

BRARY

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Supreme Court of the United States

Office-Supreme Court, U.S.
FILED

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JOHN F. DAVIS, CLERK

In the Matter of:

Docket No. 56

Lear, Incorporated,

Petitioner,

v.

John S. Adkins,

Respondent.

Pt. 1

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Place Washington, D. C.

Date November 20, 1968

ALDERSON REPORTING COMPANY, INC.

300 Seventh Street, S. W.

Washington, D. C.

NA 8-2345

C O N T E N T S

ORAL ARGUMENT OF:

P A G E

C. Russell Hale, Esq., on behalf of Petitioner

3

Lawrence C. Wallace, Esq. on behalf of the
United States

28

1 IN THE SUPREME COURT OF THE UNITED STATES

2 October

3 1968

4 Lear, Incorporated,

5 Petitioner,

6 v.

No. 56

7 John S. Adkins,

8 Respondent.

9 November 20, 1968

10 The above-entitled matter came on for argument at
11 1:15 p.m.

12 BEFORE:

13 EARL WARREN, Chief Justice
14 HUGO L. BLACK, Associate Justice
15 WILLIAM O. DOUGLAS, Associate Justice
16 JOHN M. HARLAN, Associate Justice
17 WILLIAM J. BRENNAN, JR., Associate Justice
18 POTTER STEWART, Associate Justice
19 BYRON R. WHITE, Associate Justice
20 ABE FORTAS, Associate Justice
21 THURGOOD MARSHALL, Associate Justice

22 APPEARANCES:

23 C. RUSSELL HALE, ESQ.
24 EDWIN L. HARTZ, ESQ.
25 201 South Lake Avenue
Pasadena, California 91101
Counsel for Petitioner

LAWRENCE C. WALLACE, ESQ.
Office of Solicitor General
Department of Justice
Washington, D. C.
Counsel for United States as amicus curiae

1 APPEARANCES: (cont'd)

2 PETER R. COHEN, ESQ.
3 9601 Wilshire Blvd.
4 Suite 444
5 Beverly Hills, California 90210
6 Counsel for Respondent.
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P R O C E E D I N G S

MR. CHIEF JUSTICE WARREN: Number 56, Lear,
Incorporated, versus John D. Adkins.

THE CLERK: Counsel are present.

MR. CHIEF JUSTICE WARREN: Mr. Hale.

ORAL ARGUMENT OF C. RUSSELL HALE, ESQ.

ON BEHALF OF PETITIONER

MR. HALE: Mr. Chief Justice, may it please the court, we are assembling a few exhibits that we expect to demonstrate to the court at a later point during the argument.

This case is here on writ of certiorari to the Supreme Court of the State of California. In simplest form, the case is concerned with a patent license agreement between petitioner Lear and respondent Adkins and the validity and enforcement under this agreement of patent rights, a patent which ultimately was issued to respondent.

The Supreme Court of California has upheld this license agreement to the practical effect that the patent is immune from challenge of validity and also to the practical effect that established Federal criteria need not govern the determination of the scope of the patent when it is enforced under the agreement in question.

What we are asking this court is to rule that the patent laws and the protection afforded by them cannot be so extended by private agreement between individual parties.

1 We are asking that this court rule that patent rights cannot
2 be so extended under state law so as to render the validity
3 and interpretation of the scope of the patent immune to the
4 criteria of the Federal patent laws.

5 Q Does the so-called Michigan device really
6 involve a question under the patent law?

7 A Yes, your Honor.

8 Q As distinguished from the California device, I
9 think I have got it straightened out. The Michigan device up
10 to the time of notice of termination was not patented, was it?

11 A No, your Honor.

12 Q Was it patented up through the stipulated time
13 for the cutoff on damages for purposes of this litigation?

14 A No, your Honor. There was one patent. It was
15 directed to the device that has been identified as the
16 California model 2156 gyro.

17 Q That was the so-called California patent. I am
18 talking only about Michigan which was a large sum of money.
19 I don't want to anticipate your argument. Don't bother to
20 answer me now, but as you go along, I trust you will. I
21 brought it up at this time because of the nature of your
22 opening statement but it has bothered me since I first studied
23 this case whether and the extent to which this is truly a
24 question involving patent laws of the United States or whether,
25 at least so far as the Michigan patent is concerned, it is a

1 contract question perhaps under antitrust laws generally. I
2 don't want to interfere with your planned argument but that
3 is a basic problem in my mind in this case.

4 A Yes, sir. Well, your Honor, that really
5 highlights the Federal issues that are before this court in
6 that there was one patent and it disclosed essentially the
7 structure of the California model 2156 gyro.

8 The Michigan structure was independently developed
9 at a different facility. In view of the procedures that were
10 used in assembling the California gyros, the Michigan gyros
11 were originally included as coming within the scope of the
12 patent application and hence the agreement. So an
13 interpretation of the scope of the patent application is
14 very basic to this question that is before the court.

15 Likewise, whether or not Lear has the right to
16 challenge the validity of this patent raised very basic
17 Federal issues before this court.

18 The California Supreme Court based its decision
19 solely under the terms of the license agreement that was
20 entered into between the parties in 1955 and the California
21 Supreme Court felt that we are not concerned with defenses
22 which might be available to Lear in determining questions of
23 validity and infringement.

24 The California Supreme Court apparently felt that
25 the agreement was supreme, it need not be concerned with the

1 details of Federal law that control patent matters. The court
2 even went so far as to say valid claims are not required.

3 We submit that the parties should, that it is
4 against public policy for parties to collaborate and exploit
5 patent rights regardless of validity.

6 Under the circumstances of this case, if Lear and
7 Adkins had so desired, they could have joined forces and paid
8 no attention to whether or not the patent was valid or not
9 but enforced it by sheer economic power and the public
10 interest certainly would not be served by such arrangement.

11 The California court also went so far as to say, "It
12 doesn't matter how this patent was obtained through the
13 patent office. If the patent was ever issued, that is all we
14 are concerned about. We don't care whether new matter was
15 added in violation of Federal rules, decisions of this court,
16 for example." The California court said, "We are not concerned
17 with whether or not fraud was practiced on the patent office."

18 We submit that those raised very basic Federal issues,
19 your Honor.

20 Such a decision results in extension of patent
21 rights far beyond the rights that would be available in
22 an infringement action. It also permits individual states
23 to employ standards in patent matters that differ from state
24 to state.

25 For example, as matters stand today, the law in

1 California concerning licensee estoppel is exactly contra to
2 the law in the State of Minnesota as stated by the Minnesota
3 Supreme Court in 1954 in the case of Crew versus Flanagan
4 which is cited in our briefs.

5 The ultimate result of the decision of the
6 California Supreme Court is the enforcement of a patent which
7 the trial court in California found to be invalid as a matter
8 of law for failure to meet the constitutional standard
9 required for patentability.

10 We submit that an agreement basing a decision solely
11 upon an agreement whereby patent rights are so extended is
12 against public policy, against the policy and provisions of
13 both the patent laws and anti-trust laws.

14 If an agreement can be employed to circumvent the
15 constitutional standard required for patentability, uniform
16 Federal standards cannot be maintained in the fifty states.
17 This is a striking example of one state that is out of step
18 with some other states.

19 The most significant dates and events that are
20 involved in this case are set forth in the chart that I have
21 behind the lectern and I will refer to those dates during my
22 argument.

23 The Adkins patent application in the subject
24 matter in suit was filed February 1954. The agreement was
25 entered into in September 1955. It is the first document in

1 appendix two of the record which we reproduced. The rights
2 and obligations of the parties under this agreement are based
3 on the claims as set forth in the patent application which was
4 filed by Adkins in 1954.

5 Only to the extent that the claims are patentable,
6 the agreement is very explicit in this regard. Lear agreed to
7 pay royalties on its products that employed the invention
8 that is defined by the claims that are patentable. Contrary
9 to the repeated assertions of Adkins that the agreement was
10 based upon secret ideas, discoveries and unpatentable things,
11 the California Supreme Court expressly based its decision on
12 Adkins' patent rights under this agreement.

13 For example, in appendix one at page 192, the
14 California Supreme Court said:

15 "The agreement clearly sets forth that royalties
16 are to be paid only for patented or patentable claims which
17 Lear utilized in its products."

18 Although the agreement and the patent application
19 covers several devices and features, only the feature of
20 bearing alignment, supporting bearing in alignment for
21 rotatable device is involved in this action.

22 The technical subject matter is almost identical
23 with that which was before this court many years ago in
24 Singer versus Cramer which is cited in our briefs. The patent
25 application and the patent which ultimately issued are also

1 reproduced in appendix two at pages 18 and 32.

2 The circumstances under which this dispute arose
3 was that Adkins was employed by Lear in 1951 under an agreement
4 which permitted him to retain title to certain inventions.
5 This was covered by a preliminary agreement which was never
6 admitted into evidence because it was superseded and cancelled
7 by the 1955 agreement which is item number 2 on my chart.

8 Lear had two facilities at that time. One was in
9 California and the other one was in Michigan and Adkins did
10 his work in the California facility and he developed, along
11 with other Lear employees, this model 2156 gyro. At the same
12 time Mr. Curiston in Michigan was developing the so-called
13 Michigan gyro and in 1955 Lear started manufacturing and
14 selling both of these devices and they are both employed in
15 military equipment, almost exclusively in military equipment.

16 When the license agreement was consummated, the
17 patent application was directed primarily to the way the
18 devices were assembled and, as I mentioned earlier in response
19 to Mr. Justice Fortas's question, the two products were
20 included as covered by the agreement at that time because of
21 the similarity of the methods.

22 In 1957 Lear conducted a search of prior art and it
23 found that this method could not be patentable to Adkins. It
24 called the prior art to his attention and at that time it
25 renounced any further liability on Michigan steel gyro,

1 item number 3.

2 The patent application was rejected several times and
3 amended several times and one amendment of particular
4 importance is that of December 1958. Prior to this amendment
5 the application was directed to the characteristic features
6 of the model 2156 gyro. Subsequent to this amendment it was
7 directed primarily to the characteristic features of the
8 Michigan steel gyro.

9 For example, prior to the amendment, the application
10 did not say one word about removable bearings, yet subsequent
11 to the amendment, the application contained such wording and
12 Adkins has relied very heavily on that added wording in
13 briefs for the California Supreme Court and also before this
14 court emphasizing this very feature that was added by
15 amendment many years later.

16 In early 1959 the claims directed to bearing
17 alignment were under rejection by the patent office. All of
18 them were under rejection. The application had been pending
19 for five years. Lear had not received what it bargained for
20 under this executory contract which was patent rights.

21 Q Are you talking now about both of them?

22 A Yes, your Honor, I am talking about the entire
23 agreement. Lear's position as of April 1959 was that "we have
24 stopped paying royalties as of 1957."

25 Q On what?

1 A On the Michigan steel gyros, but they continued
2 to pay royalties on the California gyros.

3 Q I just have the greatest difficulty in this case
4 when you talk about both of them together because, if I
5 understand what I have read in the briefs, there are
6 differences in fact that may be material in a way with respect
7 to California and Michigan. That chart you have got up there
8 relates only to Michigan, does it?

9 A Well, no, your Honor. As of this date 1955, the
10 two products were listed together. As of this date, Lear said
11 we feel you cannot possibly get claims covering the process
12 on the Michigan product and we are going to continue on the
13 California model 2156.

14 Right here is where we come into the scope question
15 of enforcement of the patent under state laws, your Honor.
16 As of this date, Lear says, "We don't seem to be getting
17 anything. We have been carrying this agreement for years
18 with no patent issued. We don't think it is going to be any
19 good once it is issued. So we are going to terminate the
20 agreement." And Lear served notice of termination.

21 Q As to both?

22 A As to both. As to the whole works, your Honor.
23 Under provisions of the agreement, one of the provisions says
24 that Lear shall have the right on ninety days prior written
25 notice to terminate any of the licenses in this agreement and

1 Lear said, "All right, we have the right and we terminate the
2 whole works."

3 Q That right to terminate, was that confined to
4 the situation in which a patent did not issue?

5 A No, your Honor, that provision appears in
6 section 2(a) of the license agreement. If I may direct your
7 attention to the specific page, it is page 4 of Appendix A2,
8 the very last sentence about two thirds of the way down on the
9 page:

10 "Lear shall have the right on ninety days prior
11 written notice to Adkins to terminate any one or more of the
12 licenses herein granted."

13 The state court, upon considering that specific
14 sentence, said, "We find an implied condition that requires
15 that you cease manufacturing these devices before you can
16 terminate."

17 Now, this did not arise below in the trial level.
18 The trial court said the agreement was terminated, Lear
19 exercised its right. The intermediate appellate court said
20 the same thing. The California Supreme Court found this
21 implied condition and it is our position, your Honor, that
22 such an implied condition is most certainly contrary to the
23 purposes and provisions of the patent and anti-trust laws.

24 This is a circumstance that arose only upon
25 a decision of the California Supreme Court. So as of

1 April 8, 1959, it was Lear's position that the entire
2 agreement was cancelled which covered both of the products.

3 Some eight or nine months later Adkins pushed his
4 patent through the patent office, it was issued in early 1960
5 and the Complaint was filed on the same day.

6 The Complaint asserts two causes of action. The
7 first cause of action alleged breach of the license agreement
8 and unjust enrichment after termination of agreement, and the
9 second cause of action asserted liability under state law
10 based on the alleged appropriation of Adkins' ideas,
11 discoveries and invention in violation of his common law
12 right. The second cause of action was dismissed and was never
13 tried.

14 The trial court ruled that Lear terminated the
15 license agreement by this notice in 1959 and the jury
16 returned a verdict for Adkins on the basis of both products,
17 the California and Michigan steel gyros. The trial court
18 granted Lear's motion notwithstanding the verdict concerning
19 the Michigan gyros and left the directed verdict concerning
20 the California gyros stand. The trial court said that Lear
21 had no liability with respect to the Michigan steel gyros
22 because they were independently developed and also
23 the patent is invalid as far as that trial court is concerned
24 The intermediate appellate court of California ruled generally
25 along the same line. I won't discuss it because that decision

1 is rendered a nullity when the Supreme Court takes the case.

2 The California Supreme Court held that this
3 termination was ineffective because of this implied condition
4 that we have just mentioned. It then adopted the defense of
5 licensee estoppel which was asserted by Adkins and held that
6 Lear was estopped to contest the validity of the patent
7 and was liable for royalties.

8 It also used some criteria in ascertaining the
9 scope of the infringement and invention that we feel are
10 clearly in violation of decisions of this court.

11 For example, under the decision of the California
12 Supreme Court Lear has two alternatives. One is to pay
13 royalties regardless of the patent invalidity and failure of
14 consideration or cease manufacturing the devices. It is
15 deprived of the alternative of continuing the manufacture of
16 the products reportedly covered by the claims of the Adkins
17 patent application and challenging validity and this renders
18 any licensee that challenges validity vulnerable to suit for
19 infringement and imposition of damages which may be of much
20 greater magnitude than those imposed upon an agreement.

21 So a licensee has to be very well advised before he
22 wants to take such a step.

23 Q Don't you have to treat the Michigan steel gyro
24 problem as a license to use know-how or an unpatented article?

25 A No, your Honor.

1 Q Why do you talk about that in terms of patent
2 law? That is a question I put to you initially and it still
3 bothers me.

4 A Your Honor, you are going right to the crux of
5 one of the issues in this case. That is, any common law
6 rights involved here, patents and common law rights are
7 mutually exclusive.

8 Q That is what I am trying to get at. I really
9 don't understand it.

10 A Well, your Honor, the agreement is explicit
11 and this agreement superseded, cancelled all other agreements.
12 Lear, for example, wanted to go into things of that nature
13 and it presented an exhibit U for admission into evidence
14 under an offer of proof. At reporter's transcript 1018 where
15 Adkins says in representations leading up to the license
16 agreement:

17 "It is impossible for me to give Lear a license
18 on claims which may not be allowed or are not patentable."

19 Evidence along this line was excluded by the trial
20 court. The trial court said, "You are under this agreement
21 and this agreement limits you to patented or patentable
22 things and not secret ideas, not discoveries, and nothing
23 unpatentable is covered."

24 As a matter of fact, your Honor, there was a waiver
25 just before trial of all causes of action other than the

1 issues raised by the license agreement. So all ideas are out
2 of the picture. Know-how is out of the picture. The license
3 agreement doesn't mention know-how in any place nor does it
4 mention ideas. The only thing it mentions are things that
5 are patented or patentable and hence we submit that brings
6 that directly under the Federal criteria concerning patent
7 matters.

8 The major question before this court is the
9 enforceability of such agreement containing a restraint
10 which is outside the scope of the rights provided by the
11 patent laws.

12 Number two, the applicability of license estoppel
13 under the circumstances of this case and as a general
14 principle, whether the claims of the Adkins patent application
15 are really unpatentable and invalid as a matter of law like
16 the Superior Court of the State of California held, and
17 whether ground rules of enforcing patents under a license
18 agreement are the same as they are in enforcing a patent
19 in an infringement action.

20 The California State Supreme Court didn't use the
21 same ground rules. Otherwise, they could have never held
22 that the Michigan steel gyros are covered by the claims of the
23 patent.

24 As to question number one, enforceability of such
25 agreement, the requirement that Lear cease manufacturing the

1 products covered by the license agreement in order to
2 terminate is not a right granted by the patent laws.
3 Independency of a patent application provides no vested
4 rights. In fact, the patent may never issue and this, we
5 submit, is similar to the situation in Brulotte versus Thys
6 where this court held that an agreement which attempts to
7 extend patent rights beyond the 17-year period, patents are
8 good for 17 years and if a patent is attempted to be extended
9 beyond that period, it is an improper use of patent rights.

10 We submit that the very same considerations apply
11 here where the patent rights are attempted to be extended
12 before they really issue. We submit that such a provision
13 which the California Supreme Court found was implied in the
14 agreement renders it unenforceable.

15 Such an unwarranted extension of patent rights is
16 particularly objectionable here where products affected are
17 military equipment. This is because of the policy embodied
18 in 28 U.S.C. 1498 which permits use by the government of
19 all inventions without possibility of injunction and which
20 also safeguards the government from payment of royalties on
21 specious patents because validity can also be attacked.

22 With reference to the second major question
23 concerning estoppel, the government has filed a brief as
24 amicus curiae urging that this court should reject any
25 license estoppel. I am advised that the counsel for the

1 government, Mr. Wallace, will direct his oral argument to
2 the broad grounds and accordingly I will discuss the
3 circumstances of this case.

4 Under the circumstances of this case Lear
5 specifically renounced any liability. It renounced liability
6 with respect to the Michigan steel gyros in 1957. It
7 renounced liability under the agreement as of 1959. This
8 placed Adkins in the position that he could have charged Lear
9 as an infringer if he had so desired. He elected to bring
10 suit for royalties and he relies very heavily on the
11 Hazeltine case in support of his position.

12 In the Hazeltine case there was no renouncement
13 of the license agreement prior to the suit against Hazeltine.
14 They just didn't pay royalties, didn't make royalty reports.
15 This was all brought out in the lower court decisions.

16 Under the Hazeltine case the licensor didn't have
17 the right to sue for infringement. There was an outstanding
18 agreement. The parties simply had not paid royalties.

19 Here Lear has renounced and Adkins had a choice.
20 He chose to proceed under the agreement and the various cases
21 cited in our brief show that under such circumstances where
22 there is a renouncement or assertion of failure of
23 consideration, Lear has the right to challenge the validity
24 of that patent. The Dale Tile Company case is one along this
25 line.

1 Q What was the amount of the judgment?

2 A The amount of the judgment on the California
3 model 2156 gyro was a little over \$16,000. On the Michigan
4 steel gyro it was under 900,000. It was \$888,000 I believe.
5 That was as of 1963, your Honor, which was agreed upon for
6 accounting purposes only and, of course, the same thing applies
7 today. It has been going on. Lear is doing the same thing
8 today that it was in 1963.

9 The defense's failure of consideration is a well
10 established defense in contract matters and that is what Lear
11 asserted and that is a defense of record in the trial court,
12 in the pleadings, and we submit that doctrine of license
13 estoppel should not override such a well known and undisputed
14 defense.

15 The second circumstance of this case was that the
16 license to Lear was granted under patent application that was
17 altered by amendment. Numerous amendments were filed in this
18 application and, as I pointed out, one of major importance was
19 filed in December 1958 which changed the tenure of things.
20 The patent was issued with claims Lear had never seen.

21 To invoke a rule of estoppel under such circumstances
22 gives the licensee or applicant of a patent application the
23 right to change the gist of his invention and cover products
24 that weren't originally considered to be covered. It in
25 essence places the licensee at the mercy of the licensor with

1 no means for release.

2 We submit that licensee estoppel should not apply
3 if the agreement is based upon a patent application which is
4 in fact amended from time to time after execution of the
5 agreement.

6 The third circumstance of this case is that, as I
7 have already mentioned, the license agreement as construed by
8 the California Supreme Court embodies an implied condition
9 for termination that requires Lear to cease manufacturing the
10 products of the agreement in order to terminate.

11 As this court held in MacGregor versus Westinghouse,
12 the rule of licensee estoppel cannot be used as a shield to
13 preclude investigation of the validity of a patent where, in
14 the absence of a valid patent, it would be a restraint of
15 trade, and certainly that is the circumstance here.

16 The requirement that Lear cease manufacturing the
17 device is a restraint of trade and licensee estoppel should
18 not be employed as a shield to prevent Lear from defenses
19 concerning this issue.

20 Any one of these three circumstances is sufficient
21 to override any estoppel if any vestage of the doctrine still
22 survives and Mr. Wallace will discuss that on behalf of the
23 government.

24 Lear's third and fourth questions relate to the
25 validity and scope of Adkins' patent. These are all

1 interrelated because the patent is of certain scope. Then
2 the claims must not read on the prior order, otherwise it
3 is rendered invalid. And these two questions require an
4 understanding of the variance of the supporting apparatus
5 of the Michigan steel gyros and the California model 2156
6 gyros and I think perhaps this will help clarify some of the
7 questions that Mr. Justice Fortas was raising earlier.

8 If I may ask the court to refer to figure 9 of
9 Lear's reply brief at page 50, the two alignment arrangements
10 are shown there in simplified form. Towards the end of page
11 50 you will find two figures illustrating Adkins' patent
12 and one figure illustrating the Michigan steel gyro.

13 Adkins' patent shows a bearing-supporting apparatus
14 which employs a cone shaped seat in a gimbal housing and
15 spherical bearing cups and the patent states that those
16 elements are shown at both the top and bottom of the figures
17 concerning Adkins' patent and I will elaborate on that a
18 little more in a moment.

19 The patent states that the bearings may be aligned
20 by placing them on a jig or mandrel and then placing them
21 in a bearing-receiving element, as I have illustrated.

22 When the mandrel is rotated, it causes the bearings
23 to become aligned and this is accommodated by engaging
24 surfaces between cylindrical shaped bearing cups and cone
25 shaped seats in view of their different curved shaped cups.

1 At the trial we used this demonstration to
2 illustrate the two types of surfaces we are talking about,
3 the cone shaped seat or the two seats in the framework that
4 is shown on figure 9, and the other members are spherical
5 shaped. They are a portion of a sphere and we have
6 illustrated this by a piece of a croquet ball.

7 This shows the type of action that Adkins used in
8 order to achieve alignment. It provides so-called angular
9 tilt that you will see referred to in the briefs due to the
10 two surfaces that are involved that accommodate this kind of
11 movement.

12 We have a model here in court showing alignment of
13 the bearings in accordance with Adkins' patent. This was
14 demonstrated at the trial and I think it is essential, if the
15 court will bear with me, for a thorough understanding of the
16 issue of scope, scope of the patent and patent application
17 that are involved in this action.

18 Mr. Hartz will demonstrate this model. It is
19 approximately four times the actual size of the actual parts
20 in reality. It shows the cone shaped seat like the funnel
21 that I just demonstrated. It has bearing cups with a
22 spherical surface. This is the spherical surface much like
23 a croquet ball that I demonstrated.

24 It has bearings for mounting in the bearing cups
25 which ultimately go to the seats which are in the framework.

1 Q Mr. Hale, I want to be sure I understand the
2 relationship between what is being demonstrated here and the
3 diagrams of page 50 of the reply brief.

4 A This is the lefthand portion of the Adkins
5 patent. The Adkins patent and the California model 2156 gyro
6 is very similar, your Honor. It has the cone shaped member
7 here, the spherical shaped member here for receiving the
8 bearing element. This is very much like the top thing that
9 is shown on the first one. There is a small cutaway there.

10 The patent says these bearings are slid on a jig
11 or mandrel which makes the cylindrical drawing. This jig or
12 mandrel is simply an assembly tool which is taken out later
13 and we will demonstrate that. The bearings are then placed
14 into the bearing cups and they in turn, of course, are in the
15 framework in their cone shaped seats.

16 The mandrel is rotated and, due to the nature of
17 the engaging surfaces which permit this type of movement,
18 alignment is achieved. As soon as that is done, cement is
19 placed around there to hold them in place.

20 The patent states that other arrangements can be
21 used, like screws or welding and what-have-you.

22 Thereafter the jig is removed and the gyro is
23 then ready to put together in final form.

24 The alignment of the Michigan steel gyro is
25 illustrated in the far righthand corner of figure 9 and we

1 will now demonstrate that.

2 Here is the jig which appears in the center of
3 figure 9. This was taken from Exhibit O that was admitted
4 into evidence and is part of the assembly procedure that has
5 been used throughout this trial. Here is the little mandrel
6 or jig as actually employed in production in the Michigan
7 steel gyro.

8 You will notice that one end has a little bearing
9 cup on it and the other end. These fit snugly and, not only
10 that, but they are affixed by screws and washers so that
11 they are absolutely rigid, those bearing cups when they are
12 mounted on this, and they are now in alignment right now. No
13 matter what you do with them, those bearing cups are in
14 alignment and will stay that way. No angular motion, no tilt,
15 they are in alignment.

16 Q Where is the mandrel?

17 A The mandrel is this portion here, your Honor,
18 and here are the two bearing cups. We have a larger model
19 that will be easier for the court to see.

20 Q What is an arbor, is that the same as mandrel?

21 A Yes, your Honor. These terms have all been
22 used interchangeably and I feel compelled to use them more or
23 less interchangeably.

24 Q "Mandrel" or "arbor" or "jig" -- all three
25 mean the same thing?

1 A That's right. Here is the characteristic
2 structure of the bearing cups in the Michigan steel gyros.
3 The total thing has been sometimes characterized as
4 cylindrical top half placed in a loosely fitting hole.

5 Do you want to assemble that and show the court
6 exactly how the alignment is achieved? Again this is
7 approximately four times scale.

8 Q Is that actual scale?

9 A This is four times actual scale.

10 Q In his right hand is --

11 A The axis. Also, your Honor, we have here in
12 court the actual housings that the mandrel goes into, if I
13 may demonstrate. It goes into a loose hole on this end, a
14 loose hole on this end, the thing is cemented or welded into
15 place, and then the mandrel can be removed and it is ready
16 for final assembly and here is the package.

17 Q That is actual size that you have in your hand?

18 A Yes, your Honor, that is right out of the
19 production line. The characteristic of alignment in the
20 Michigan steel gyro still uses a mandrel like the California
21 model 2156 but that is about the end of the resemblance
22 and that mandrel is taken out, not used.

23 Adkins tried to get claims covering the procedure
24 for alignment the way I have just demonstrated on the model
25 2156. He tried and tried and tried and he was turned down

1 every time on his method claims and he cancelled those.

2 We submit that puts them in the public domain
3 and he cannot now claim that the method is the same, that
4 they employ the same thing.

5 The California Supreme Court said it wasn't
6 obligated to look at the final history concerning these
7 aspects because the claims that were presented in that
8 application were brand new. They were presented down at the
9 very end of the prosecution. Well, we submit that that is
10 not the law.

11 The criteria that has been established by this court
12 and many other courts says you have to look at the whole
13 history in order to ascertain what the claims really mean.

14 In interpreting the scope of Adkins' patent
15 the California Supreme Court said the device of cemented-in
16 bearing cups using the mandrel procedure constitutes the
17 essence of Adkins' invention as described in his application.

18 Well, that is the essence of his invention. It is
19 in the public domain because he cancelled the method and the
20 mandrel procedure. The language I have just quoted from is
21 in Appendix A1, 192. This is one of the criteria that we feel
22 the California Supreme Court applied improperly.

23 Another major thing was that the California
24 Supreme Court states:

25 "The alignment of bearing cups in either Adkins'

1 or the steel gyros can be accomplished only by the angular
2 displacement of the two cups to the axis of the mandrel."

3 If it please the court, it is impossible for either
4 of these two cups to be displaced with the axis of the mandrel.
5 It is an absolute physical impossibility and we submit that
6 is a major error.

7 If I may indulge the court, I would like to refer
8 now to our opening brief, figure 4, which is opposite page
9 57. Figure 4-2 sets forth the main claim of Adkins' patent
10 application and the patent at issue which is illustrated here
11 and I would like to point out that letters A, B and C
12 identify the three elements of this invention and Adkins
13 admits that those three elements are old, old in the art.

14 He simply says they have a new cooperative
15 relationship. When he applies this new cooperative
16 relationship, in talking about things in the claim and it is
17 the claim that defines the invention. This is one of the
18 exhibits employed in the trial court and I use it only
19 for purpose of illustration. It is the lefthand figure of
20 Exhibit 4-1 that I have just referred the court to.

21 I would like to point out that the color code on
22 all of these things is the same. Red means bearing cups, and
23 so forth. You will see here a red element of bearing cup
24 designated "A", a bearing-receiving frame as "B", and means
25 for holding that bearing cup in place designated "C."

1 The bearing-receiving element is in a sloppy hole,
2 in a loosely fitting hole just like the Michigan steel gyro
3 and alignment is achieved by use of the speaker.

4 Q This is what, prior art?

5 A Yes, this goes to the issue of validity and
6 scope. If it reads on the Michigan steel gyro, it also reads
7 on this one.

8 If I may, Mr. Chief Justice, I believe I have about
9 five minutes left, I would like to reserve it, if I may.

10 MR. CHIEF JUSTICE WARREN: Mr. Wallace.

11 ORAL ARGUMENT OF LAWRENCE C. WALLACE, ESQ.

12 ON BEHALF OF THE UNITED STATES

13 MR. WALLACE: Mr. Chief Justice and may it please
14 the court, the United States believes that the time has come
15 for this court to hold that the most fundamental policies of
16 the Federal patent and anti-trust laws forbid the
17 application in state or federal courts of doctrines of estoppel
18 which result in court enforcement of invalid patent
19 monopolies.

20 Q Was that issue necessarily decided?

21 A We believe that it was, your Honor.

22 Q Is it necessarily here unavoidably?

23 A We believe that it is necessary. We believe
24 it is before this court and, if you like, your Honor, I will
25 turn directly to that problem since respondent raises this

1 contention in its brief in this court.

2 Respondent contends that the estoppel issue is not
3 before this court because Lear never claimed in the state
4 courts that Federal law gave it the right to contest the
5 validity of the patent, but in our examination of the briefs
6 that have been certified to this court as a part of the
7 record, we see that Lear did make this claim based on Federal
8 law in the briefs.

9 I believe the clearest example can be found on
10 pages 25 through 28 of Lear's reply brief in the District
11 Court of Appeals in California which under California practice
12 also becomes the brief in the Supreme Court.

13 Litigants are forbidden from filing new briefs in
14 the Supreme Court of California. This portion of Lear's
15 brief has not been reproduced in the printed appendix but
16 has been certified by the Clerk as part of the record and is on
17 file with the Clerk in this court.

18 Let me just summarize for you why I think this is a
19 clear example and the government thinks this is a clear
20 example of the petitioner having raised the Federal issue
21 before the state courts.

22 Beginning on page 25 of that reply brief, the
23 petitioner refers to the provisions of Article One of the
24 Federal Constitution.

25 Q Do we have that in these papers that we have

1 included in the appendix or anywhere?

2 A No, this has not been reprinted in the
3 appendix.

4 Q So we don't have that at all?

5 A You don't have that among your papers, that is
6 correct, sir, but it is on file with the Clerk here as part
7 of the record that was not printed in the printed appendix.

8 Q That is on file here?

9 A It is on file with the Clerk of this court, yes,
10 Mr. Justice, but it was not printed in the appendix. This
11 is pages 25 through 28 of the reply brief before the state
12 appellate court.

13 Beginning on page 25 Lear referred to and quoted
14 from Article One of the Federal Constitution, the patent
15 clause, and then elaborated some of the provisions of the
16 patent code which Congress has enacted and then in the course
17 of this particular contention, he said:

18 "A license or contract concerning patent
19 applications and patents have more than the usual two
20 interested parties. Patents from their inception have been
21 designed to promote the progress of science and were
22 instituted for the public's benefit and not as a reward for
23 the inventor."

24 This is followed by quotations from two other
25 Federal cases, one an Opinion of this court, Precision

1 Instrument Manufacturing case, 324 U. S. 806. Finally at
2 the conclusion of this portion of the argument the contention
3 was put this way:

4 "In the present action the trial court expressly
5 found that plaintiff's patent attempts to cover something
6 that is in the existing fund of public knowledge and something
7 that would be obvious to one skilled in the art. Thus
8 plaintiff's patent is invalid. It does not provide protection
9 for any device or product and its validity with respect to the
10 2156 gyros can be contested by defendant and also by
11 everyone else because of the public interest which is
12 involved."

13 Q Did the California Supreme Court rest its
14 decision on Lear's ability?

15 A Yes, it did. It explicitly held that the patent
16 estoppel doctrine is applicable.

17 Q Can you give me the pages of that brief?

18 A The pages are 25 through 28.

19 Q Thank you.

20 A The reply brief submitted by Lear in the
21 District Court of Appeals. This is the brief that refers to
22 Civil Actions Numbers 28624 and 30089. There were numerous
23 briefs but this is the reply brief. It is the brown colored
24 brief of Lear in the District Court of Appeals and also in
25 the Supreme Court of California.

1 On page 191 of the first volume of your printed
2 appendix where you have the opinion of the Supreme Court of
3 California you have the holding and in very explicit terms
4 right in the middle of page 191:

5 "The doctrine of licensee estoppel is applicable
6 and Lear is foreclosed from challenging the validity of the
7 Adkins patent."

8 Q Does it make any difference where that broad
9 statement came from?

10 A We are of the opinion that since the question
11 of Federal law was presented to the court and the court
12 rejected that contention by applying the doctrine of
13 estoppel, that this necessarily meant that the California
14 Supreme Court passed on the question of Federal law.

15 In the pages that I referred you to in the brief
16 before the California court, we are of the view that because
17 only Federal authorities are cited throughout these three
18 and a half pages and the argument ends at that point and a
19 new point is taken up, the clear intention of these pages of
20 the brief is to raise these issues as a Federal claim and
21 this was sufficient under the standard which this court
22 applied in Braniff Airways, Inc. against Nebraska State
23 Board of Equalization in 347 U. S. where the clear
24 intention was to assert a Federal claim. No precise
25 terminology need be followed in presenting that claim so

1 long as the state court does pass upon it.

2 It is true that this reply brief raising the issue
3 was concerned only with the aspects of the case relating to
4 the so-called California gyro and not to the Michigan gyro,
5 but it is also true that the State Supreme Court consolidated
6 all of the aspects of the case together into one appeal and
7 into one Opinion and thus had this Federal claim before it
8 and passed upon it for purposes of the entire case.

9 But even in the absence of consolidation in the
10 court below, the issue of licensee estoppel would still be
11 before this court because a part of the judgment awarded is
12 for royalties for manufacture of the California gyro, the
13 claimed invention, with respect to which this point is
14 specifically raised.

15 In that case the issue of the validity of the
16 patent is still undecided. The petitioner has submitted this
17 issue to this court. This court in its discretion could
18 pass upon it or could remand the case for consideration of
19 that and other issues that may still remain in the case by
20 the state courts.

21 It follows also that the doctrine of licensee
22 estoppel is applicable and Lear is foreclosed from
23 challenging the validity of Adkins' patent.

24 As we read the California decision, therefore, the
25 United States believes that the issue is before this court

1 and we have addressed ourselves to the issue of whether the
2 licensee estoppel doctrine should now be eliminated in
3 view of the weight and teaching of this court's decisions
4 in recent years which required exceptions to the doctrine
5 and which otherwise have closely confined court enforcement
6 of monopolies to the limited scope authorized by the Federal
7 patent law.

8 Under our patent system, unlike that of some
9 European countries, patent monopolies are granted in
10 essentially ex parte non-adversary administrative proceedings
11 and this court and other courts and Congress have had
12 frequent occasions to observe that this system results in
13 the issuance of numerous patents for articles which do not
14 meet the requisite standard of invention upon later
15 investigation, an adversary investigation.

16 Therefore, as we show in our brief, the public
17 interest is strongly dependent upon our patent system and
18 on the availability of opportunities for private litigants
19 to expose invalid patent monopolies before the court in
20 order to free the public from their economic effects.

21 In many instances a licensee may be the only
22 potential litigant who combines the requisite knowledge with
23 the requisite incentive to mount that challenge. The
24 practicalities of the business situation may well have
25 induced a licensee to enter into the license agreement even

1 though he had doubts about the validity of the patent or
2 had not had time to investigate the question of the validity.

3 For example, a government contractor such as the
4 petitioner must assure himself before he submits his bid
5 that he will be able to perform the contract and this means
6 that he must have a legal right to make and sell every
7 component required.

8 When some of those components are covered in issued
9 patents or patent applications, the pressure to enter into
10 license agreements would seem obvious.

11 The basic vice of the estoppel doctrine is that
12 it converts those licenses into incontestable devices for
13 economic effectuation of invalid patent monopolies. It is
14 instructive to remember that this court's early recognition
15 of the doctrine of patent licensee estoppel in the 1855 case
16 of *Kinsman v. Parkhurst*, and as we point out in our brief, it
17 was recognition, not a holding there, this occurred 35 years
18 prior to the enactment of the Sherman anti-trust law when the
19 patent laws were not yet viewed as a carefully confined
20 exception to the broad interdiction of monopolization in the
21 anti-trust laws, and this court's first significant
22 limitation of the estoppel doctrine, *Pope Manufacturing*
23 *Company versus Gormully*, occurred in 1892, two years after
24 enactment of the Sherman law.

25 Later in the *Sola Electric, Katzinger and MacGregor*

1 cases discussed in our brief, this court held that the
2 estoppel doctrine may not be applied when the license agreement
3 contains a price fixing clause and in Scott Paper Company
4 versus Marcalus Manufacturing Company, the court held that an
5 assignor cannot be estopped from showing he was not infringing
6 the assigned patents because he was using only the prior art
7 of expired patents even though in the circumstance this
8 amounted to a showing that the patent he assigned had been
9 anticipated and was therefore invalid.

10 In his perspective and candid dissenting opinions
11 in those cases, Mr. Justice Frankfurter pointed out that the
12 general doctrines of the assignor estoppel and licensee
13 estoppel really could not withstand the rationale of those
14 decisions and ultimately would have to yield to the same
15 considerations of the public interest that govern the
16 court's decisions in those cases.

17 But several years later the majority of the court
18 tersely reindorsed the general doctrine of licensee
19 estoppel in the Hazeltine case and said that the previous
20 cases meant that estoppel was forbidden only if licensee
21 attempts to enlarge patent monopoly through price fixing,
22 for example.

23 As Mr. Justice Douglas, joined by Mr. Justice Black,
24 asked him to dissent in that case, what more enlargement is
25 there from the standpoint of public harm than detachment

1 of patent monopoly to unpatentable monopoly. The majority
2 opinion did not answer that question. The question remains
3 unanswered and the United States submits that the question is
4 unanswerable.

5 More recently in the Sears Roebuck versus Stiffel
6 and Compco cases this court held that the states cannot
7 confer upon the originator of a design the power to exclude
8 others from copying that design, that the power to exclude
9 is the exclusive province of the Federal patent laws and can
10 attach only to avail a Federal patent.

11 The power to exclude others from making, using or
12 selling, which is conferred by a patent, is often utilized
13 by the patentee in order to reap economic award from the
14 patent. He excludes others from using the product unless
15 they buy it from him or excludes others from making and
16 selling the product unless they pay him and agree upon a
17 royalty.

18 This is precisely the power to exclude which the
19 decision below has given to the respondent, even if his patent
20 is invalid and California has thus used the doctrine of
21 licensee estoppel to trespass upon the domain of the Federal
22 patent laws and to enlarge the impact on the economy of patent
23 monopoly rights from that which is authorized by the Federal
24 laws, just as the Illinois law of unfair competition has been
25 used in Stiffel and Compco to trespass upon Federal domain

1 and enlarge monopoly powers.

2 In those cases this court held that the states must
3 be confined to remedies that are compatible with policies of
4 Federal law such as requirement of labeling.

5 Likewise here we have argued in the concluding
6 pages of our brief that the states may devise remedies to
7 promote equity between businessmen which do not conflict with
8 Federal law but the states should be barred from sacrificing
9 the public interest by applying doctrines of estoppel that
10 result in enforcement of monopolies that are not authorized
11 by Federal law.

12 The United States asks the court in this case to
13 relieve the people of this country from the burden of having
14 to pay royalties for the use of a non-invention and give the
15 people what the Constitution says is rightfully theirs, the
16 free use of all of the technology that is in the public
17 domain.

18 Q Assuming that the Michigan patent here is
19 available and assuming that the petitioner can avail itself
20 of that patent, does that in your judgment dispose of the
21 claim with respect to compensation for the use of the
22 Michigan device?

23 A The United States has not really formulated a
24 position on that question.

25 Q You are doing something more than asking us to

1 make a ruling in the abstract here, aren't you?

2 A Of course, there is no problem with the
3 California device at all.

4 Q There is no question about the validity of
5 the California patent, is there, in this case?

6 A Yes, there was estoppel applied with respect
7 to both patents and Lear was estopped from contesting the
8 validity of either patent and the judgment reflects royalties
9 for the use of both patents.

10 Q But has there been an adjudication that the
11 Michigan patent is invalid in this case? There hasn't, has
12 there?

13 A No, there has not because the trial court held
14 that Lear was estopped from the outset.

15 Q Was there adjudication?

16 A It was at the trial court that the Michigan
17 device was held to be invalid.

18 Q So that we do have that difference in the posture
19 of the case in any event between these two patents and you
20 have made no study of the impact of accepting your theory
21 with respect to whether a claim survives?

22 A I have made a study of it but the United States
23 has not taken a position with respect to that question.

24 Q You haven't made a study that is helpful to us.
25 Thank you, sir.

1 Q Isn't it true that no royalties were payable
2 except on patented or patentable articles under this
3 agreement?

4 A The agreement so stated and the basis for the
5 royalty payments having been awarded in the judgment of the
6 California court is that Lear was estopped to contest the
7 validity of either patent.

8 MR. CHIEF JUSTICE WARREN: We will now recess.

9 THE CLERK: The court will be in recess until
10 10 o'clock tomorrow morning.

11 (Whereupon, at 2:30 p.m. the argument in the
12 above-entitled matter recessed, to reconvene at 10 a.m.,
13 November 21, 1968.)

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