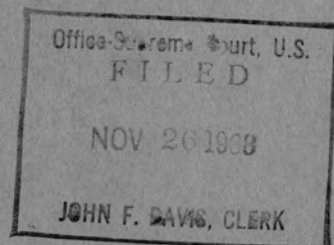


1/68

Supreme Court of the United States



In the Matter of:

Docket No. 56

LEAR, INCORPORATED,

Petitioner

vs.

JOHN S. ADKINS,

Respondent

A handwritten note "Pt. 2" is circled in a large oval. A long arrow originates from the bottom of the circle and points down towards the date "November 21, 1968".

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Place Washington, D. C.

Date November 21, 1968

ALDERSON REPORTING COMPANY, INC.

300 Seventh Street, S. W.

Washington, D. C.

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ORAL ARGUMENT OF:

P A G E

Peter R. Cohen, Esq.

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1 IN THE SUPREME COURT OF THE UNITED STATES

2 October

3 [REDACTED], 1968

4 Lear, Incorporated,

5 Petitioner,

6 vs.

No. 56

7 John S. Adkins,

8 Respondent.

9
10 Washington, D. C.
11 November 21, 1968

12 The above-entitled matter came on for argument at
13 10:00 a.m.

14 BEFORE:

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

20 APPEARANCES: (As Heretofore noted)

21
22
23
24
25

1 P R O C E E D I N G S

2 CHIEF JUSTICE WARREN: No. 56. Lear, Incorporated
3 versus John S. Adkins.

4 Mr. Cohen, you may begin your argument.

5 ORAL ARGUMENT OF PETER R. COHEN

6 MR. COHEN: Mr. Chief Justice, and may it please
7 the court, first it is important to show in this case that Lear
8 never properly raised or preserved the question of whether
9 licensee estoppel violates either the patent laws or the anti-
10 trust laws.

11 Although Mr. Wallace, for the government, referred
12 to pages 25 to 28 of one of Lear's reply briefs where Lear
13 had quoted the constitutional standard or convention and the
14 sections of the patent laws dealing with validity, he did not
15 read far enough from that portion of the brief.

16 In that section, after quoting those provisions
17 what Lear was arguing was only that the federal laws, including
18 the constitutional standard, had to be applied in determining
19 the question of validity. That portion did not in any way assert
20 that the doctrine of licensee estoppel was invalid in that it
21 violated either the patent laws or the anti-trust laws.

22 In fact, at page 75 of that same brief Lear had a
23 separate section dealing with the doctrine of licensee estoppel
24 in which Lear conceded that the doctrine was applicable in this
25 case unless it fell within one or two exceptions, one being

1 termination, the other being repudiation.

2 I have Xeroxed copies of the brief that Mr. Wallace
3 referred to, pages 18 through 28, and I have handed them to
4 the clerk this morning for this court to consider if it so
5 desires.

6 In fact, the government concedes in its amicus brief
7 that the issue of whether or not licensee estoppel violates
8 either the patent laws or the anti-trust laws is not timely
9 raised or preserved in this case. At page 8 the government
10 says as follows:

11 "This Court need not be deterred from reaching this
12 issue, licensee estoppel, by the fact that petitioner's inten-
13 tions in the state courts were directed primarily to attempting
14 to carve out an exception to the doctrine rather than to its
15 overturn."

16 Because of this Court's decision upholding the
17 doctrine of Automatic Radio Company versus Hazeltine it would
18 have been futile for the petitioner to have argued broadly to
19 the state courts that federal law bars the states from applying
20 the doctrine of patent licensee estoppel.

21 Moreover Lear has conceded in the state court system
22 that the rule of licensee estoppel was applicable unless Lear
23 fell within one or two state exceptions. The best statement of
24 this concession appears on page 109 of Lear's answering brief in
25 the California District Court which is quoted at page 120 of the

1 appendix before this court and which states as follows:

2 "It is a recognized principle of law that when a
3 license agreement provides a grant of a right to either manu-
4 facture, use or sell a product incorporating a patented invention,
5 the licensee is estopped to contest the validity of the license
6 patent only so long as the licensee is operating under the
7 license."

8 This is not only the modern rule but, as plaintiff
9 likes to call it, it is also the old rule as well. This rule
10 was set out in the 1939 case of the Armstrong Company versus
11 Shell Company of California which was a California court opinion.

12 Lear then goes on to say this estoppel lasts only so
13 long as the licensee operates under the license agreement. This
14 estoppel arises not because of the express terms, but because
15 the licensee is using and enjoying the benefit and protection of
16 the right covered by the agreement, and should not be permitted
17 to reap the benefits of the agreement and at the same time con-
18 test the validity of the patents to show failure of consideration
19 for the agreement.

20 Q What appendix are you reading from?

21 A Appendix No. 120, volume 1.

22 Q There is no question, I gather, that the state court
23 did rely on estoppel to dispose of this case to some extent?

24 A Yes, it did rely on it to a certain extent.

25 Q And your point is that no one ever really raised the

1 question whether federal law forbade the state court to rule
2 that way.

3 A That is correct, it was never raised in the state
4 system whatsoever.

5 Q What about the passage in the brief that was read
6 to us yesterday?

7 A The passage in the brief that was read to you
8 yesterday was dealing primarily, in fact exclusively, with the
9 constitutional standard and the patent laws insofar as they
10 concern the standard for invention. There was nothing said
11 there about licensee estoppel and particularly nothing said
12 about whether it violates the anti-trust laws or the patent laws.

13 That section was dealing solely with the validity
14 question and what the standard was for determining the validity
15 of a patent. I think this is clear from page 28 where, after
16 quoting the constitutional provision and the patent standard
17 set forth in section 101, 102, 103 and subsequent sections, they
18 conclude that this test must be applied in determining validity,
19 but there is no statement there concerning licensee estoppel, or
20 whether those standards have to be applied in determining whether
21 the doctrine of licensee estoppel violates either the patent laws
22 or the anti-trust laws.

23 Q I do not exactly understand what you say they did not
24 raise with specificity?

25 A I am saying they did not raise with any specificity

1 the question of whether the doctrine of licensee estoppel per se
2 violates either policy of the anti-trust laws or the policy of
3 the patent laws. This question was never raised in the trial
4 court or in the appellate court.

5 Q Did they raise the question of what law governed,
6 state or federal, in the trial of the case?

7 A Not on this issue because this issue was never
8 raised. I assume it was just conceded that the doctrine was
9 applicable whether or not it was state law.

10 Q If it was decided, we can decide it here.

11 A If it was decided, assuming it is essential to the
12 decision. It is essential to the decision only in a very narrow
13 respect. I would assume that if it had not been properly raised,
14 it would not be properly before this Court.

15 Q Even if the court decided it?

16 A I would assume that the court had decided it as a
17 question of state law, because it was not raised as a federal
18 question, and in trying to carve out exceptions to the doctrine
19 in that Lear had claimed that it had either terminated or
20 repudiated the agreement, Lear stated that these were state
21 exceptions to the doctrine. So I would gather that it was more
22 or less assumed all along the line that what was being applied
23 was a state doctrine, since it was never questioned under the
24 federal laws in any way.

25 Q You say that has been a hot controversy for years,

1 has it not?

2 A It has been a controversy before this Court, yes, but
3 it arose in this case in the context that Lear conceded the
4 applicability of the rule, and then contended only that they fell
5 into two so-called state exceptions -- that they had either
6 terminated or --

7 Q They conceded that the state law governed on that
8 point?

9 A They conceded that the doctrine of licensee estoppel
10 was applicable without saying any place in the state system
11 whether it was state or federal. But by the fact that they
12 tried to use so-called state exceptions to come without the rule,
13 they probably also conceded that it was a state doctrine, although
14 I admit it was never specified which one it was.

15 Q You mean they conceded that point that the licensee
16 was barred because he had been a licensee, while breaking the
17 validity of the patent? Is that in the pleadings? Did they
18 do that in an answer?

19 A No, they did not do that in the pleadings. They did
20 this in a brief on appeal and also in a brief in the trial
21 court in which they conceded the applicability of the doctrine
22 of licensee estoppel, and sought to bring themselves within two
23 exceptions of it.

24 Q They conceded the validity of it under any law?

25 A I would have to assume they did because they never

1 questioned that it was applicable.

2 Q Where in the record can I find it?

3 A On page 120 of the appendix.

4 Q Is that all? Appendix No.1?

5 A Yes, Volume 1.

6 Q That is what you read before?

7 A That is correct.

8 Q I read that a moment ago. Maybe I thought I had the
9 wrong ones.

10 A It is on page 120, Your Honor.

11 Q That would not necessarily preclude us, would it?

12 Assuming that they had not pressed the point below, that would
13 not preclude us from deciding the issue, would it? This is
14 about as plain an issue of law, law pure and simple, if there
15 is any such thing, that one can readily imagine.

16 A I would assume that under procedural rules that have
17 been laid down by this court that, unless the issue is timely
18 raised as a federal question, it is too late to raise it in
19 this Court.

20 Now it went through the California system without any
21 question as to the applicability of the doctrine. There was no
22 federal question presented. Rather there was only an attempt
23 to carve out state exceptions to this rule, on the theory that
24 they had either terminated the agreement by sending notice of
25 termination, or had repudiated the agreement, and on both those

1 issues Lear took the position that that was state law, and
2 since they were applying it to the doctrine of licensee estoppel
3 I would assume that they would also --

4 Q I do not want to take up your time, but certainly
5 there were plenty of federal questions raised below, and your
6 point, I take it, is that assuming that this particular
7 argument was not made below, is it too late to make this
8 particular argument here?

9 A I think it is because the only federal questions that
10 were raised below were in connection with the application of
11 the federal standards for patentability which never really
12 became an issue in the California Supreme Court because it
13 applied the doctrine of licensee estoppel. So unless the court
14 can reach the issue of licensee estoppel it cannot go any
15 further than that. And if that is decided solely on a state
16 ground as a matter of state contract law, then the federal
17 patent issues that were raised never will arise in this case.

18 Q You said, if I understood you, that the estoppel of
19 the patentee related only to part of the issues in this case; is
20 that right?

21 A Yes, that is only part of the issue.

22 Q Are you going to tell us about that sometime in the
23 course of your argument?

24 A What the other issues are?

25 Q Yes.

1 A The other issue is primarily the construction of the
2 contract and Lear's attempts to avoid the contract by saying
3 that it either terminated or repudiated -- and thereby get
4 itself into the federal court system in a pure suit for in-
5 fringement. The California Supreme Court devoted a good part of
6 its time to determining whether or not Lear had terminated the
7 contract --

8 Q Do you agree or disagree that this contract has to
9 be construed and applied totally from the point of view of the
10 patent license contract?

11 A No, I do not think it does. I do not think it is in
12 the pure and technical sense a patent contract. It relates to
13 patent events to a certain extent, but it is more concerned with
14 a bargain for the disclosure of an invention in return for the
15 payment of a royalty for the disclosure of that invention.

16 That is the real basis of that bargaining which I
17 will get to as I get further into my argument.

18 Just as the issue relating to the licensee estoppel
19 is not properly before this Court, in my opinion, similarly the
20 issue of patent validity is not before this Court for several
21 reasons.

22 First, if the issue of licensee estoppel is not before
23 this Court, it cannot reach this dependent question.

24 Second, the issue of validity was not one of the
25 questions present in Lear's petition for Certiorari.

1 Third, it is not a necessarily included question
2 under rule 231(c).

3 Fourth, California Supreme Court did not consider the
4 issue of validity and, under settled procedural rules, this
5 Court will not normally pass on the question of first instance
6 without the lower court having undertaken to decide those issues.

7 In fact the government urges at page 26 of its amicus
8 brief, that if the issue of validity must be reached, that the
9 case should be remanded to the California Supreme Court for
10 consideration of this issue.

11 Consequently, in my view, because the doctrine of
12 licensee estoppel was never properly raised as a federal issue
13 and the doctrine of the validity of the patent was consequently
14 not before the court, the result should be that this petition be
15 dismissed as improvidently granted.

16 Q What makes you think that the court below decided
17 the issue of estoppel based on state grounds?

18 A What I think it was doing was using --

19 Q What makes you think that?

20 A Because it did so in connection with the construction
21 of an agreement, and although it used the words licensee estoppel
22 it was really using those words as a shorthand method of summing
23 up what it had already determined on the contract, namely --

24 Q It said early in the opinion that before setting out
25 the facts they wanted to talk about some fundamental principles.

1 Among those fundamental principles was licensee estoppel. It
2 did not cite any state cases on that.

3 A That is right.

4 Q What are the cases that are cited that Walker cites?

5 A I would assume that Walker cites probably state cases
6 and federal cases as well.

7 Q Cites a federal case?

8 A I would assume he does, but in those cases it may
9 well have been that what the federal court was doing was applying
10 local law in a diversity based on a contract action. Of course,
11 I would not know that without reading the case --

12 Q Let us assume, for the moment, that there are no state
13 cases cited here anywhere, and it does not say what they were
14 applying. Let us assume that the proper rule was that on a
15 question like this federal law governs. What are we supposed
16 to do, just assume that the state court did not know that?

17 A When you say the federal law governs, the doctrine
18 is a federal doctrine rather than a state doctrine? I have been
19 assuming all along that the doctrine is a state --

20 Q That the federal law would govern as to whether
21 licensee estoppel applies.

22 A I think federal limitations would have to control the
23 doctrine. This Court has held that, but that is only in a misuse
24 relation --

25 Q Well, then, if a state court says that licensee

1 estoppel applies in this situation it must be because it thinks
2 that within the federal doctrine there is room to apply it in
3 this situation.

4 A I think what it was doing was first, interpreting
5 the contract, and then it was saying, as a shorthand method,
6 that licensee estoppel really means that Lear is estopped to
7 question the bargain it freely entered into, in that in making
8 the bargain it did not make conclusive validity of the patent
9 one of the considerations for the bargain.

10 Therefore, since invalidity of the patent would not
11 cause a failure of consideration, it should not be a defense.
12 In other words, the parties never bargained with respect to the
13 validity of the patent. Therefore it should not be a defense if
14 it is invalid because it could not affect the bargaining of the
15 parties.

16 Q Basically you think estoppel has to be rooted in
17 state law, because the obligations of the license are really
18 created under state law.

19 A Correct.

20 Q And it is only a question of whether that state law
21 may apply because of some federal policy?

22 A They may go too far because of an overriding federal
23 policy. If we are confined to the narrow situation and there is
24 no misuse of the patent, then I think it remains just a state
25 question until there is some transgression of the anti-trust

1 laws, perhaps the patent laws, but I do not see how the patent
2 laws can apply here especially in the context of this case
3 because the bargain was really not for patent or patent rights.

4 I will get to the essence of the bargains in a
5 minute -- that Lear received a disclosure from Adkins of an
6 idea, discovery and invention for which they agreed to pay him
7 as long as they continued to use it, subject to three conditions
8 of subsequence.

9 Those conditions subsequent were:

10 1. If no patent issued.

11 2. If a patent issued with claims which did not
12 cover the inventions they were using in the 2156 California
13 gyro and Michigan steel gyros.

14 3. If the patent is held invalid in third party
15 action, although they tied these escape hatches to what might
16 happen under the patent laws, they were really just a way of
17 reducing Lear's liability under the agreement to continue to pay
18 up until the expiration of the patent. Since none of these
19 conditions has occurred, they, of course belong to the bargain.

20 Q Yes, but did not the license agreement just cover
21 patented or patentable devices?

22 A It did say that in paragraph 2(a), but --

23 Q Did it not say that before that?

24 A No --

25 Q Then does not somebody, before Lear is liable, have

1 to determine that these devices were either patented or
2 patentable?

3 A I think, first, you have to read paragraph 2(a) with
4 paragraph 1(b) in order to determine what Lear was in effect --

5 Q Are you saying by doing that Lear may be forced to
6 pay even though it is determined that none of the devices are
7 patentable?

8 A No, I am not saying that at all. I am saying when
9 you read paragraph 2(a) with paragraph 1(b) the Lear license was
10 what the invention disclosed or intended to be disclosed and by
11 use of the words "if patentable" they were bargaining for what
12 the patent office might do, or what some third party might do
13 through the patented third party adjudication.

14 But they were not bargaining that they themselves
15 could contest the validity of the patent, and thereby avoid the
16 bargain. In other words, they were saying, in effect, that the
17 patent does not issue, or if the claims do not cover what we are
18 making, or the third party holds it invalid and therefore can
19 use it free, that we should also be able to use it free. And
20 under those conditions only can we terminate.

21 But the validity between us is decided by what the
22 patent office will do in the first instance in issuing or not
23 issuing the patent.

24 Q That is a question of federal law. The patent is a
25 federal creation. The State of California could not issue a

1 patent, could it?

2 A No, there is no question about that.

3 Q So we are dealing in a federal domain right from the
4 beginning.

5 A We are not, for this reason, in my view. That is,
6 when they tied their bargain to patentability, they were tying
7 it --

8 Q To a federal concept.

9 A To that standard, but only for one purpose. Not to
10 control the rights viz a viz, but to let Lear out of the contract
11 in the event that a patent did not issue and somebody else could
12 therefore use it.

13 In other words, their bargain was - we will pay you
14 for this invention which we have an exclusive right to use,
15 subject to conditions subsequent, which are: if no patent issues
16 or if the claims are not substantial and do not cover the in-
17 vention or if it is held invalid with third party adjudication.
18 Only subject to those three conditions can we get out. Other
19 than that, our bargain is founded upon your disclosure, Mr.
20 Adkins, of the invention, and our use of the invention for
21 which we agree to pay the royalty.

22 So the patent laws are really not involved in this
23 bargain except to the extent that Lear's escape hatch --

24 Q Our decisions go right in the face of what you have
25 said because our decisions hold that parties of a private

1 agreement cannot enlarge the concept of the patent.

2 A They cannot tie something else to the patent, but
3 broaden their rights on the patent where they are dealing per se
4 with a patent right. But the parties here were not concerned
5 in the initial basis of the bargain with the patent laws.
6 The basis of the bargain was the right to use the --

7 Q We have the words of the contract and it is for us
8 to construe those --

9 A I would think it would be a question for the
10 California Supreme Court --

11 Q For patents relating to contracts -- it is a state
12 question?

13 A Insofar as it relates to what the consideration for
14 the contract is, I think --

15 Q Can you give a memorandum to us on that? We have done
16 a lot of cases in this field and this is the first time anybody
17 has stood there and had the temerity to make that suggestion.

18 A I think I have outlined the cases in my brief. The
19 one that comes to mind in particular is this Court's opinion
20 in the case of Brulotte versus Thys where the court was con-
21 sidering the use of a patent to exact a royalty after expiration
22 of the patent by tying it to the license of the patent, and where
23 the Court, when faced with the question of what would happen if
24 the parties had made a contract for a machine which was not
25 patented, whether or not this would involve federal law.

1 The Court there said - the sale or lease of un-
2 patented machines on long term payments based on a deferred
3 purchase price or on use would present wholly different con-
4 siderations. Those arrangements seldom rise to the level of
5 the federal question.

6 I assume that what the Court is saying is that where
7 the parties are contracting with respect to something which is
8 an unpatented invention they are free to make any bargain they
9 care to make about it as long as --

10 Q That is not this case, is it? This is something that
11 is assumed to be patented or patentable.

12 A Yes, but what I am trying to say is that when they
13 used the word "patented" or "patentable" in paragraph 2(a),
14 2(a) expressly refers to 1(b) for further definitions of the
15 term used, and it defines "claims" as including the inventions
16 disclosed or intended to be disclosed in the specification of
17 the application, and that Lear is taking a license of the
18 invention that Adkins disclosed or intended to disclose, not of
19 the claims under the patent.

20 So they merely used the specifications to define the
21 invention rather than to take a license of claims under an
22 application.

23 Q The difficulty I have with your argument is that you
24 seem to have a contract here that depends upon the patent law and
25 the special rights flowing from patent and a license under the

1 patent. Then you come here and it seems to me what you are
2 saying, at least in large part, is that even if the patent is
3 invalid, you are still entitled to those same rights on a
4 contract basis without reference to the patent. That is heads
5 you win tails you lose, or tails the patent system loses.

6 A I am not really saying that. I am saying that as
7 interpreted by the California Supreme Court the basis of the
8 bargain between Adkins and Lear was not a federal patent right.
9 Rather --

10 Q You are saying that it looks like a patent agreement.
11 It has all the terminology of a patent agreement. With respect
12 to exhibit C rights, it purports to give the other party an
13 exclusive right to the use of it. It smells like a patent
14 agreement. As I understand it what you say here is that the
15 patent aspects of it are unlawful as a matter of federal law.
16 You can resort to state contract law and still collect the same
17 amounts of money and preserve practically the same rights.

18 Perhaps I misunderstand you, but that is what I have
19 been trying to get at in my questions here -- to see if, in
20 fact, that is your theory. And now, based on your colloquy with
21 Justice Douglas, it seems to me that indeed that is your theory.

22 A No, I do not think that is my theory. Perhaps I am
23 not stating it as I should be stating it. What I am trying to
24 get across is that the basis of the bargain between Adkins and
25 Lear was not the grant by Adkins to Lear of a federal patent

1 right. It was rather the disclosure by Adkins of an invention --

2 Q Then it is a peculiarly drafted contract, is it not?

3 A There is no question about that. It is a unique
4 contract. I doubt if there will ever be another one like it
5 because of the way the contract arose.

6 Q It certainly included the right to use whatever it
7 disclosed, did it not?

8 A Yes, disclosed or intended to disclose --

9 Q And it anticipated the patent and certainly there was
10 a patent in this case and the damage period ran beyond January 5,
11 1960. So the contract unquestionably at some point related to
12 a federal patent.

13 A Yes, I do not deny it related to a federal patent,
14 but the question is the way it related to that federal patent.

15 The California Supreme Court held that Lear was not
16 concerned prior to the issuance of the patent with particular
17 claims in the application.

18 What they were licensing was the invention either
19 disclosed or intended to be disclosed in the specifications
20 without regard to the claims for which they agreed to pay until
21 final patent office action; and that, further, when final patent
22 office action occurred, if a patent issued they would have to
23 continue to pay regardless of whether that patent was valid or
24 not valid because that was no part of the bargain between the
25 parties.

1 However, if a patent did not issue, then they would
2 have the right to cease paying further royalties because in that
3 situation a third party would be free to use invention also.

4 Q You mean that this contract could have included a
5 promise by Lear to use in connection with this disclosed device
6 some other device that the seller wanted Lear to use?

7 A You mean could Lear have used it together with
8 something else --

9 Q Would the contract be valid just because it was
10 valid under state laws?

11 A In that situation I would assume that Adkins had no
12 control over what Lear used it for and it would not rise to a
13 level of a federal question.

14 Q You mean you could tie something to this --

15 A No, I think I am saying just the opposite. Adkins
16 could not and did not tie this --

17 Q How does it become federal law, though?

18 A Because then, if you tie something in, whether the
19 contract follows a patent or not, I would assume you would get
20 involved with the anti-trust laws. For example, you can have
21 conspiracies to violate the anti-trust laws that do not involve
22 patents. Similarly, I would assume you can have agreements
23 which violate the anti-trust laws irrespective of whether
24 patents are involved.

25 Q Mr. Cohen, do you see any difference if this contract

1 is terminated at the issuance of a patent with construction to
2 renegotiate or the one you have here which continues after the
3 patent date? Do you see any difference in those?

4 A You mean where they agreed in the first instance that
5 if a patent issued or did not issue they would renegotiate it?

6 Q Yes. The reason I mention it is that I think there
7 is some significance if it runs past the patent, and you say it
8 has nothing to do with the patent.

9 A No, I did not say it had nothing to do with the patent.
10 I said it was tied to it to allow certain escape hatches for
11 Lear to get out of the bargain if certain events occurred.

12 Q That is all?

13 A In my view that is all. And in the view of the
14 California Supreme Court, if I interpret their opinion
15 correctly, that is all they were involved with.

16 Q I guess the patent was incidental.

17 A The patent was not incidental. It was involved to
18 the extent that Lear's escape clause and conditions subsequent
19 were tied to what might happen in the patent office or some
20 third party --

21 Q I assume you are getting at the job of finding out
22 how far patent is involved in the agreement.

23 A That is correct.

24 Q If it is involved to a certain degree, then you are
25 in trouble, and we are left with the job of finding out how far

1 it is involved; is that right?

2 A I am trying to tell you in my view how far I think it
3 is involved. I think it is involved only to the extent that the
4 conditions subsequent under which Lear can avoid the payment of
5 further royalties are tied to the patent laws, and no more.

6 Q I suppose if the California court was purported to
7 follow federal law you would be saying they would have come up
8 with the same result.

9 A I do not see how they could be following federal law
10 in this area.

11 Q On license estoppel, don't you think they would have
12 come up with the same result?

13 A I really do not know what they would have come up
14 with had the question been presented as one of federal law.

15 Q You do not argue that the cases in this court
16 recognize license estoppel?

17 A I think they recognize licensee estoppel. The
18 Automatic Radio versus Hazeltine Case is probably the best
19 example of it, the most recent decision in which the doctrine of
20 estoppel per se was upheld in 1950 after first finding there was
21 no patent misuse.

22 The cases go all the way back to Kinsman versus
23 Parkhurst in 1855.

24 Q So if the Supreme Court of California had been pur-
25 porting to follow federal law they would have come up with the

1 same result.

2 A That is what I am not so sure of, because I am not
3 sure that the cases we have been talking about, Hazeltine,
4 Kinsman and all the other cases, that this court was not saying
5 that the doctrine of licensee estoppel has nothing wrong with it
6 as long as you do not use it to transgress the anti-trust laws
7 in some way.

8 I think that is what they are after, what the
9 Hazeltine case makes clear. Assuming that a patent right is
10 involved, as long as that patent right is not misused, either
11 by price fixing, by tie-ins, or by conspiracies to restrain
12 trade, then the doctrine of licensee estoppel can be applied,
13 in fact should be applied.

14 I would assume it is being applied to enforce the
15 bargain of the parties.

16 Q Suppose California legislature had enacted a bill
17 which the governor had signed into law to this effect: In this
18 state any person who signs a license agreement for a patent must
19 pay even though the patent is void and has been so held in the
20 Supreme Court of the United States?

21 A I think that would probably interfere with their
22 right to contract freely with each other.

23 Q Do you think that would be a valid law?

24 A No, I do not think it would.

25 Q Why is that not the question here?

1 A Because the parties here at the outset when they
2 made this bargain in 1955 were free to contract as they wished.
3 They could have provided in the contract --

4 Q They were free to contract under the other, to say
5 that you not only can contract but that it is good despite the
6 fact that it is patent law. That would leave them free to
7 contract.

8 A I thought that in the hypothetical that you posed
9 you were saying that law said that they could not contest
10 validity --

11 Q That he should pay what he has agreed to pay, even
12 though the patent is void and it is so held under laws of the
13 United States.

14 A That forecloses the parties from bargaining as to
15 whether they deem the validity of the patent should be material
16 or not, so for that reason I would say that that law is probably
17 invalid. However, in this case in 1955, Lear could very easily,
18 had it been concerned with the question of validity, inserted a
19 clause in the agreement saying we reserve the right to contest
20 the validity of this patent if it issues.

21 Q Why should they reserve it if the federal law gives
22 it to them, and deprives him of the obligation of paying for
23 the services of a void patent?

24 A I do not think the federal law gives him that right.

25 Q That is right, so you get back to that question --

1 A I do not think it gives them that right because what
2 the parties are dealing with here was not the patent laws and
3 the patent rights per se. They were dealing with the disclosure
4 of an invention for which Lear agreed to pay. At the time it
5 was disclosed it was secret.

6 Q We will suppose now that on the discovery which he
7 had, the law has found out that there was no discovery and
8 therefore it is not patentable. Why would any person be de-
9 prived of raising that because of some contract he had made?

10 A I think he can contract to purchase a bare idea or
11 discovery regardless of whether it is patented or patentable.
12 This is a question of state contract law and what is consideration
13 of a contract.

14 Q Except when it gets into the patent field.

15 A That may be where this Court is trying to go, saying
16 you must engraft upon every agreement which deals with something
17 which is capable of being patented, a provision that the parties
18 cannot make a bargain unless they condition it; first, on ob-
19 taining a patent; and, second, upon the patent being valid.

20 That may be where the Court wants to go, but I submit
21 that is a very harsh result, to take away from the parties the
22 free right to make any contract they wish with respect to an
23 idea or a discovery even if it does not arrive at the dignity
24 of something that is patentable under the federal patent laws.

25 Q But if you are saying they agreed to buy something

1 just because they wanted to buy it and agreed to pay it, you
2 have to fall back here, in your case, and do fall back on all
3 your pleadings on a patent.

4 A I fall back on the patent for one reason. That is to
5 show that Lear did not come within the condition subsequent
6 that said if the patent did not issue they did not have to pay
7 further royalties. That is the only extent to which we rely on
8 the patent in this case, other than the fact that the claims
9 cover the 2156 California --

10 Q If we were to hold that this patent is void and that
11 the man does not have to pay it, there is no estoppel to be
12 raised with reference to it, and that is all we held, what would
13 you say would be the right in California of the party concerned
14 in this case?

15 A In this case I think that even if you overturn the
16 doctrine of licensee estoppel and held that the patent could be
17 invalid that that would not end Adkins' rights under this con-
18 tract, because as interpreted by the California Supreme Court
19 the parties themselves were not concerned with the validity or
20 invalidity of the patent. And therefore since they did not make
21 this a part of their bargain --

22 Q Where did it say that, exactly that?

23 A It appears at page 182 of appendix 1 in the footnote
24 17. Reading from footnote 17, California Supreme Court states,
25 "Lear states that the license extends only to validly patented

1 claims. However, the provisions of the agreement setting forth
2 the scope of the license do not so state. The validity of the
3 patent was adverted to in the agreement only in connection with
4 the right to terminate if the patent was subsequently held
5 invalid."

6 The court goes on to say at page 209 of that appendix,
7 "the cause is based on rights emanating from a written agreement,
8 and the patent itself is referred to only for the purpose of
9 determining whether Lear used the invention therein set forth."

10 I think that makes it pretty clear that what the
11 California court was saying was that even if the patent was
12 invalid it would not cut off Lear's obligation to pay royalties
13 in this case, because they were not bargaining between themselves,
14 Adkins and Lear, for a conclusively valid pact.

15 Q Mr. Cohen, in that respect this contract distinguishes
16 it really from the ordinary sort of contract in similar cir-
17 cumstances, when a party has an item for which he has filed a
18 patent application and he makes a contract with somebody else for
19 the use of that item.

20 It seems to me that your argument and perhaps the
21 decision of the California court, depend upon your establishing
22 a fundamental proposition which goes to the intention of the
23 parties which is that somehow, some way, this is not to be
24 looked at as an ordinary agreement with respect to an article
25 for which patent application has been filed and which is subject

1 to the federal patent law, but somehow, some way, this contract
2 is to be read in terms of the intention of the parties and as
3 an agreement for the use of an invention without reference to
4 patentability. If you look at the contract, it looks like an
5 ordinary agreement under the patent laws.

6 A There is no question about that. It is certainly
7 couched in terms of a normal formal patent license agreement.
8 But I think you can distinguish it in this way.

9 Taking a typical situation first, a holder of either
10 an application for a patent or a patent would go to a manufacturer
11 and say if the manufacturer is using or is intending to use what
12 he thinks is covered by the application of the patent that you
13 either pay me a royalty or I will sue you for infringement of
14 this patent.

15 In that situation, which is a typical situation, the
16 force behind the bargain is the threat of the supposed patent
17 right. And that is probably the main force in causing the
18 bargain to be made, assuming the desirability of either one of
19 the parties to sell. But still the main force is the same. It
20 is the existence or the expected existence of a patent right
21 under the federal law.

22 This case did not arise that way. It arose rather
23 with an agreement dated December 29, 1951 between Adkins and
24 Lear which is one page in length, and copied verbatim on page 11
25 of the appendix, in which Adkins agreed to disclose to Lear

1 "all ideas and inventions and discoveries which he might conceive
2 of, which Lear agreed expressly would be Adkins' property, and
3 Adkins then agreed to license it to Lear for a mutually satis-
4 factory royalty. This agreement made no mention of patents,
5 patent rights or patentability. To the contrary the existence
6 of a patent or patent right under this agreement was totally
7 irrelevant.

8 Then, pursuant to that agreement, Adkins went to work
9 for Lear and did invent something which they wanted, and when it
10 looked to Lear like it was going to be commercially successful
11 they said to themselves, "We have to do something about this first
12 agreement because under state law he will collect that reasonable
13 royalty." So the result was that they began negotiations with
14 him over a three-year period and resulted in this license
15 agreement.

16 Q It was not too bad, was it?

17 A I do not think it is yet.

18 Q Mr. Cohen, was Mr. Adkins represented by counsel in
19 that 1951 letter agreement? As I understood it he was not. Is
20 that correct?

21 A That is right.

22 Q How about the negotiations that led up to the agree-
23 ment as an issue here?

24 A The California Supreme Court said that he was
25 represented by counsel. However, as I stated in the brief, he

1 was not in fact represented by counsel.

2 Q That is what I understood you to say in the brief.
3 Then I saw in the California Supreme Court's opinion a different
4 interpretation.

5 A Actually what happened there was, at the time Mr.
6 Adkins joined Lear, he did have one issued patent, and he
7 started negotiating with a lawyer with Lear with respect to
8 that issued patent, which had nothing to do with this case.

9 Thereafter, Adkins and Lear started discussing this
10 license agreement which Adkins alone negotiated with Lear, and
11 in the course of so doing they merged that other agreement with
12 this one, so that there were several parts of the same agreement.
13 But he was initially represented on another phase of it which
14 had nothing to do with this particular invention.

15 Q Tentatively, then, I think I get some illumination
16 there. What you are urging upon us is that we construe the
17 patent license agreement, which is an agreement upon which this
18 litigation has been conducted, as if it incorporated the spirit
19 and substance and motivation of the initial one-page agreement
20 which Adkins made with Lear.

21 That is probably what it comes down to.

22 A It comes down to that, yes, together with additional
23 considerations which I think make it clear under the terms of
24 the 1951 agreement and the 1955 agreement, exactly what Lear
25 received.

1 Q That is what I do not have. Perhaps it is in the
2 brief. I do not want to divert your argument, but I do not
3 recall it in the brief. What I do not have is what is there in
4 this agreement, in what I call the license agreement, that
5 enables us to disregard that it is a patent license agreement?

6 A Basically, of all the considerations that Lear was
7 bargaining for and that Adkins was giving up, with reference
8 to the first agreement, none of which consideration had any-
9 thing to do with either the power or force behind a patent or
10 patent application or a patent or a patent right, except to the
11 extent that the conditions subsequent were tied to Lear's ob-
12 ligation to pay royalties. That is the only extent that --

13 Q That would cut pretty far, would it not, because
14 practically every patent license agreement involves a licensee
15 of know-how and I suppose there are a great many involved facts
16 somewhat like this in terms of background on the patent license
17 agreement itself.

18 It is possible that the argument is an invitation to
19 this Court to supercede some aspects of the federal patent law
20 where the parties had a relationship of employer-employee
21 during the period of invention.

22 A I would suggest that this is not the typical case
23 and probably would never come up again for one practical reason;
24 that most, if not all, corporations who employ an inventor make
25 him sign an agreement, in advance of his coming to work, that

1 whatever he invents will belong to the company. This is the
2 atypical situation because they signed an agreement exactly to
3 the contrary.

4 Q That is the emotional view of the case.

5 A Perhaps it is that, but it is also the key to under-
6 standing the consideration and vice versa which flowed from
7 Adkins to Lear under the 1955 agreement which conceded it was
8 couched in terms of a formal patent license agreement.

9 If I may just dwell on that for another moment, I
10 would like to analyze, if I could, just what the considerations
11 are that Lear received under this 1955 agreement.

12 First, Lear received the exclusive, uncontested, and
13 immediate right to use the secret idea, discovery, and invention
14 which Adkins had disclosed until final patent office action.
15 Note that I say exclusive and not non-exclusive because the
16 license agreement was in fact expressly exclusive, contrary to
17 what the Solicitor General states in his brief:

18 1. It started out as an exclusive license.

19 2. Lear received the cancellation of the letter
20 agreement on December 29, 1951 under which its liability to
21 Adkins was far broader than under the agreement that replaced it.
22 Under that agreement, pursuant to California law, particularly
23 a case known as Desney versus Wilder, which is a California
24 Supreme Court case cited in my brief, based on that agreement
25 the court would find that there was an implied contract between

1 the parties for Lear to pay the mutually satisfactory royalty,
2 which it would have determined was a reasonable royalty.

3 Under that agreement, Lear would be bound to pay as
4 long as Lear used the device, without any escape hatches or
5 condition subsequent termination clauses whatsoever.

6 The third thing that Lear got under this agreement
7 was the right to cease payment of further royalties if no
8 patent issued, or if it issued which claims which did not cover
9 the gyro issue, or if some third party held it invalid.

10 Fourth, and equally important, there were two
11 additional agreements signed concurrently with this license
12 agreement which are attached to Lear's answer and are in
13 appendix pages 40 to 45, where in Lear, in addition to receiving
14 the right to use the invention disclosed in the patent applica-
15 tion, also received a release from Adkins of all other and
16 different ideas, discoveries and inventions which he may have
17 created for Lear at the present and future as long as he worked
18 for Lear.

19 This was the consideration that Lear was concerned
20 about and was bargaining for. The California Supreme Court
21 recognized it was not bargaining in addition for a conclusively
22 valid pact under which it could say that the patent was invalid
23 and therefore we do not have to pay.

24 Its sole rights were under the very carefully drawn
25 conditions subsequent.

1 I think it is also important in this case to under-
2 stand that when Adkins went to work for Lear in January 1952,
3 after signing this first letter agreement, he went to work for
4 what the president of Lear, Inc. described as coffee and cake
5 money, which was \$650.00 a month. Thus Adkins' real reward
6 under this initial bargain was to be dependent upon his success
7 as an inventor. After spending approximately six months ex-
8 perimenting with a bearing, a self-aligning type bearing, he
9 concluded that that approach to the problem would not work, after
10 which he conceived of the invention which was the subject matter
11 of this case, and fully disclosed it to Lear and to its executive
12 personnel, to its technical personnel in Grand Rapids, both in
13 writing and orally.

14 After Adkins made this disclosure, Lear, in its
15 Michigan plant in Grand Rapids, began experimenting also with
16 a self-aligning principle which Adkins had rejected, and
17 experimented with this principle for roughly thirteen months,
18 at which time they were intending to put the self-aligning
19 principle into what we are now calling the Michigan steel gyros.

20 In fact, they had set up on production, ready to go
21 with the self-aligning principle in it. After a limited pro-
22 duction run it was determined that it would not work in pro-
23 duction quantity, as a result of which the technical personnel
24 at Michigan held with Mr. Sheppel, who is the head of that
25 section what is referred to as a midnight meeting and decided to

1 use Adkins' invention in the steel gyros as the only solution
2 to the problem at a critical time period when they had to get
3 into production with it.

4 The result was that between 1955 and 1963 Lear
5 amassed sales in excess of \$67,000,000. effectively eliminating
6 all competition in this market.

7 All that we are asking here is that the Court
8 recognize what the California Supreme Court did, that the
9 primary consideration for the bargain had nothing to do with the
10 validity of the patent.

11 It was solely the right to use this valuable invention
12 and the other additional considerations which I have outlined,
13 subject to Lear's rights to terminate on these conditions
14 subsequent, which were very carefully drawn to provide that
15 they would not be as broad as Lear is now urging.

16 The California Supreme Court found they were not as
17 broad.

18 Q You are telling us that this was more analagous to
19 simple compensation for his services to the company; is that
20 right?

21 A That is correct. When you deal with the entire
22 complex and the first agreement and the history of what Adkins
23 was doing and what Lear needed, then I think it puts it in the
24 context that this is his true reward for disclosing this in-
25 vention.

1 Q That was his compensation? This proved to be of
2 great worth to the company.

3 A Yes, of enormous value, and in drafting the 1955
4 agreement, as the Supreme Court found, they were aware of these
5 considerations. The Supreme Court, in fact, outlined all these
6 various considerations which they go in reaching its conclusion
7 that they were not bargaining for the right to say that the
8 patent was invalid and therefore we do not have to pay.

9 Q Did you say that Mr. Adkins was not represented
10 by counsel?

11 A Yes, Your HONor. As I said before, the Supreme
12 Court stated that he was, although the actual fact, and I put
13 the citation in the appendix, is that he was not represented.

14 Lear was represented not only by house counsel but
15 also by outside patent counsel who in fact conducted negotiations
16 with them for three years and did not get serious in concluding
17 this agreement until after sales began to mount up and they
18 figured they had better hurry and get it done before he went back
19 under the first agreement under which their liability was far
20 more broad.

21 Q Does that have any relevancy to the issue?

22 A I think it has a relevancy to the issue because if you
23 take the state contractual construction ground, then the validity
24 or invalidity of the patent is not a defense in this case, because
25 the parties were not bargaining for a valid patent. They were

1 bargaining for the disclosure, and this was Adkins' compensation
2 for making this disclosure to them.

3 You must take this case in the context with the
4 history of the case to what makes it unique from virtually every
5 other patent situation. In the normal situation it is the
6 pressure of the existence of an application or a patent which
7 forces the bargain. Here the pressure was not the patent rights
8 or the patent laws. Here the pressure was the first agreement,
9 and all the consideration that Lear had received under the first
10 agreement, and additionally the consideration Adkins gave up
11 under the second agreement.

12 Q Do you put any reliance on the laws that should be
13 governed by the State of California?

14 A I think in the interpretation of the contract that is
15 exactly what they meant, that in construing the contract that is
16 to be governed by the laws of the State of California.

17 Q But they did have lawyers?

18 A Lear had lawyers, no question about that, both house
19 counsel and outside patent counsel, to advise them extensively
20 on this matter.

21 Q Adkins did not?

22 A Adkins did not, in negotiating this agreement, except
23 in the initial stage with respect to one other segment which is
24 not an issue, which Adkins' lawyer drafted, and then had
25 nothing to do with the agreement thereafter, so that the terms

1 we are concerned with were drafted exclusively by Adkins
2 without counsel being represented.

3 Q What is this thing used for?

4 A It is used in a gyroscope to accurately position the
5 bearings which support the gimbal, in co-axial and parallel
6 relationship.

7 Q In the manufacture of what -- what basic thing?

8 A The basic thing is a gyroscope used in the guidance of
9 aircraft.

10 Q That is widely used, is it not?

11 A It is very widely used, yes. The airplane has to
12 have at least two of them, one to tell direction, one to tell
13 attitude. The gyro is mounted very carefully. The gyro involves
14 a roller, basically, which is mounted on gimbal rings, so that
15 it can move in three degrees of freedom and the accuracy of the
16 alignment of the bearings that hold the gimbals determine the
17 accuracy of the signal which the gyro produces over a one to
18 five ratio, for example.

19 Q Mr. Cohen, you referred to \$67,000,000. What was
20 that?

21 A That was the gross that Lear received from sales of
22 products which incorporated Adkins' invention, both the 2156
23 gyro and the --

24 Q How many other companies were making it then?

25 A No other companies were making it then and no other

1 companies are making it now.

2 Q Is there anything like it?

3 A There are other companies making gyros.

4 Q That is what I thought.

5 A As the government states in its brief, Lear is the
6 leading competitor in the gyro business for one reason. They
7 have an exclusive on Adkins' invention which they are using in
8 their gyros which amassed these sales in just a period of 1955
9 to 1963 in excess of \$67,000,000.

10 I would like to spend a few moments, if I might, on
11 the question of how the 2156 California gyro and the Michigan
12 steel gyros are assembled and the result in structure, because I
13 think there may be some confusion in the mind of the Court after
14 yesterday's argument.

15 Preliminarily, despite Mr. Wallace's statement that
16 there are two patents involved in this case, there are not.
17 There is only one patent application and only one patent. This
18 one patent application, this one patent, contains claim No.9
19 which covers both the 2156 California gyro and the Michigan steel
20 gyro as I will hereinafter explain.

21 Q Is there in fact any difference?

22 A They are the same thing. They are assembled in the
23 same way, the function is the same, the result in structure is
24 the same. There is no material difference whatsoever in these
25 gyros.

1 In both gyros the assembly procedure is as follows:
2 bearing cups are placed on the end of a mandrel. The cups are
3 held on the mandrel not by screws, as Mr. Hale may have implied,
4 but rather are held on the mandrel by the tight fit of the
5 bearing cup with respect to the mandrel.

6 Then the bearing cups are coated with cement and the
7 two gimbal halves are placed over the mandrel holding the bearing
8 cups. Each gimbal half has a separate hole and when it is
9 closed down on this mandrel the bearing cups position themselves
10 in the hole, so that when the cement dries the bearing cups are
11 then left in the relationship which they were in on the mandrel.

12 Once the cement dries, it is taken apart, and the
13 mandrel is removed and the screws which hold the gimbal to the
14 mandrel are also removed and form no part of the invention. So
15 that the result in structure is a structure consisting of a pair
16 of three elements which achieves a coaxial and parallel align-
17 ment without relationship to the parallelism of the end belts
18 or the coaxial alignment to the receiving holes. That, I suppose
19 is an over-simplification, but that is the essence of this in-
20 vention, and that was used in both the 2156 California gyro and
21 the Michigan steel gyros in the same way.

22 As Mr. Sheppel, to whom I have referred before, stated,
23 (he was the head of the steel gyro development program) the
24 assembly and finished structure are the same in both gyros and
25 the principle is the same in both gyros.

1 The remaining question is whether claim 9 which was
2 on a chart presented by Mr. Hale yesterday covers these gyros.
3 Lear concedes that it covers the 2156 gyro and, because there
4 are no material differences between the 2156 California gyro
5 and the Michigan steel gyros, it also covers the Michigan steel
6 gyros.

7 This is what the jury found, and this is also what
8 the California Supreme Court held, stating in fact that the
9 evidence was uncontradicted, that claim 9 covers the Michigan
10 steel gyros.

11 Q That point is contested by Lear, is it not?

12 A Yes.

13 Q They say that claim 9 does not cover the Michigan
14 steel gyros.

15 A That is correct. That is their contention. However -

16 Q They say that there was no evidence to support the
17 jury's verdict?

18 A I do not know if they are saying that.

19 Q What do they say?

20 A What they are saying is that as they view the Michigan
21 steel gyros it is not covered by the claims. However, they do
22 not view the Michigan steel gyros the same way as witnesses who
23 testified on the subject, including the way their own witnesses
24 have viewed it.

25 All five witnesses testified that the Michigan steel

1 gyro is assembled in exactly the same way as the 2156 gyro. The
2 alignment is achieved by the permissive cooperation between the
3 bearing cup at both ends and the receiving --

4 Q The California Supreme Court reinstated the jury
5 verdict?

6 A Yes, it did, and it did so --

7 Q Was there a special verdict by the jury?

8 A No, there was not.

9 Q Are the instructions challenged?

10 A No, the instructions are not challenged as far as I
11 am aware. At least on the issue of infringement they are not
12 challenged. They were challenged in some other respects,
13 various other matters, but not on infringement.

14 As the California Supreme Court found, the evidence
15 was uncontradicted and upheld the conclusion that the claim⁹
16 covered the Michigan steel gyros. I have set forth most of that
17 testimony in the appendix of five witnesses, Lee, Sheppel,
18 Adkins, Carpenter and, I believe, Curistan.

19 If I may, I will get back for just a moment to this
20 Court's opinion in the Automatic Radio versus Hazeltine case.
21 As I read that opinion, and assuming we are concerned with the
22 doctrine of licensee estoppel in this case, this court has held
23 that where there is no misuse of the patent such as the court
24 found in Sola and Katzinger as price fixing and as the court
25 found in Mercoild as a tie-in, then the doctrine of estoppel may

1 be applied, in fact should be applied, and that is what we have
2 done in that case.

3 Taking it back to the foundation, I would like to
4 read one quote from this Court's opinion in the United States
5 versus Harvey Steel particularly applicable to the bargain of
6 these parties.

7 There, this Court said, "The United States was dealing
8 with a matter upon which it had all the knowledge that anyone
9 had, that it was contracting for the use of a process which,
10 however much it may now be impugned, the United States would
11 not have used when it did but for the communications of the
12 claimant and that it was contracting for the process which it
13 actually used, a process which has revolutionized the naval
14 armor of the world."

15 This language can be read directly on our case as to
16 what they were exactly contracting for.

17 Q Was there a patent in that case ultimately?

18 A Yes, there was a patent.

19 Q There was a patent.

20 A And the court found that there was both a patent and
21 a process and that principally what the government was wanting
22 to use was the process or the know-how, for the disclosure of
23 how to do it, and they entered into the contract which again
24 looked like a formal patent license agreement on that basis,
25 and the court said that where what you were after was the dis-

1 closure of the idea it should not be a defense if the patent is
2 invalid because you have received everything you have bargained
3 for. That was the United States versus Harvey Steel.

4 Q Suppose we found in this case that there is no
5 showing of patent abuse? Suppose we reiterate what you assert
6 to be the doctrine that the licensee, having agreed that it will
7 not attack the validity of the patent in these circumstances,
8 suppose we reiterate that it is estopped from attacking it?
9 Does that dispose of this case?

10 A Yes, I think it would dispose of this case. If the
11 doctrine of estoppel is affirmed, as I see it, that is the end
12 of the case.

13 Q Without estoppel, there being no evidence of patent
14 abuse here, the doctrine of estoppel here being an agreement of
15 the parties which is in the contract, is it -- that the validity
16 of the patent will not be attacked?

17 A There will not be a part of the bargain, which is not
18 the consideration they are bargaining for, one with respect to
19 the other.

20 Q There is no express agreement to that, is there?

21 A No, there is no express agreement, but the California
22 Supreme Court in construing the contract stated that that was
23 the construction that had to be placed on it.

24 Q That is derived, I suppose, primarily, from the
25 express provision in the contract that you argue, that if upon

1 suit of a third party, the patent is found to be invalid, and
2 certain consequences follow, I suppose you derive a negative
3 implication to that that the parties have agreed that licensee
4 may not challenge the validity of a patent.

5 A I think that is what they were saying, yes. It very
6 narrowly limited their rights to terminate this agreement and
7 that particular condition subsequent was designed to apply only
8 when some third party adjudicated the patent to be invalid, in
9 which case that third party could use it. Then Lear could, too.
10 That was its only escape hatch, so to speak.

11 Q It is fairly customary to specify, is it not, as I
12 recall in patent license agreements, licensee may not attack
13 the validity of the patent?

14 A I really cannot answer that, Your Honor. I just do
15 not know how frequently they do, and how frequently they do not.
16 I would assume if the licensee were concerned about it he would
17 expressly reserve the right to contest the validity and make
18 that an express part of the bargain.

19 Q Is there a provision in the agreement with respect to
20 termination if the patent is held invalid? If there were no
21 provision like that at all, you could argue, I suppose, that it
22 is wholly irrelevant whether the patent is valid or invalid,
23 and that even if the patent were declare invalid this is the
24 obligation of the license, and it goes.

25 A I would think the answer to that --

1 Q If you contracted for the use of a process, you
2 contracted for the use of it whether it is patented or not.

3 A That is correct.

4 Q But now you do have a provision in the contract. It
5 says termination if it is held invalid --

6 A Yes, but that provision, as the California Supreme
7 Court construed it, was drawn to permit Lear, which had an
8 exclusive license, to terminate in the event that some third
9 party adjudicated it to be invalid and therefore acquired
10 right to use it free.

11 Q So the licensee agreement does have some critical part
12 of it, depending upon the existence of the patent.

13 A But to the sole extent that Lear's rights to terminate
14 and avoid its bargain are tied to what the patent office might
15 do and what some third party might do. It did not give Lear the
16 right to do it.

17 In other words, it is tied in a limited way to what
18 might happen under patent laws, but only in a very limited way.
19 It does not form a part of the consideration. It forms only the
20 condition subsequent under which Lear can get out of the bargain.

21 Now assuming, for the sake of argument only, that the
22 doctrine of licensee estoppel has to be overturned, then the
23 question becomes what happens to this case thereafter.

24 Although Lear urges that this Court then delve into
25 the issues of validity of the patent and self-determine the

1 issue, the government concedes that in that situation the case
2 should be remanded to the California Supreme Court which has
3 not yet considered the issue of validity.

4 It is the policy of this Court that lower courts first
5 be given the opportunity to pass on questions before this Court
6 reviews them. Otherwise, in this case the result would be,
7 since there are no new or novel patent issues involved, that this
8 Court would be sitting and be performing a function performed
9 by the Court of Claims, for instance as that of the right of
10 ordinary review, rather than reviewing questions of law.

11 Moreover, even if the patent were held invalid that
12 would not end the case. There would still be additional things
13 that would have to be considered, such as the proper cut-off
14 date for the payment of royalties, if the patent is held invalid,
15 and on this issue the government also conceded in its amicus
16 brief that the resolution of this issue where the license is
17 exclusive would depend upon state considerations of fairness
18 between the parties.

19 Similarly, we would have in this case the right to
20 pursue the second cause of action. The second cause of action
21 was an alternative cause of action which existed for the
22 idea, discovery and invention as an unpatented and unpatentable
23 invention. We took the position under that second cause of
24 action that if the licensee agreement for some reason failed,
25 either because of the failure of consideration or because of

1 some illegality or for some other reason, that Adkins was under
2 one of these theories pleaded there entitled to recover the
3 reasonable value of what he, in fact, conveyed to Lear when he
4 disclosed what was the idea.

5 Although it has been contended that Mr. Adkins
6 waived the second cause of action in its entirety, he did not
7 in fact do so. The trial court had held that Mr. Adkins has
8 waived the entire cause of action, but on a writ of mandate
9 proceedings the District Court appeal reversed and compelled the
10 trial court judge to enter an amendment to the judgment stating
11 that the second cause or action had not been waived for what
12 Adkins had disclosed to Lear insofar as it related to the
13 subject matter of the patent application.

14 I believe that concludes my presentation.

15 Thank you.

16 MR. CHIEF JUSTICE WARREN: Mr. Hale.

17 MR. HALE: Mr. Chief Justice, may it please the court.
18 This morning we spent a lot of time on something that we had no
19 trial on.

20 The trial court limited us to the express terms of
21 this license agreement. We endeavored to present evidence
22 leading up to the consummation of this agreement. The back-
23 ground material the trial court excluded, expressly excluded
24 all of that. The trial court said, "you are here on an agreement
25 or you are here on something else. What are you here on?"

1 It required Adkins to elect. Adkins wanted to go in
2 under the idea, discovery, invention of common law effect.
3 The trial court said, "You cannot tie both those horses. You
4 have to pick either the agreement or the common law. Which
5 are you on?"

6 Adkins picked the agreement.

7 Q Was the court right in this?

8 A I think it was, Your Honor. The two causes of action
9 are antagonistic to one another. They are mutually exclusive.
10 As I indicated yesterday, the common law relies upon secrecy,
11 non-disclosure. The patent law relies upon disclosure.

12 There was an agreement. Adkins pleaded the agreement
13 and that is what we are here on. For example --

14 Q Was it wrong for the court to say they can have both
15 pleadings?

16 A I am in complete agreement with the court's decision.
17 And that has not been overturned, Your Honor. That was the way
18 the thing went up, all the way.

19 Now this enables the presentation of numerous in-
20 correct statements, because they are just not in the record. A
21 lot of the facts that this Court heard this morning are not in
22 the record, because the trial court would not let us put them
23 in the record.

24 For example, today you heard that Adkins alone ne-
25 gotiated with Lear. This is set forth in Adkins' brief on

1 page 15. He gives a couple of reporters' transcripts of
2 citations, and I ask this Court to read those two citations and
3 see if Adkins was represented by counsel or not. They do not
4 say.

5 At the trial we tried to present evidence concerning
6 this. As I pointed out, it was excluded.

7 Exhibit U is down in the record, in the archives.
8 We made an offer of proof of Exhibit U in the reporters'
9 transcript, 1018. Exhibit U says, "I have read over the license
10 agreement and have found it to be generally in good taste.
11 However, prior to submitting it to my lawyer for his comments
12 and interpretation of certain legal phraseology I would like
13 to go into certain details."

14 Q What exhibit was that?

15 A This was Exhibit U presented by Lear. It was not
16 admitted because the trial court said, "I am not going to let
17 you go into the details of this agreement."

18 Q Who was it said he wanted to submit it to his
19 attorney?

20 A Pardon me, Your Honor. This is written by Adkins to
21 Mr. Bloomberg, who is a lawyer for Lear.

22 So this is a communication by John Adkins concerning
23 the license agreement directed to Lear and it says, "Prior to
24 submitting it to my lawyer for his comments" -- this is dated
25 November 26, 1954. There are several other --

1 This is not in evidence, Your Honor. This was for
2 identification only, but it is down here in the archives and I
3 just want to point out that this is one of the things we have
4 been going into today that we never had a trial on.

5 I do not consider this part of the record. I
6 consider it improper for Adkins to say he was not represented by
7 legal counsel when things that were excluded from evidence show
8 that he was.

9 Q What are you arguing; that if that is a relevant fact
10 it is not in this record as shown to be a fact?

11 A That is correct. But it was stated as a fact this
12 morning. That is why I am bringing it up.

13 Another point I would like to discuss is --

14 Q Who conducted the negotiations day by day. I under-
15 stood him to say it took about three years to bring this
16 agreement about. Who from day to day negotiated on each side?

17 A You will find nothing in the record that clarifies
18 that for the Court, and I --

19 Q It bears as much I would think on whether he is
20 represented by counsel or not as this statement you have put in
21 the record now that was not in the record. That is the reason
22 I ask.

23 A Your Honor, we were not permitted to go into that.
24 There is simply no record on it.

25 Q You have an idea?

1 A. I have some idea, but I do not think it is proper for
2 me to tell the Court my ideas. I think we are here on the
3 record.

4 Q. You told us what is not on the record there.

5 A. I gave you this as an example to show that we are
6 discussing things this morning that are not on the record.

7 Q. Why do you not give us the rest of it, then?

8 A. Your Honor, Adkins was an employee of Lear. He would
9 go to Lear from time to time and discuss this. There was no
10 hurry about this agreement. They were not negotiating, arguing
11 back and forth. This was a very leisurely thing. He would
12 drop in and chat about it, and go away and say, "I'll talk to
13 my lawyer about it."

14 Three months later he would come back and say something
15 else. And it was just this sort of thing.

16 Q. Just an employee dealing with an employer --
17 following what --

18 A. That is right. Another thing, much of the argument
19 today has been based upon the discussion of the ideas, discoveries
20 and inventions apart from patent rights.

21 Again, the record shows that this issue was eliminated
22 at the outset of this action and no evidence was permitted on
23 that. We are talking about things that we have no record on.
24 We simply were not permitted to go into this sort of thing.

25 Q. Is this one page agreement to which Mr. Cohen referred

1 in the record?

2 A No, sir, Your HOnor. It has the same status in the
3 record as this document I just read to the court. The one-page
4 agreement is reprinted as the very last document in the big
5 appendix. It was never admitted --

6 Q Was there a brief printed by stipulation between the
7 counsel?

8 A Mr. Adkins designated it for inclusion into the
9 record. If you will notice, we say Exhibit 7 for identifica-
10 tion only.

11 This document was never admitted, and the reason it
12 was never admitted is the trial court said, "We are going to
13 trial on the agreement of Exhibit 8 and nothing else is
14 material. Nothing else is permitted."

15 Q When you have been saying "in the record," do you
16 mean it is not in the record submitted to us for our con-
17 sideration or, if that is what you mean, how can you say it is
18 here in a box -- that U Exhibit you are talking about? You said
19 Exhibit U is here some place in this Court.

20 Well, it was offered, you say, but was not admitted
21 in evidence. That is what you mean when you say it is not in
22 the record -- on each one of them?

23 A Yes, Your Honor. We were never permitted to develop
24 a record of any kind leading up to the consummation of this
25 agreement.

1 Q My question may not have been clear. I do not believe
2 that one-page document to which you referred is the one page
3 document to which Mr. Cohen referred. I thought he referred
4 to a one page agreement between Lear and Adkins with respect
5 to conventions --

6 A I think we are both referring to the same thing,
7 Your HOnor. Would you agree with me, Mr. Cohen, that we are
8 referring to the same thing? He is referring to the pleadings
9 and I am referring to the exhibits.

10 MR. COHEN: I am referring to Exhibit A which is
11 attached to the complaint, which is the same thing as the
12 document and which was admitted in the answer in the record to
13 that extent.

14 Q Submitted in the record?

15 A Yes, it is in the record, attached to the complaint
16 and the answer admits that the party signed this agreement.

17 Q Was it admitted as evidence or admitted for
18 identification only?

19 A It was admitted for identification only.

20 Q So it is not in the record here that we are con-
21 sidering.

22 A Yes, you can consider it because it was attached to
23 the complaint as an exhibit --

24 Q That was offered but was not admitted.

25 A In California you do not have to offer something into

1 evidence which is admitted. Once it is admitted in the answer,
2 unless --

3 Q It might be admissible and relevant and it might not.
4 Did the court hold that it admitted it as a relevant piece of
5 evidence?

6 A No, it did not, because I was trying to get to
7 another subject with it. But in the answer it was admitted
8 that Lear had signed this agreement and the California Supreme
9 Court in fact considered it in its opinion.

10 Q It is on page 11 of the appendix, volume 1 and it is
11 exhibit 1 to the complaint that was filed, and, as I understand
12 it, the answer did not deny that part of the allegations of the
13 complaint.

14 A That is beyond question, Your HOnor, but the trial
15 court excluded it because license agreement, paragraph 13 of
16 the license agreement says, "this agreement supercedes and
17 cancels the agreement."

18 Thank you.
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