ system can be understood as partial abandon of such examination system:[23] Under the _Kohkai_ system, an applicant is given the limited right upon _Kohkai_ without having been judged by an examiner to be patentable.

6.2 Comparison

The Japanese system is different from the U.S. one as to the duration. The Japanese system has two limitations.

This difference may be reasoned by the existence of the limited right of an applicant after _Kohkai_. Since _Kohkai_ takes place automatically 1 year and 6 months after the application, 20 year-limitation is reasonable to limit the duration including such post-_Kohkai_ period.

In other words, it is possible to argue that the current U.S. system is reasonable since a patent applicant in U.S.

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18 Patent Law (Law No. 121 of 1959, as amended), Article 67, Section 1.

19 _Id._

20 _Id._, Article 65-2.

21 _Id._, Article 65-3, Sections 1 and 2.

22 Kohsaku Yoshifuji, _Tokkyohou Gaisetsu (8th edition with supplement)_, 292 (1988).

23 _Id._

does not have any right before the patent is granted. However, we should also note that an applicant can get "royalty" for such period before patent-issue through contractual arrangement as concluded above.

6.3 Value of Monopoly and Time

The value of monopoly that is given to a patentee varies as time passes. If every invention loses its value as time passes, the delay in patent-application procedure is simply disadvantageous to the applicant while the contractual possibility of royalty before issue may partly cancel the disadvantage.

However, the way of such variation is various. It may be that the monopoly is valuable at the beginning and becomes nothing later; it may also be that it is nothing at the beginning and becomes priceless later.

In case of an invention which is highly application-oriented, the former is probable. Contrary, in case of a basic invention, which is followed by many applications, the latter is probable: As time passes, the invention becomes more widely used through various applications, and more valuable.

Generally, the entire value throughout the long period of a basic invention, including that through applications, is not attributable solely to the inventor. While such basic invention is valuable, it is probable that if he had not made the invention another researcher would have made the same invention a little later. Most inventions rely on, not only an inventor's inspiration and perspiration, but also the general heritage of the society. This understanding seems especially persuasive in case of a basic invention.

6.4 Possible Difficulty

Recently, an issue of a U.S. patent[24] to Mr. Gilbert P. Hyatt was reported with surprise in Japan.[25] This patent is originally based on his application on November 24, 1969. The patent is reported to cover virtually all single-chip microcomputers, while the name of Mr. Hyatt has not been known widely in the related field of industry for so long period.[26] It is also said cynically to have been granted at very "good" timing since in these days the usage of single-chip microcomputers is so huge.[27]

The U.S. system is criticized in this context in Japan.[28] Under the current Japanese patent system, a story like this

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24 U.S. Patent No. 4,942,516, July 17, 1990, <u>Single chip integrated circuit computer architecture</u>.

25 <u>Asahi Shimbun Weekly AERA 1991.4.9</u>, 21.

26 <u>Id.</u>, at 23.

27 <u>Id.</u>

28 <u>Id.</u>

cannot take place.[29] Mr. Hyatt's invention was a typically "basic" one, which increases its value as time passes. The delay in the procedure was, at last, beneficial to the inventor, and it cost the society. It is also noteworthy that the first commercial microprocessor Intel 4004 seems to have been developed independently of Mr. Hyatt's invention.[30]

6.5 Proposal

It may be possible to say that the difference between U.S. and Japanese systems is rational. A patent applicant in U.S. is not entitled to get royalty-equivalent payment as a Japanese-patent applicant is after Kohkai and before Kohkoku.

However, we should not ignore the possibility of cases as Mr. Hyatt's mentioned above. It may be proper to legislate to limit additionally the period by the length from application, not only from the issue as currently, to deal with the delayed-issue case.

This type of limitation is of course disadvantageous to patentees. However, considering the possibility of a contract that provides royalty for the period before patent issue, we may be able to say that it is not hardship or unfair.

As referred to above relating to Lear, however, we should note also that such contract is not so practical. Nonetheless, the current U.S. system that admits "surprising appearance"[31] of inventor does not seem to be appropriate.

End.

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29 Note the word "current." The Kohkai system was introduced by the amendment of 1970, effective as of January 1, 1971. Concerning applications before that, the 20 year limitation is not applicable. Therefore, even these days, a story like that of Mr. Hyatt is not impossible either in Japan. Actually, in 1990, a basic invention concerning IC production was patented to Texas Instrument, based on its application in 1960.

30 Mr. Hyatt argues that the development by Intel was a result of leak of his invention. However, it is not persuasive compared with the well-known story about the development by Intel. See Shima, Waga Seishun-no 4004, which was written by a Japanese engineer who was involved in the development, as a supervisor from a Japanese manufacturing company that ordered the product.

31 Asahi Shimbun Weekly AERA 1991.4.9 at 21.