ORIGINAL

In the

Supreme Court of the United States

JANE ARONSON, PETITIONER, v. QUICK POINT PENCIL COMPANY, RESPONDENT.	)	No. 77-1413

Washington, D. C.
December 6, 1978

Pages 1 thru 59

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JANE ARONSON, :
Petitioner, :
v. : No. 77-1413
QUICK POINT PENCIL COMPANY, :
Respondent. :
- - - - - - - - - - - - - - - - - :

Washington, D. C.,

Wednesday, December 6, 1978.

The above-entitled matter came on for argument at 10:03 o'clock, a.m.

BEFORE:

WARREN E. BURGER, Chief Justice of the United States
WILLIAM J. BRENNAN, JR., Associate Justice
POTTER STEWART, Associate Justice
BYRON R. WHITE, Associate Justice
THURGOOD MARSHALL, Associate Justice
HARRY A. BLACKMUN, Associate Justice
LEWIS F. POWELL, JR., Associate Justice
WILLIAM H. REHNQUIST, Associate Justice
JOHN PAUL STEVENS, Associate Justice

APPEARANCES:

C. LEE COOK, JR., ESQ., Chadwell, Kayser, Ruggles, McGee & Hastings, Ltd., 8500 Sears Tower, Chicago, Illinois 60606; on behalf of the Petitioner.

B. BARRY GROSSMAN, ESQ., Chief, Appellate Section, Antitrust Division, Department of Justice, Washington, D. C. 20530; on behalf of the United States as amicus curiae.

APPEARANCES [Cont'd]:

ERWIN N. GRISWOLD, ESQ., Jones, Day, Reavis & Pogue, 1100 Connecticut Avenue, N. W., Washington, D. C. 20036; on behalf of the Respondent.

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C O N T E N T S

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P R O C E E D I N G S

MR. CHIEF JUSTICE BURGER: We will hear arguments first this morning in Aronson against Quick Point Pencil Company.

Mr. Cook, I think you may proceed whenever you're ready.

ORAL ARGUMENT OF C. LEE COOK, JR., ESQ.,

ON BEHALF OF THE PETITIONER

MR. COOK: Mr. Chief Justice, and may it please the Court:

The petitioner in this case, Jane Aronson, in 1955 made an invention, that invention was the design of a particular kind of key ring or keyholder. Now, the particular design of that keyholder is not really material to this case, but I think I should note that it is different from the design shown in the English patent, which is attached to the brief of the amicus Ercon, and it is different from the design shown in the Leopoldi patent, which is a part of the record in this case.

QUESTION: Is there a picture of it, or a representation of it anywhere in the --

MR. COOK: There is not as such in the printed record. What is attached to the record which came to the Court, we believe, is an actual sample of the key ring.

QUESTION: How is that relevant to the contract issue?

MR. COOK: It is not, Your Honor. Except -- the only reason I mentioned the particular -- that it is different from the design shown in those patents --

QUESTION: I see.

MR. COOK: -- is the argument of the amicus Ercon, that it was in the public domain, --

QUESTION: Right.

MR. COOK: -- or known before the invention by the petitioner.

The closest thing that describes it is a catalog of the respondent Quick Point, which is in the printed record, but you cannot see the inside of the key ring.

QUESTION: Right.

MR. COOK: Having made this invention and having prepared and filed a patent application which disclosed and described the invention, she took it to a number of potential manufacturers. One of those manufacturers was the respondent Quick Point Pencil Company in St. Louis. The then president of Quick Point was very interested in manufacturing this article, and he proposed a license agreement, which called for a five percent royalty on the sales of the article by Quick Point.

At the request of petitioner, an addendum was prepared to this license agreement. That addendum provided that if no patent were issued within five years, the royalty rate would be reduced to two and a half percent. But that royalty would continue as long as Quick Point made the article.

Now, no patent was ever obtained, and at the end of the five-year period the royalty was reduced to two and a half percent. Quick Point paid those royalties for many years after it was known that no patent would obtain, and after it repeatedly reaffirmed its obligation to do so.

Now, although the article was secret at the time it was first disclosed to Quick Point, and it was disclosed to Quick Point and the others under an obligation of confidence, the nature of the invention is such that once it was put on commercial sale, it was revealed to the public and could be copied by others. And, indeed, by the late 1960's a number of other companies were making devices substantially identical to Quick Point.

Now, in 1975, Quick Point stopped paying royalties and brought this suit for declaratory judgment. It contended in the suit that the agreement was illegal and unenforcible. It did not contend, as respondent's brief in this Court contends, that the intention of the parties was that no royalties would be due if no patent were obtained; on the contrary, it contended the opposite. That is, that the agreement bound Quick Point to pay royalties even if no patent were obtained, and that made the agreement illegal.

On a stipulated record and cross motions for summary judgment, the district court found that the agreement was clear and unambiguous; that it was valid and enforcible under the State law; and that there was no reason in the federal patent policy or the federal antitrust policy for the federal courts to interfere with its enforcement.

The Eighth Circuit Court of Appeals, in a two-to-one decision, reversed. It held that the principles involved in the federal patent law precluded Quick Point from being bound by its agreement because no patent was issued, and the article had become publicly known and was no longer a secret.

District Judge Larson, sitting by designation, dissented, saying that in his view the matter should be controlled by State contract law and that there was no reason for the federal court to preempt and refuse to enforce the State law.

Thus, the question presented by this case is: Does the federal patent law preempt the State law and prevent enforcement of a contract calling for continuing royalties on a previously secret article simply because no patent was issued and the article is no longer secret?

Now, we submit that the decision of the Court of Appeals here constitutes an unnecessary interference by the federal courts with the normal application of State contract law. That interference was not required by, nor even consistent with, the federal patent law.

I intend to deal primarily with the error of the Court of Appeals with respect to the federal patent law. We believe also that there is nothing inconsistent about enforcing this agreement with the federal antitrust laws or the policy of free and open competition. That subject matter is, however, covered very thoroughly in the briefs, particularly the brief of the United States amicus, and I believe that Mr. Grossman, who will speak on behalf of the United States, will also touch on that issue.

Specifically I want to deal with three points.

First, that this case is governed by the rule laid down by this Court in Kewanee Oil vs. Bicron.

Secondly, that the Court of Appeals failed to apply that test.

And thirdly, if that test is applied to the State contract law involved in this case, it is clear that the objectives of the federal patent law are not interfered with, and that there is no conflict between the federal patent law and the State contract law in this case.

QUESTION: That's really just one point, isn't it? That this case is governed by Kewanee.

MR. COOK: Yes, it really is. And I don't think there can be any doubt that it is governed by Kewanee. The Court will recall in that case that it sustained the validity of State trade secret law, which permitted an owner of a trade secret to sue former employees for misappropriating those trade secrets.

In that case the Court reaffirmed its prior holding that the patent law is not exclusive and that the State law should be enforced unless it conflicts with the patent law or the federal law. And the way to determine whether a State law conflicts with a federal law, the Court said, was to look at whether it stands as an obstacle to the accomplishment of the objectives of the federal law.

Now, the objective of the federal patent law, as set forth in the Constitution, is to promote the progress of science and the useful arts. In other words, to encourage invention. The patent law encourages invention in two ways: first, it offers the inventor a patent which, for a limited period of time, permits that inventor to exclude others from making, using or selling his invention; secondly, in return for that extraordinary grant, it requires the inventor to disclose fully his invention to the public in the patent. In that way, not only is the public free to use it after the expiration of the patent, but it becomes a part of the body of knowledge, and that itself should contribute to and stimulate further inventions or other advances in the art.

QUESTION: In your view, Mr. Cook, would the case be any different if no patent had been applied for, but the idea had merely been presented to the respondent company, and then they made the agreement for either a two and a half percent straight or whatever?

MR. COOK: In my view, Mr. Chief Justice, the case would be no different. Because in this case the petitioner took nothing from the public, she never got a patent, and whether it was revealed in a patent or contained in a patent application is really irrelevant. The point is she revealed an idea, she made a contract, and there is no reason for this respondent to get out of its obligation to pay the royalties under that contract.

The test, therefore, under Kewanee is whether enforcing this agreement will discourage invention or prevent the disclosure of inventions to the public. The Court of Appeals nowhere applied this test. It did not even consider it, as far as we can tell from the opinion; there is no discussion of the analysis or the test in Kewanee at all. Although it made reference to Kewanee, it did not discuss its test.

When that test is applied here, however, it is clear that enforcing this agreement will not create an obstacle to the accomplishment of the objectives of the patent law, but will instead further those objectives. It will certainly not discourage invention; on the other hand, it will encourage invention to enforce agreements such as this.

Because inventors, if they know that they can enter into agreements such as this, will be willing to expend the time, effort and money without concern as to whether their invention is patentable or not, or without concern as to whether their invention is one which can be kept secret.

And, as this Court noted in Kewanee, often an important invention may not be patentable, but it is, nevertheless, an important invention.

Under the law prior to the decision in the Court of Appeals, if the inventor made a valuable invention and the manufacturer was willing to pay for it, the inventor could have the expectation of entering into an enforcible agreement which would provide him a reward for his invention, and he would therefore be encouraged to invent.

Failure to enforce this agreement, on the other hand, will discourage invention, because the inventor who cannot obtain a patent will be faced with two alternatives: he can go into the manufacture of the article himself -- which this Court noted in Kewanee may not be the best allocation of our economic resources -- or he can attempt to sell it for a single lump-sum payment before it becomes secret, get all of his money immediately. But that's often difficult, too, because licensees are reluctant to make substantial payments until they know what the commercial success of the invention will be.

Not only will enforcement of this agreement encourage invention, it will cause those inventions to be made available and known to the public sooner, rather than later. Rather than waiting to see if he can obtain a patent, under agreements of this type, the inventor puts his article or his invention out to the public immediately; not only into the commercial channels where it may benefit the economy, but also to the public so that they can copy it, or be stimulated to make further and additional inventions.

QUESTION: But on some inventions the copying of it is not easy, because the content is not discernible. Is it not true that some companies, even having a patentable item, do not patent it but simply seek to preempt the market --

MR. COOK: That is true, Your Honor.

QUESTION: -- without any patent, so that they don't have to disclose?

MR. COOK: And that is really the truly anomalous thing about the Court of Appeals decision and the position of the respondent in this case, because if this invention had been one which could be kept secret and was not revealed upon its sale to the public, the Court of Appeals and the respondent would say the agreement is enforcible.

And yet the objectives of the patent law are furthered much better by an agreement where the invention becomes public and available to the public than they are in a situation where the invention by its nature remains secret.

Yet this Court, in Kewanee, specifically approved not only enforcing implied agreements against employees but contracts for inventions where the subject matter of the invention remains secret.

Now, really, nowhere in respondent's brief does respondent ever contend that enforcement of this agreement will discourage invention or discourage the disclosure of invention. And that's because it is impossible to make that contention on these facts.

Under Kewanee, if the enforcement of a State law will not interfere with the accomplishment of the patent law objectives of encouraging invention and encouraging disclosure to the public of invention -- which is the case here -- there is no need, there is no reason for the federal courts to interfere with the normal application of State law.

Now, instead of dealing with this point, the respondent argues that the difficulty here is that enforcing agreements of this type will cause inventors who apply for a patent to be -- to abandon those patent applications. The argument goes that an inventor will apply for a patent, get an agreement such as this, and then abandon the application.

That argument, we believe, is unsound for several reasons.

First, it is factually unsound. As this Court noted in Kewanee, the benefits of a patent are such that it is very unlikely that anyone who really has a patentable invention will abandon that patent application.

Secondly, it is particularly true where, as in this case, the commercial use of the invention discloses it to the public. We're not talking about the famous Coca-Cola formula, which Mr. Justice Marshall referred to in his concurring opinion in Kewanee, we're talking about an invention that, when it is sold, it is publicly known. Under those circumstances, the chances that a patent applicant will in bad faith, in order to take advantage of his licensee, somehow abandon a patent application on a valid patentable invention, are remote indeed.

Moreover, this problem, if indeed it is a problem, is one which easily can be solved by draftsmanship. The contract can say the patentee or the licensor will diligently pursue the application; and then if he doesn't do so he has breached the agreement.

Or it can say that the licensee may have the right to prosecute the patent application, a provision that is quite common and frequent in patent license agreements.

Or it can provide that, if no patent is obtained, the royalties will cease, or they will cease after a given number of years, or they will cease after the production of a given number of units, or the payment of a given amount of royalties. All of those are ways of overcoming this problem, if indeed it is a problem.

But let's assume for the moment, for purposes of argument, that there would be some incentive by a patent applicant who has a license agreement such as this to abandon the application. That does not mean that enforcing this agreement will stand as an obstacle to the accomplishment of the patent law. As this Court pointed out in Kewanee, some diversion from the patent system is permissible. And the diversion from the patent system or the potential diversion from the patent system in Kewanee is much greater than the potential diversion here.

Because in Kewanee it contemplated an invention which remained secret. There at least the owner of the invention has an option, he can say, "I will get the patent; but if I get that, it becomes public, or I can keep it secret and try to protect my rights by keeping it secret." Here the inventor has no such choice, because once he puts his article on sale, it becomes public and he cannot keep it secret.

The diversion from the patent system, if indeed there is any, is much less in this case than in the facts presented in Kewanee.

As I mentioned before, in answer to Mr. Chief Justice's question, the fact is that both the Court of Appeals and respondent here would have enforced this agreement if the subject matter of the agreement had not been the article which became public upon its sale, but, for example, the process by which it is made. Even though a patent application had been applied for and abandoned, under the rationale of the decision below that agreement would be enforcible. Yet, merely because the invention here was one which became public upon its sale, the Court of Appeals says it is not enforcible.

Yet I submit to you that the circumstances here are less inconsistent and indeed more -- they are in fact consistent with the objectives of the patent law, much more so than in the case where the invention can be kept secret.

Finally, this argument of respondent's, we believe, deals not with the objectives of the patent law but with the means by which the patent law chooses to accomplish those objectives.

The important thing here is not whether somebody gets a patent, the important thing is that they make inventions and that they disclose those inventions to the public.

The fact that the State law will encourage invention and encourage disclosure does not make it inconsistent with the federal patent law; indeed, as this Court noted in Kewanee, certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invent. The State contract law involved in this case and the federal patent law are not in conflict, they are in harmony. Both can stand together, one complementing the other, to encourage research and innovation, which is vital to our economy and to the continued growth of our nation. Probably more so today than at any time in our history.

The decision of the Court of Appeals thwarts that encouragement of invention and unnecessarily strikes down State law. It should be reversed.

Your Honor, I'd like to reserve the rest of my time for rebuttal.

MR. CHIEF JUSTICE BURGER: Very well, Mr. Cook.

Mr. Grossman.

ORAL ARGUMENT OF B. BERRY GROSSMAN, ESQ.,

ON BEHALF OF THE UNITED STATES AS AMICUS CURIAE

MR. GROSSMAN: Mr. Chief Justice, and may it please the Court:

The issue before you today is whether State laws which enforce contracts of the type here at issue would so significantly impede federal patent or competition policy as to require preemption.

Preemption issues of this type have been resolved by the Court by defining the specific federal patent and competition policies articulated by Congress, and carefully analyzing the impact on such policies that would result from enforcement under State law of various types of contract or procedural rights.

Applying such an analysis to this case, the United

States has concluded that enforcement of the contract such as that entered into between Mrs. Aronson and Quick Point would not adversely impact any federal policy.

On the contrary, we believe that the availability of such contractual means of rewarding inventors will foster the achievement of innovation, rapid disclosure of new ideas, and new entry into commercial markets; goals at the very heart of federal patent and competition policies.

Since petitioner's counsel has devoted most of its remarks to patent policies, I should like to start my remarks with a discussion of the impact of this contract on federal competition policies.

Contracts of the type which concern us today pose no danger to federal competition policies that cannot be checked by the normal application of the antitrust laws. Statements by respondent to the effect that enforcement of the contract will promote monopoly in contrast to free competition portray a misunderstanding of both of those concepts.

QUESTION: Mr. Grossman, are you suggesting that there are contracts which would be enforcible under State law which do not violate the antitrust laws, but which would, nevertheless, be preempted by what you've referred to as federal competition policy?

MR. GROSSMAN: No, I do not make that suggestion, Your Honor. It is conceivable that contracts enforcible under

State law could violate federal antitrust policy; for example, a requirements contract which, under the antitrust standard, would foreclose an unreasonable portion of the market, they could be enforcible under State law but violative of the anti-trust laws.

One could have a contract that would not be violative of antitrust laws but would nevertheless frustrate federal patent policies. But I am not suggesting that there is some level of impact on competition beneath the dignity, as it were, of an antitrust violation that would nevertheless require preemption, unless it frustrated some other federal policy.

QUESTION: Well, what -- other federal policies, such as?

MR. GROSSMAN: I'm not -- the patent policy in this case.

QUESTION: Which would be the laws enacted by Congress?

MR. GROSSMAN: In terms of -- the patent policy and the antitrust policy are complementary here. It is conceivable, of course, that one could have a situation in which federal patent policy would be frustrated even though antitrust policy might not be.

QUESTION: And one looks to find federal patent policy, I take it, in the laws enacted by Congress pursuant to the patents, the authority in --

MR. GROSSMAN: That is right. Basically the primary goals of patent policy, as articulated by this Court, have been the promotion of innovation, the facilitation of rapid disclosure of new ideas, and the preservation of ideas in the public domain, and protection of those ideas from monopoly control.

QUESTION: And I presume the source of this Court's knowledge on that subject must be the Acts of Congress?

MR. GROSSMAN: I can think of no other source.

QUESTION: Neither can I.

MR. GROSSMAN: It is not clear to me what monopoly could be referred to here. Certainly the enforcement of the contract here at issue does not confer any monopoly, in the sense of a right to exclusive use, as that term is used in the patent law.

QUESTION: Well, isn't the contrary precisely what the opposing party is relying on?

MR. GROSSMAN: The fact that they are being faced with what they believe to be unfair competition is precisely the opposite of the --

QUESTION: Because there is no monopoly. Because she had no monopoly to sell.

MR. GROSSMAN: That's right, Your Honor.

Nor does this case involve monopoly power, in the sense that it is used under the antitrust laws; namely, the power to control price or forestall entry. The degree of market power conferred on a licensee of a commercially valuable idea will depend on a number of factors, including the degree to which the product is differentiated from different but competing products, the degree to which the idea can be easily ascertained and used by competitors, and the extent to which competitors have offsetting advantages relative to the licensee.

Now, we don't suggest that indeterminative licenses of commercially useful ideas could never contravene federal antitrust policy. What we do suggest is that the likelihood is not so great as to warrant what is the equivalent to an antitrust rule of per se illegality implemented in the form of patent preemption of State contract law.

Our policy of free competition does not mandate competition free of any and all contractual restraints; only those restraints which are deemed unreasonable are prohibited.

Economic analysis does not indicate that licenses of the type here at issue inherently restrain competition. Moreover, we lack experience or evidence which would indicate that such contracts will unreasonably restrain trade in such a wide variety of cases as to justify a per se rule.

As this Court noted last term in Exxon v. State of Maryland, the fact that one could reasonably hypothesize situations in which competition might be impeded does not justify preemption. The existence of the antitrust laws should provide sufficient protection against any significant competitive restraints arising from contracts of this type.

Unfortunately, the Court of Appeals decision could produce results inimicable to the goals of antitrust policies; to the extent that it decreases the available incentives for innovative effort, it adversely impacts on the dynamic core of our free enterprise system. To the extent that it increases risks, to both inventors and licensees, it is likely to channel inventions to the larger firms who are better able to spread and absorb those risks.

Such a trend, of course, would foster greater industrial concentration contrary to national competition policies.

I'd like to address this one point on the competition -- on the patent policy and its relation to contracts of this type.

I believe the critical core of respondent's argument is stated on page 28 of its brief, where it states that the risk is that inventors, such as Aronson, who believe their inventions to be patentable, will have every incentive to license their inventions during the period that the application is pending, and then abandon their application in order to obtain royalties for a period longer than allowed by the patent laws.

We suggest that this argument is inconsistent with this Court's decision in Kewanee, unsound as a matter of economic analysis, and unsupported by empirical evidence.

It appears unsound as a matter of economic analysis, not only as to the specifics of this case but in the general run of cases as well.

Here Mrs. Aronson's failure to obtain the patent hardly redounded to her economic benefit. There are three components which determine how much money an inventor, such as Mrs. Aronson, would make in a situation like this. One is the royalty rate which she will receive; a second is the unit price of the goods sold; and the third is the number of units sold.

Reduction of any one of these three numbers or components will reduce her total compensation.

Here we know from the record that the failure to obtain a patent reduced two of those components. An economic theory would indicate that the third was also reduced.

Here her royalty rate was cut in half. And also the total sales on which that royalty rate was based would be decreased. Instead of obtaining a percentage on all sales embodying her idea, as would have been the case if a patent had issued, she only received moneys on those sales made by Quick Point, whose share of the over-all market declined as new entrants began making keyholders reflecting her ideas.

Additionally, economic theory teaches that a monopolist is capable of charging a higher price for his goods than could be obtained for them in a competitive market. Thus, to the extent that disclosure of her trade secret opened the market to competition, the selling price of Quick Point's key chains on which the inventor's royalty was based may have been reduced.

The same economic analysis would lead one to believe that most inventors are likely to prefer the 17-year monopoly returns afforded by a patent system to the less certain rewards that could be obtained under contract law, even if those rewards might be spread out beyond the termination of a patent.

This certainly was the conclusion of this Court in Kewanee, and we are unaware of any empirical information or body of academic literature developed since Kewanee which challenges the reasonableness or correctness of that conclusion.

QUESTION: How about the Brulotte case, does that bear on this?

MR. GROSSMAN: I suggest not, Your Honor. The Brulotte case turned upon the concept that the 17-year period is the absolute limit which Congress grants in exchange for the monopoly power which it has granted. Brulotte strikes me to be based upon the same reasoning as displayed in earlier cases by this Court, Kellogg v. National Biscuit Company and

Scott v. Marcalus, which state that upon the quid pro quo received by the public in return for the grant of a monopoly is that at the end of that 17-year period everybody will be free to use the discovery, free of any restrictions to the inventor.

Here, of course, there was no patent monopoly granted, and thus the basic rationale of Brulotte does not apply.

QUESTION: Since everybody could use it from the word "go".

MR. GROSSMAN: That's correct.

QUESTION: What was the item involved in Brulotte? I've forgotten. Was it something that was necessarily disclosed to the public?

MR. GROSSMAN: That was not clear from the record. It was a hop-picking machine, but there's nothing in the Court's decision, at least, which would reveal whether -- which would reveal to me whether it would have been disclosed to the public upon sale.

QUESTION: Yes. Broadly read, the Brulotte case, I should suppose, does bear on this, doesn't it? When it says that even though it has been disclosed to the public, both because it was patented and presumably because it was sold publicly, you can't receive any license payments for an unpatented article.

MR. GROSSMAN: Your Honor, I believe --

QUESTION: Without violating the -- because the patent law preempts it.

MR. GROSSMAN: I believe that Brulotte stands for the proposition that where one has obtained a patent, that one may not obtain any additional compensation related to that patent after --

QUESTION: After the 17 years.

MR. GROSSMAN: -- the termination of the 17 years.

I think that is the limit, that is the issue the Court faced in Brulotte, and I think that is the limit, the logical limit of its whole purpose.

QUESTION: You only have one case, that's Kewanee?

MR. GROSSMAN: Excuse me, Your Honor?

QUESTION: Your side only has one case, that's Kewanee?

MR. GROSSMAN: I would --

QUESTION: That's all I've heard besides policy.

MR. GROSSMAN: I believe --

QUESTION: Am I right?

MR. GROSSMAN: I believe it would be more accurate to say that not only does Kewanee support it, and not only does the reasoning of Kewanee support it, but the very basic preemption theory which this Court uses support it; namely, that absent a frustration of federal policy there is no reason to preempt State law. The other cases in this general field, Sears, Compco, et cetera, found that enforcement of the particular State policies or rules at issue there would result in the frustration of federal purpose prohibited by the Constitution.

QUESTION: So your answer is yes?

MR. CHIEF JUSTICE BURGER: Mr. Grossman, your time has expired.

MR. GROSSMAN: Thank you.

MR. CHIEF JUSTICE BURGER: Mr. Griswold.

ORAL ARGUMENT OF ERWIN N. GRISWOLD, ESQ.,

ON BEHALF OF THE RESPONDENT

MR. GRISWOLD: May it please the Court:

At pages 20 and 21 of the record appears the joint stipulation in this case to which were attached a number of these devices as exhibits, and I have asked the Clerk to make them available to the Court. I would point out that Exhibits W, X, Y and Z are keyholders made by the respondent, the other exhibits are keyholders made by competitors. It doesn't make any difference which ones are used, but I identify them that way.

And, to anticipate a question, I think that seeing the keyholders is relevant.

QUESTION: I had assumed, Mr. Griswold, that the case proceeded on the assumption that all the others were the same or could be the same because there was no monopoly here.

MR. GRISWOLD: Yes, indeed, Mr. Chief Justice. That's why I say it doesn't make any difference which of the -- I would ask the Clerk to make them available to the Court, if the Court is willing. It is relevant, because it is a-parent, when you see it, that there is no secret here.

I have one of them here, and that's it, and you put your keys on and then you, with a little force, press it back. And once it has been made and distributed, it is completely apparent to anyone, not merely a skilled mechanic but to anyone, what the idea is.

QUESTION: Well, do you suggest that, by way of argument, that it was never patentable in the first place?

MR. GRISWOLD: No, Mr. Chief Justice, that I don't know. Two similar devices were patented.

I suggest that first on the ground that it shows that the Kewanee decision is not applicable to this case. This case does not involve a trade secret, as that term was used in Kewanee.

I think it is also relevant, because there are arguments here, that these indefinite royalties are justified because of the head start that Quick Point got when the secret was dislosed to it, and that head start was worth a great deal, which could be compensated for by royalties indefinitely in the future.

And I think the exhibits themselves show that the head start here, though probably something, was not much. Neither in terms of capital cost nor in terms of time.

Now, at the outset, I think it is very important to recall that this case involves a relatively narrow issue. There are amicus briefs which discuss extensively problems of technology and knowhow licensing and billions of dollars which is affected.

But this case does not involve any aspect of technology or knowhow licensing. Any decision on that question should of course await a record and briefs which deal with it.

And some of the briefs, and the government's brief in particular, talk extensively of trade secrets. Indeed, the government's brief uses the phrase "trade secrets" more than forty times.

But this is not a trade secret case in the sense in which that term was customarily used, and as it was involved before the Court in the Kewanee case. Indeed, in the Court's opinion in the Kewanee case, the Court said, on page 484: "By definition, a trade secret has not been placed in the public domain." But this keyholder has been placed in the public domain. It has been public since 1956, 22 years ago. It's there for everyone to see and to copy.

There's no secret way of doing business, no secret formula or process in continuous use, no device which is used in the course of business but not disclosed. Here the item was fully disclosed as soon as the keyholder was put on the market, as the contract contemplated it would be.

The distinction seems to be, to some, to be more subtle than I should think it would be. I think I can illustrate it by the fact that I was counsel for the petitioner in the Kewanee case, and one of the first things I did was to come to the Court and meet with the Clerk and make arrangements for the impoundment of the record so that the secrets which were included in it would not be disclosed.

There has been no necessity for impounding the record in this case.

There is no secret here, no need for reverse engineering which is talked about in the patent cases. Since 1956, the secret has been in the public domain.

QUESTION: Well, Mr. Griswold, does the authority of the State to enforce its own contract laws depend on the presence or absence of a trade secret?

MR. GRISWOLD: No, Mr. Justice, but it does depend on the presence or absence of relation to the patent laws -- and I will turn to that right now.

The most important element in this case is that it is a case involving a patent application, and I think that that has already been pointed out, but I would like to turn to page 23 of the record, which is the initial letter which, with the item on page 25, embodies the contract. The second paragraph of the letter of June 26, 1956: "Quick Point Pencil Company will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677, and will start manufacturing within 60 days".

And then at the end of the following paragraph there is a further reference to"the design shown in your application, Serial No. 542677."

And then turn to page 24, the second full paragraph, "In the event of any infringement", and there could not be an infringement unless there was a patent.

But this was not something used by the president of the respondent company alone, for Mrs. Aronson came back with an amendment to the contract which was accepted, and that appears on page 25, and that starts out, "In the event that the Keyholder Patent Application number 542677 is not allowed within five years, Quick Point Pencil Company agrees to pay Jane Leopoldi" -- as she then was -- "two and one-half percent of sales, at selling prices, as long as you continue to sell same."

QUESTION: Mr. Griswold, I wonder, would it be irrational in your view to treat this transaction between the two parties as being made up of two contracts? One contract to pay five percent if the patent issued, and another contract to pay two and a half percent if they didn't get a patent within five years.

MR. GRISWOLD: Well, I don't think so, Mr. Chief Justice. It was obviously negotiated at the same time as part of one deal. And I point out --

QUESTION: Well, they are on different days, literally, are they not?

MR. GRISWOLD: One day apart.

QUESTION: Yes.

MR. GRISWOLD: And finally accepted -- finally accepted on June 27th by both parties. It seems to me that it is one contract, and it is not, as the government says several times in its brief, a contract to pay five percent if a patent is granted and two and a half percent if a patent is not granted. It is a contract to pay five percent, but if a patent is not granted within five years, then to pay two and a half percent. That is the event which actually happened.

The patent application was abandoned some six years after the contract was made, but the royalties have been paid at the rate of two and a half percent, after five years, until 1975 when this suit for a declaratory judgment was filed.

QUESTION: But the terms of the contract did require payment of two and a half percent of the royalties, regardless of whether or not a patent was issued.

MR. GRISWOLD: Yes, it did, and that is nothing which was introduced -- that was also the same in the original letter of June 26th, "on all keyholders which we make in accordance with the design shown in your application"; no limit of time was specified there. And the question in this case is simply whether that provision can stand in the light of the patent laws.

I'm glad that at the close of the argument one of the relevant cases, Brulotte v. Thys, was mentioned. There are several cases which are relevant by way of background here. Sears and Compco, to begin with, which hold in rather sweeping terms that there cannot be any exclusive right with respect to an unpatented article. Brulotte v. Thys, which holds that even if it is patented a contract otherwise perfectly valid under State law to continue to pay royalties is invalid, because of conflict with the patent laws, if it calls for royalty payments after the patent period has expired.

And then I would refer particularly to Lear v. Adkins, which in many ways is quite close to this case. It involved a patent license granted during the application period. The decision of the Court was that thereafter a patent was granted and the licensee decided that the patent was invalid and gave notice that it would not pay the royalties covered by the contract, and counterclaimed in a suit brought to recover the royalties that the patent was invalid.

And the basic decision in that case was that the licensee could attack the validity of the patent.

But the Court also held that he need not pay royalties from the time when he claimed that the patent was invalid.

That, of course, was in the teeth of the provision of the contract. And our position here is that the petitioner here should not be in a better position than she would be if she had gotten a patent, in which case her right to royalties would have terminated after 17 years; or in better position than if she had gotten a patent and had attacked its validity, in which case her obligation to pay royalties would cease, if she got a decision that it was invalid.

QUESTION: Do we really know whether she is in a better position? What about the exclusive right to get royalties from licensees, from the whole market? Obviously a great many people copied this idea, and, had it been patentable, all of these others, or many of them might have had to pay royalties, a license fee?

MR. GRISWOLD: I don't think --

QUESTION: And it would have maintained -- her payments would have remained at five percent throughout the 17 years.

MR. GRISWOLD: If she had gotten the patent within five years; but she did not. And under the contract, she was entitled to only two and a half percent, even if she got the patent.

QUESTION: But, by the same token, doesn't this, what we're just discussing, indicate that the parties contracted with a view to the possibility, if not the likelihood, that there would be no patent obtained?

MR. GRISWOLD: I don't think that that is by any means clear. This is not in the contract.

QUESTION: Well, what was the reduction to two and a half percent for?

MR. GRISWOLD: It was not "if you don't get a patent", it was "if you don't get a patent within five years". And this might have continued -- for a patent application, she might have taken it to the Court of Customs and Patent Appeals or to the U. S. District Court, it might have been an appeal that could have gone on for a long time; and the contract was not "if you don't get a patent", but "if you don't get it within five years".

But I don't think that's really relevant for the reason I'm about to state. Because another distinction which must be made here is that this is not a simple contract case entirely in the realm of State law, a likely agreement in the Warner-Lambert case, where no patent or patent application was involved.

QUESTION: That's what I was going to ask you, Mr. Griswold, in order to be sure that I understand the scope and entire thrust of your argument. What if in this case there had been no reference whatsoever to any patent application nor to whether or not a patent would be ever issued, but simply the facts showed a disclosure by Mrs., at present Mrs. Aronson to Quick Point of this key ring, and a simple agreement that "we'll pay you two and a half percent of the sales price for this key ring for every key ring we sell from now on", with no reference to any patent law, and that this had been written down in a contract that was valid under State law?

MR. GRISWOLD: I know of any reason why that would not be valid. That is the Warner-Lambert case. This Court has never spoken to an endless contract. There are some emanations in the common law to the effect that such things must be limited to a reasonable time.

QUESTION: Well, it's endless only in so far as -- it's not in perpetuity, it's every time they sell one of these key rings they pay Mrs. Aronson two and a half percent of the sales price.

MR. GRISWOLD: Well, that was true in Brulotte v. Thys. If they stopped picking hops, they wouldn't have to pay royalties.

QUESTION: I know, but that's -- but my question -- you think that sort of a contract would not at all be pre-empted by the federal patent law?

MR. GRISWOLD: That has the -- the key element in this case is that there was a patent application.

QUESTION: And that's critical, in your submission.

MR. GRISWOLD: That's the central fact of this case. The contract was made specifically with respect to it, it provided for an exclusive license which could apply to the secret, but obviously applied to the patent; and the petitioner had no power to grant an exclusive license unless she got a patent. Anybody else could make it. Her license couldn't be exclusive.

QUESTION: Well, it's according to how you define the word "exclusive". One could easily read that as meaning, "I won't license anybody else".

MR. GRISWOLD: Yes. But the -- that it was a patent application license is of basic significance because this contract was not made under State law alone, it exercised a power specifically given to the petitioner by the patent laws. And I call attention to Title 35 of the United States Code, Section 261, to which not sufficient weight, I believe, is given in our brief. As I prepared for the argument, I wished we had had a point more specifically on this. But that section provides that "Applications for patents, or any interest therein, shall be assignable in law by an instrument in writing." And that's what we have here. "The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."

And here the patent applicant was exercising that power granted to her under the patent laws. She was proceeding under the patent laws.

Now, there are many other provisions to which I could make reference. I find, for example, that the word "applicant" or "application" appears at least 240 times in the basic provisions of the patent law.

QUESTION: Mr. Griswold, could I ask one question about your basic theory of the case? Your opponents say that your argument rests entirely, in so far as you claim a conflict with the patent laws, entirely on the fact that enforcement of this agreement will provide a motivation to a patent applicant to abandon the patent application. That the policy involved here is one that is causing people to abandon patent applications. And that you do not rely on the interference with the policy to motivate disclosure of inventions or to encourage invention itself, but just rely on that first point about abandoning patent applications.

Is that a fair characterization of the central thrust of your argument?

MR. GRISWOLD: No, Mr. Justice, --

QUESTION: Well, what is the central thrust of your argument, then?

MR. GRISWOLD: The central point here is that the petitioner operated under the patent law. She got definite advantages from the patent law, in that she got leverage in making her contract. No one would have made this contract for these royalties on a simple disclosure which could immediately be made by anybody else. That's one reason I wanted the exhibits distributed, to show how simple it was and how easy it would be for anyone else to make it.

The reason she got substantial royalties, which have aggregated, up till 1975, more than $200,000 --

QUESTION: Granting all this, what federal policy will be frustrated by enforcing this contract?

MR. GRISWOLD: In the first place, it is not disclosure. The disclosure is --

QUESTION: I know. I just want to know what it is.

MR. GRISWOLD: The disclosure is colorless.

QUESTION: Not disclosure. Is it invention? The policy favoring invention.

MR. GRISWOLD: It is the capitalizing on the use of the patent law, thereby obtaining leverage which produces a larger royalty than would otherwise be used, available; and which, in this case, provided for a royalty which I will call indefinite, because it has no limited time, --

QUESTION: Mr. Griswold, I respectfully suggest you are not identifying a federal policy that would be frustrated by enforcement of this contract.

MR. GRISWOLD: The federal policy is using the patent laws to obtain a monopoly position. That is, to have the leverage to obtain larger royalties than would otherwise be available, royalties which must eventually be paid by the public in the charges for the article, and which continue indefinitely under this contract, despite the fact that if she had obtained the patent they would have been limited to 17 years.

QUESTION: Suppose, Mr. Griswold, that when she came to this company no patent application was pending and they made exactly the same contract that was made, but that she never applied for a patent, and assume no obligation to apply was in the contract; how would that be any different?

MR. GRISWOLD: Well, I suggest, Mr. Chief Justice, --

QUESTION: How would she then be exploiting or making any use of the patent law?

MR. GRISWOLD: I suggest, Mr. Chief Justice, you said "and she made exactly the same contract" --

QUESTION: Yes.

MR. GRISWOLD: -- she would never have made the same contract, without having produced a patent application. Nobody would agree to pay substantial royalties for this idea open to the public, in the public domain, simply for its disclosure. The only thing that you would have to go by then would be head start value. And again this is one reason why I asked that the item be distributed, because here it is plain that the head start value is very little. There's no great capital investment. Almost any mechanic could put the machinery together to make this item.

QUESTION: But your client in the contract took the risk of nonpatentability, didn't it?

MR. GRISWOLD: Well, I think that's the issue in the case, to some extent, and --

QUESTION: Perhaps federal law, as you say, precludes the enforcement of such a contract, but certainly the contract by its terms would seem to indicate that.

MR. GRISWOLD: Well, the contract by its terms does not deal with the question of its proper construction in the event that no patent has ever obtained. I tried to deal with that in the last point of my brief, where I refer to the fact that the contract is with respect to a patent application, and it calls for the exclusive license to make and sell. And when the exclusive license collapsed, because there was no power, the petitioner did not deliver her part of the contract, when she didn't get any power to deliver an exclusive license, I suggest that there was a failure of consideration, and that the contract should be construed to mean that royalties would not be payable for more than a reasonable time.

I don't think it is entirely clear that this contract made between laymen should be construed as a matter of contract law requiring indefinite payment, a continuing payment of royalties over an indefinite period.

Now, it's true that the patent application gave no rights to the applicant. There can be no infringement of a patent application. Nevertheless, a patent application has a substantial *in terrorem* effect. When a competitor sees "patent pending" on an item, he is disinclined to make the item, despite the fact that he knows that it is not protected until the patent is obtained. He doesn't want to incur the capital costs, starting production of the item, setting up his sales course, printing catalogs and so on, when he knows that he may soon be foreclosed by the granting of the patent.

And the licensing of an application and the use of the "patent pending" designation are a part of the benefits expressly recognized by the patent law. I have already referred to Section 261, but Section 292 is the provision which makes it a crime to use "patent pending" on an article unless indeed you are the applicant or the licensee of the patent application, in which case you can use it. And that undoubtedly provides important leverage in determining in the bargaining process, which determines the amount of the royalties under the contract.

The heart of the case, I suggest, is found in the fact that there was a patent application and that the contract was made with respect to that application. The petitioner used the patent laws, and the application had value because of its potentiality under the patent laws. No one was paid a substantial amount for a nonexclusive license to make this article.

As the affidavit of the petitioner appearing on page 55 of the record shows, the keyholder was disclosed to several commercial enterprises while negotiations with the respondent were pending. If Quick Point had not come to an agreement with the petitioner for an exclusive license, the petitioner could have sought to make an agreement with one of the other commercial enterprises. If an exclusive license had been granted to a competing company, Quick Point would have been frozen out, if the patent was granted, and, for practical purposes, could not have made the article while the patent application was pending.

On the other hand, Quick Point knew that if the petitioner obtained the patent on the device, the exclusive license would assure that Quick Point had the right to manufacture the keyholder free from competition for the patent period.

Quick Point, in this case, bargained not only for disclosure but also for the future exclusive right to use the invention once the patent was obtained.

In short, the patent application, which was an integral part of the process established by the government under the patent laws, pursuant to the patent clause in the Constitution, gave the petitioner bargaining leverage which she could not have had if she had not first filed a patent application.

The mere fact of the patent application gave the petitioner -- gave the respondent considerable likelihood of protection against competitors, while the patent application was pending; and in this way the patent law was used as leverage for the petitioner's benefit.

But the patent laws gave more. They gave hope that a patent would be obtained. And in that event, the contract gave Quick Point the exclusive right to make and sell the item. This was a prospect made possible by the patent laws, and it was fully utilized by the petitioner here.

The petitioner entered into the patent process and she obtained a substantial benefit, because she invoked the patent laws. Without the patent application, she would have been in no position at all to obtain substantial royalties for this time -- for this item, which was incapable of exploitation without full disclosure.

She used the patent law successfully, even though she did not obtain a patent, and her contract should be qualified by law in accordance with the principles which have been developed in several patent cases.

It's important again to recall that we are not dealing here with a continuing trade secret, as in Kewanee. There was a secret here, but it was inherently time-limited. Once the article was made and marketed, the secret was fully disclosed.

And thus, as far as the objective of disclosure under the patent system is concerned, a decision in favor of Quick Point will have no adverse effect. The holder of an idea for a secret device like this can keep it to himself if he wishes to do so, but if he wants to realize on it he must disclose it. There is no alternative.

He can of course apply for a patent without licensing the device, in which case there will be no disclosure until a patent has issued; and he will have no return from the idea while the patent is pending.

On the other hand, he can license the idea with or without applying for a patent. If he licenses the idea without applying for a patent, he can only hope to obtain head start value from the licensee. And I suggest in this case that that would be very small, since the idea will be fully disclosed as soon as the licensee puts the item on the market.

The only way that the inventor can hope to get more is to apply for a patent, thus utilizing the patent laws, and then seek to license the patent application and the hoped-for patent. That is what was done here. The petitioner chose to proceed under the patent system, and she got great leverage from the patent system. Who would have paid very much for this idea on a nonexclusive basis? Which would have been the situation if no patent had been applied for.

Now, turning again to Kewanee, I point out that it did not involve license situation, there was no question about the validity of a license or about the validity of a license extending for an indefinite period. What it involved was a classic trade secret breach of employment contract situation, in which the Court was asked to strike down a long-standing body of State trade secret law which served important public policy objectives. This the Court was understandably reluctant to do.

QUESTION: Important public policy objectives of the State?

MR. GRISWOLD: Important public policy objectives of the State, yes, Mr. Justice, involving the sanctity of fiduciary relations between employers and employees within the State.

QUESTION: Well, can't we assume that if the State of Missouri, or whatever State this contract was drawn in, chose to enforce this contract, it viewed it as serving important public policy?

MR. GRISWOLD: I think, Mr. Justice, that this Court would have to decide, and my suggestion would be that whatever the public policy objectives may be, they are not nearly as important. The sole issue here is whether it is valid to make a contract with respect to a pending patent application which calls for indefinite royalties extending beyond the period when royalties would be payable if a patent was allotted.

QUESTION: Well, isn't the sole issue also whether federal patent law preempts State law enforcing this contract?

MR. GRISWOLD: Yes, Mr. Justice, to that extent. And that step has long since been taken. Perhaps the most clearest and striking case being Brulotte v. Thys, where the Court held that no matter what the State contract law was, a contract calling for the payment of royalties after a patent had expired was invalid. And I am contending here that a contract calling for the payment of royalties without a limit of time, made with respect to a specific pending patent application, should likewise not be construed to call for the payment of royalties for an indefinite period. Because that would be contrary to the scope, effect, objective of the patent laws.

And I think here is perhaps a better answer to Mr. Justice Stevens' question: there is here the same interference with the patent laws that there was in Brulotte v. Thys. Here there is a disclosure, there is an obtaining of royalties with respect to the disclosure, there is, if this contract is invalid, a perpetual handicapping of this competitor in the market with inevitable increase in the overall price that the public must pay for the item. And, as in Brulotte v. Thys, the contract was held to be invalid after the patent period expired. I don't know just when the contract becomes invalid here. I think that a very good case can be made for the proposition that royalties were not due under this contract after the patent application was abandoned. We don't have to deal with that. There is no question in this case with respect to the payment of royalties during the patent application period.

There isn't much question with respect to payments for a number of years -- there isn't any question with respect to the payment of royalties for 14 years after the patent application was abandoned, because those royalties were paid, and this suit is not an effort to get them back; this suit is a suit for a declaratory judgment, seeking a declaration that under proper application of the scope of the patent laws any provision in State law, which calls for the payment of royalties for an indefinite period under a contract made specifically with respect to a patent application, is invalid.

QUESTION: Mr. Griswold, I suppose one could describe the federal policy at stake in Brulotte as a policy against allowing a patent monopoly to have any reward in addition to the monopoly itself, and enlarge the patent monopoly beyond the terms of the patent grant; that you can't obtain royalties on unpatented articles sold with the patent, or on a period after the monopoly protection has expired. I don't see how that federal policy is implicated by this case when there's no monopoly in the first place.

MR. GRISWOLD: I think, Mr. Justice, the answer is ? that here there was a preliminary or in coit monopoly. There was the hope and expectation that a patent monopoly would be obtained, and there was a contract made with respect to that hope and expectation which provided for larger royalties undoubtedly than would have been available if no patent application had been filed.

And so the patent laws have been used to obtain a larger tribute from the public, to use it in that sense, than would have been obtained if the patent laws had not been invoked. And that, I suggest, is essentially the consideration which was behind this Court's decision in --

QUESTION: Mr. Griswold, but the parties also contracted with respect to a payment absent a pàtent. They said if no patent is obtained the royalties will go down.

MR. GRISWOLD: Yes, and --

QUESTION: And why -- would the case be different if they had said in parentheses, "and this is our valuation of the start-up value of this disclosue"?

MR. GRISWOLD: This is essentially the ground of

Mr. Justice Harlan's dissent in the Thys case, not start-up value but lump-sum payment for the machine; and I can imagine a contract calling for royalty payments after the 17-year period.

For example, suppose the contract provided that the royalties shall be so much for 17 years, but only half of them shall be paid in each year, and the second half shall be paid in the 17 years following the expiration of the patent? I would assume that would be --

QUESTION: But how can you say that they are using -- that the patent monopoly or the in coit ? patent monopoly is lending some leverage here when they expressly contract for what the royalties shall be if there is no patent?

MR. GRISWOLD: Well, Mr. Justice, if she had gotten a patent, she couldn't get royalties for more than 17 years, no matter what the contract said.

QUESTION: Yes.

MR. GRISWOLD: If she had been a -- if Quick Point had been a patent licensee and the patent had been obtained, Quick Point could attack the validity of the patent, and from the time it attacked the validity of the patent it would not have to pay royalties, no matter what the contract said.

QUESTION: But in that case over the 20-odd years or more the royalties would have been far in excess of $203,000. On the, on this market record.

MR. GRISWOLD: In the Lear case?

QUESTION: No, this case.

That is, she would have had, as I suggested before, --

MR. GRISWOLD: I don't know whether they would or not, it's hard to -- after all, the contract that was made in 1956 was one which called for an aggregate of $200,000 royalties.

QUESTION: Well, it isn't so difficult. You just take the period after the five years and double the royalties and add that to the 203, and then add, if you could calculate it, all the people who copied the idea and would have had to pay license fees.

MR. GRISWOLD: I don't see how that is applicable here, but I -- particularly with respect to the Lear case, where it was held that if the licensee attacks the patent and is successful, no royalties are due from the time when he states that he will attack the patent. And we find it difficult to think that the licensor of a patent application should stand in a better position than a person who has a good enough invention so that he gets a patent, or even one like Lear, who has a good enough invention so that he gets a patent but it is later held to be invalid.

There is one point to which I would like to make reference. Twice, while this was going on, Quick Point asserted, through one means or another, its obligation to pay royalties. That, of course, does not necessarily mean indefinitely, but to continue to pay royalties. I would point out that one of those letters was by its patent counsel, and it may well have been simply erroneous. It was written before the decisions of this Court in Sears and Compco, and Brulotte v. Thys, and the Lear case, and this Court has been a great teacher in this area over the past 15 years, and finally, Quick Point may well have thought it equitable or generous to continue making such payments because for some time it was the only one marketing the keyholder.

QUESTION: Mr. Griswold, do you consider Kewanee and Goldstein teaching cases as well as Brulotte and Compco?

MR. GRISWOLD: Oh, yes, Mr. Justice, of course. And Kewanee is an excellent case, that I am very much pleased with.

QUESTION: I should think you would be!

[Laughter.]

MR. GRISWOLD: But it has no relation to this case, because this case does not involve a trade secret of the sort which caused the concern of the Court in the Kewanee case and the Kewanee case did not involve a licensing situation.

QUESTION: Mr. Griswold, the record contains, on page 39, a letter written in 1961 from counsel for Quick Point to Mrs. Leopoldi then, stating flatly that "even if no patent is ever granted ... Quick Point is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." Do you have any comment about that letter?

MR. GRISWOLD: Well, Mr. Justice, that's what I thought I was commenting on. That, in the first place, he may well have been wrong; he was not an officer of the company, he was patent counsel; in the second place, it was written before Sears and Compco and Thys and Lear, as to which the Court, I suggest, has been a great teacher, as things have developed. He may well have thought that was the law when he did it.

But I suggest that the decisions of this Court have shown that it's no longer the law. And finally, Quick Point may simply have wanted to be generous. They had had good relations with this lady, and until the 1960's they did not have any competition, as a practical matter. It was only when, beginning in the late 1960's, they found themselves at a heavy competitive disadvantage. You may say only two and a half percent royalty, but that may be half the profit.

It was only then that they began to explore the situation, and come to the conclusion that the decisions of this Court pointed clearly in the direction that a license made with respect to a patent application should not give greater rights than would have been obtained if a patent had actually been granted.

Thank you.

MR. CHIEF JUSTICE BURGER: Do you have anything further, counsel?

REBUTTAL ARGUMENT BY C. LEE COOK, JR., ESQ.,

ON BEHALF OF THE PETITIONER

MR. COOK: Just briefly, may it please the Court.

I'd like to deal specifically with this letter which was referred to by Dean Griswold just at the end of his argument, because that letter, I think, also, not only deals with the question of what was the intention of the parties, but answers also the argument about the policy really that's involved here, in terms of whether some federal policy is thwarted by the existence of the patent application.

The argument of respondent on that point ignores, I believe, the fact that the parties did specifically contemplate that no patent would issue and that in that event the royalty would be reduced to two and a half percent.

He also argues that, why would anyone sign such agreement? Or why would anyone enter into an agreement such as this if he could not get exclusivity?

This letter, which is on page 39 of the record, I believe, clearly demonstrates that the parties contemplated that they might not get exclusivity. Indeed, it says that "We remind you that under the license agreement -- the agreement is in respect of the disclosure" and not the claims.

It is the claims which give the exclusivity. And he is saying here that "even if we get a patent, we may not have exclusivity with respect to what we are obligated to pay you royalties on."

QUESTION: Mr. Cook, what if a patent had issued? First of all, there would have been a continuing obligation to pay five percent, not two and a half percent.

MR. COOK: Yes.

QUESTION: But then 17 years had expired, after the issuance of the patent, would the obligation have continued?

MR. COOK: In my opinion it would not, under this Court's decision in Brulotte. Because under those circumstances, --

QUESTION: It's pretty clear, isn't it, under Brulotte?

MR. COOK: Yes, because under those circumstances the patent owner has taken something from the public. It has taken that extraordinary grant of the right to exclude the entire public from making, using or selling this device.

And in Brulotte, if the Court will recall, the opinion specifically said that the rationale here does not apply to contracts involving unpatented machines. The rationale of Brulotte was, as Mr. Justice Stevens pointed out, if you give an inventor a monopoly by a patent, you cannot permit him to expand that monopoly, whether to nonpatented articles or beyond the 17 years.

But in this case, Aronson has taken nothing from the public. The existence of the patent application gives her nothing against the public, it gives her no right to exclude others, and there is no public policy that was -- certainly not the policy that was involved in Brulotte; it has no application here.

QUESTION: Well, Mr. Griswold has suggested that there was at least a light wind in her sails by virtue of being able to put the statement "patent pending" on the --

MR. COOK: Well, we're not -- the record doesn't show for sure that anybody did put "patent pending" on anything in this case.

QUESTION: But they could have.

MR. COOK: But they could have. There's no doubt about that.

But also they could have -- you see, the argument, I believe, of the respondent really deserts the Court of Appeals, because what the Court of Appeals said is that the important thing here is that the invention wasn't secret, it was somehow in the public domain.

But if we had had a patent application on an invention which was secret and then abandoned the patent application, the Court of Appeals would have enforced that agreement. And yet the very same in terrorem effect, if you want to call it that, would be present. And indeed in Kewanee there was no question -- the decision was not that you can enforce the trade secret if you haven't applied for a patent on it; the decision was that you can enforce your rights in the trade secret.

QUESTION: Why do you suppose the royalty rate was higher in this contract up until -- than it was after the patent was denied?

MR. COOK: I think it is clear that the parties hoped there would be a patent. And if there wasn't, why --

QUESTION: Well, they were paying -- they were paying for the right to use a mechanism on which a patent application was filed.

MR. COOK: Exactly. And I believe, Your Honor, that if the parties -- the parties hoped there would be a patent, and if there had been a patent Quick Point would have been willing to pay five percent royalties. And that --

QUESTION: Do you think the case would be different if there had been no provision for a reduction of the royalty?

MR. COOK: Yes, I do.

QUESTION: You do?

MR. COOK: I do, because I think the reduction in the royalty in this case shows that the parties specifically contemplated that there would -- that the possibility of a patent issuing --

QUESTION: So if there hadn't been a provision for a reduction of the royalty in the event there was no patent, then you would agree they were piggybacking on the patent?

MR. COOK: No, I would not agree to that, Your Honor.

QUESTION: You just say that it would be a different case?

MR. COOK: Yes.

QUESTION: And what would be the result?

MR. COOK: Well, you see, it would depend upon the intention of the parties. And I think the intention of the parties is made very clear here.

QUESTION: Well, the chief reason why they have a reduction in the patent royalty from five to two and a half percent is because two arm's-length parties agreed on it.

MR. COOK: Exactly, and if --

QUESTION: And it doesn't really make much difference -- or does it -- why they agreed on it?

MR. COOK: Well, I don't think it does, but I think in this particular case the fact is they agreed on it because they contemplated that a patent might not issue, and Quick Point was willing to pay the two and a half percent for what Dean Griswold had referred to as the head-start value.

We do know that that head-start value was very substantial here. They didn't get competitors in this business until the late 1960's, even though the patent was long out of

-- the patent application was long out of existence.

The fact of the matter is that if there is a head-start value, there's no federal interest in having the court interfere with deciding what that value is. If the parties, in an arm's-length negotiation, agree that that value is two and a half percent, why should the court interfere with that? Why shouldn't the courts permit the State law to enforce that agreement?

Now, if I can touch just briefly on the question of a trade secret. There is no doubt that when this invention was first disclosed to Quick Point, it was a trade secret. The fact that it was secret is conceded in respondent's brief. It was stipulated to in this record. The fact that it was of value is conceded in respondent's brief, because they concede that we were entitled to substantial payments for that disclosure.

The fact that it later became public, by reason of the sale, does not mean that when the contract was entered into it was a secret. But even if it were not a trade secret within the technical definition of trade secrets, it wouldn't make any difference, because the principle involved here should apply whether it's an abstract idea -- the concept for a television program, an advertising theme, or anything that may not be a trade secret or a patentable invention; the issue involved here is: What is the federal policy which is thwarted by permitting the States to enforce bargains entered into between parties by which one agrees to share with the other the profits he may make from the other's invention or idea?

And that's exactly what we have here. And if the courts interfere with the enforcement of agreements like this, we will be taking away from potential inventors, particularly small inventors, the strong incentive to make inventions. Otherwise they will be forced to either get a patent or, if they can't get a patent, they will have to try to sell it for a lump sum, which is a poor choice.

We respectfully urge you to reverse the decision of the Court of Appeals.

Thank you.

MR. CHIEF JUSTICE BURGER: Thank you, gentlemen. The case is submitted.

[Whereupon, at 11:33 o'clock, a.m., the case in the above-entitled matter was submitted.]

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