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Recent Decisions

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RECENT DECISIONS

Patents — Licensing Agreements — Estoppel To Deny Validity

Early in 1953 the defendant aircraft manufacturer hired the plaintiff to develop a technique for producing accurate but relatively inexpensive gyroscopes for use in high speed airplanes. Plaintiff retained the rights to his ideas but agreed to a licensing agreement with the defendant. Within a year after his employment, plaintiff had developed a satisfactory technique which, in order to protect his interest in his invention, he sought to patent. At the same time plaintiff and defendant entered into an extensive licensing agreement giving defendant the right to terminate in certain designated circumstances. These included the refusal of the patent office to issue a patent or a subsequent holding of invalidity. Processing of the application, entailing several amendments, stretched out over the next six years, plaintiff not receiving his patent until 1960. In the interim, defendant had successfully used the technique developed by plaintiff at its California plant and had adopted a similar procedure in its more extensive Michigan operations.¹ Plaintiff received royalties on all production at both plants until 1957, in the case of the Michigan production, and 1959, in the case of the California-produced gyroscopes, when the defendant announced that it would stop payment of royalties since an existing patent had anticipated plaintiff's ideas. Immediately after receipt of his patent in 1960, plaintiff brought suit in the California Superior Court alleging breach of the 1955 licensing contract. Defendant sought to raise patent invalidity as a defense, but the trial court directed a verdict for plaintiff on the gyroscopes produced in the California plant. Defendant's contract with the plaintiff estopped it from questioning the validity of the patent. However, the court granted defendant's motion for judgment notwithstanding the verdict as to the production in Michigan, ruling that defendant had developed the Michigan technique independently of plaintiff's ideas. On appeal by both sides to the California Court of Appeals, the court reversed the judgment holding that the 1955 contract permitted defendant to terminate its royalty obligations and that plaintiff could only recover for a subsequent infringement. The California Supreme Court, however, returned to the estoppel view adopted by the trial court, but refused to accept the lower court's view of the Michigan gyroscopes; thus it reinstated the jury's award in its entirety. The United States Supreme Court granted certiorari to consider the federal question. *Held, vacated and remanded*: A patent licensee cannot be estopped from raising the invalidity of the

¹ Defendant contended that the technique employed in Michigan was developed independently and, therefore, could not be considered subject to the 1955 agreement.

patent on which the licensor relies to claim royalties. Earlier cases creating the estoppel doctrine are overruled. Since a patent is nothing more than an administratively determined legal conclusion, it is not unfair to require the patentee to defend his monopoly when its validity is placed in issue. The licensee also should not be obliged to pay royalties during the time when he is questioning the patent's validity, since to require him to do so would frustrate strong federal policies of speedy adjudication and the full and free use of ideas in the public domain. *Lear, Incorporated v. Adkins*, 395 U.S. 653 (1969).

The instant case, it must be noted, is a suit in contract and not one for patent infringement. Plaintiff sought to recover what the defendant allegedly had agreed to pay him rather than attempting to carry the heavy burden of proving patent validity and the measure of damages, both of which are necessary elements of the infringement suit. With the aid of the estoppel doctrine, which would prevent any controversy over patent validity, plaintiff would only be required to show (1) the contract, in which defendant had promised to pay royalties, in effect, until the patent was declared invalid, and (2) the amount owing to him calculated on the basis of the defendant's production. Defendant would thus be required to commence an expensive and lengthy action of its own to show patent invalidity. The effect of the estoppel doctrine, then, was to shift the burden of proof to the licensee paying on a presumptively valid patent.² Because the useful life of the patent might be considerably less than the probable duration of a court battle over its validity, a more serious practical effect was to require the licensee to pay whether it legally had to or not.

The Court indicated at the outset that "the only issue open to us is raised by the [California Supreme Court's] reliance upon the doctrine of estoppel to bar [defendant] from proving that [plaintiff's] ideas were dedicated to the common welfare by federal law."³ Thus the estoppel issue itself was the keystone to the entire controversy. The majority opinion, therefore, developed the history of the doctrine at some length, reviewing its origins and exploring its actual scope. The "general rule," relied on by the California Supreme Court, was found to be so eroded by exceptions that the existence of a discreet rule of law was doubtful.⁴ With this supposed uncertainty as a predicate, then, the Court felt itself free to examine the merits of the estoppel policy.

The majority, in considering the basis of the doctrine, first noted the balancing problems which faced the judiciary.

On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has

² This, of course, would depend on the jurisdiction. If showing patent invalidity were considered to be a defense on which the defendant had the burden of proof, then, the result would be the same in either case. But, if the defendant need only raise the issue so that the plaintiff was required to prove patent validity, the burden would be shifted by denying the defendant the right to raise the matter at the outset.

³ 395 U.S. at 662.

⁴ *Id.* at 661-68, for the Court's extensive discussion of this convoluted area.

made. On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.⁵

But the attempt to develop an intermediate position "has been a failure."⁶ Any new attempt must be founded on a consideration of the validity of the countervailing arguments.

A patent, the Court noted, is merely a "legal conclusion reached by the Patent Office"⁷ in an *ex parte* proceeding which partakes more of a legislative than an adjudicative—and thus adversary—determination. The majority found it logical and equitable that the patentee be required to defend this legal conclusion, which is presumptively correct, when it is attacked by a licensee. Though the letter of contract law demands an estoppel on the licensee, the spirit of the law, "which seeks to balance the claims of promisor and promisee in accord with the requirements of good faith,"⁸ does not. Perhaps the strongest argument the Court brought to bear on the problems was that

[1]licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued.⁹

Although the instant case presented a somewhat less appealing one for the licensee than the Court might have liked—since the defendant had access to and use of plaintiff's ideas throughout the lengthy period before the patent was issued—the majority nonetheless felt compelled to overrule the California Supreme Court's decision. The difficulty which the Court encountered was not so much the estoppel doctrine as the problem of whether the licensee here could be forced to pay royalties under its contract on an unpatented but secret idea. The plaintiff insisted that the contract be enforced regardless of the subsequent validity of the patent. But the Court found that the 1955 licensing contract

is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.¹⁰

Therefore, the licensee should not be required to pay post-1960 royalties if it can prove patent invalidity, since to do so would be inconsistent with federal patent policy. The problem of pre-1960 payments was sidestepped, on the basis that it was really an issue of state contract law, with only the

⁵ *Id.* at 668.

⁶ *Id.*

⁷ *Id.* at 670.

⁸ *Id.*

⁹ *Id.* at 670-71.

¹⁰ *Id.* at 673.

admonition that state courts "reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors."¹¹

The Court's decision on the estoppel question is hardly surprising. Although it might be argued that one who receives the benefit of a thing should not be able to attack the underlying source of that benefit, this argument does not seem to bear up in the patent licensee case. If, in fact, the idea is part of the public domain, the licensee should have free access to it, just as would one who had not contracted with the patentee. But if the idea is new and thus unique, the licensee will be obliged to pay for its use in any event. To disable him from questioning the uniqueness of the idea is to abridge a concept which has become basic to the American economic scheme of things, the anti-monopolistic free enterprise system. Because the patent is—since the turn of the century at least—an exception to this policy, it apparently must be required to carry a heavy burden of self-justification.

B.L.A.

Terminal Accident — Stairway Condition — Constructive Notice

This was an action for personal injury arising out of a fall on an interior stairway at an Israeli airport. The plaintiff was a member of a tour arranged by one of the defendants, Unitours, a domestic travel agency. Passage was provided by the co-defendant, El Al Airlines, a foreign air carrier, which had leased space in the terminal. At the time of the accident plaintiff was unaccompanied by any agent or servant for either defendant. While awaiting his delayed flight, he was invited by the defendant airline to have a complimentary breakfast on the mezzanine level of the government-owned terminal. The plaintiff ascended to the upper level by an interior stairway that was neither part of the area leased by, nor under the control of, the defendant airline. Twenty minutes later plaintiff slipped on an unidentified foreign substance while descending the same stairway. In a pretrial examination the plaintiff testified that he failed to notice any hazardous condition when ascending the stairway. *Held*: An airline which leases space in a terminal or a travel agency which organizes a tour in conjunction with such an airline does not have constructive notice of all hazardous conditions in the terminal. *Warshavesky v. El Al Airlines and Unitours, Inc.*, 161 N.Y.L.J. 57-2 (N.Y. Sup. 1969).

¹¹ *Id.* at 675. Mr. Justice White wrote a separate opinion in which he concurred with the majority in part. Basically his objection is that the question of collection of royalties due under a contract rooted in state law was not properly before the Court and thus should not have been decided. Mr. Justice Black wrote a third opinion, joined in by The Chief Justice and Mr. Justice Douglas, in which he dissented from the Court's disposition of the question of state enforcement of the contract between the parties. By reserving judgment on this issue, the Court ignores a basic element of federal patent law, to wit, that a state may not enforce a monopolistic use of an idea unless a valid patent has been issued.

Before the New York Supreme Court for New York County the defendant moved for summary judgment dismissing the personal injury negligence actions against them. The motion was granted on the basis of the pretrial examinations and documents submitted as evidence which revealed insufficiency of proof. The plaintiff failed to establish that either defendant had caused the stairway condition or had actual notice of such condition, for his own testimony established that the alleged dangerous condition had existed less than twenty minutes in an area of the terminal not under the airlines control. Thus, the court reasoned there was no triable issue regarding constructive notice to the defendants. Moreover, the plaintiff's charge that some unspecified conduct by the airline was responsible for the dangerous condition was held to be not a triable issue without the complaint alleging a cause. Since Unitours acted only as a servant to plaintiff and not a guarantor of his safety while on the foreign tour, the court reasoned that it was not required to constantly accompany its tour members.

J.L.C.

Conflict of Laws — Maritime Tort — Significant Contracts Doctrine

On 16 August 1965 a United Air Lines jet crashed in Illinois territorial waters killing everyone on board. Representatives of several decedents brought separate wrongful death actions against United in the Supreme Court of New York County. Although the court recognized that the actions were maritime in nature, it held that the New York wrongful death statute—the law of the forum—was applicable. Subsequently the four cases were appealed to the Appellate Division and considered together because of the common questions of law and fact. There the court reversed the lower court's decision and held that the plaintiff's actions were "controlled by principles of maritime law,"¹ not the law of the forum; thus the state wherein the accident occurred, Illinois, had "sovereignty over deaths caused by [these] maritime torts."² Since the Illinois wrongful death statute limited recovery to \$30,000, the plaintiffs' appealed the question of damages to the New York Court of Appeals. *Held, reversed*: Although the crash of a plane in state territorial waters is a maritime tort, "the court is not precluded from determining which of the competing wrongful death statutes should regulate particular actions"³ arising out of the accident. Therefore, in actions arising out of a maritime tort, the wrongful death statute of that state having the most significant contacts

¹ 11 Av. Cas. 17,121 (N.Y. Ct. App. 1969), *cert. denied*, 38 U.S.L.W. 3220 (U.S. Dec. 15, 1969).

² *Id.* See Comment, *Aviation Challenges Admiralty Jurisdiction: Sink Or Swim In The Sea Of Uncertainty*, 35 J. AIR L. & COM. 629 (1969).

³ 11 Av. Cas. at 17,123.

with the parties and the issues involved may be applied instead of the wrongful death statute of the state in whose territorial waters the tort occurred. *Thomas v. United Air Lines*, 11 Av. Cas. 17, 121 (May 28, 1969).

Even though the court reasoned that the "locality test" is not the only one for establishing admiralty jurisdiction over actions arising from torts committed in state navigable waters, it rendered its decision based on the dictum in *Scott v. Eastern Air Lines*.⁴ In *Scott* the Court of Appeals for the Third Circuit held that, while the action was a maritime tort within the meaning of *Weinstein v. Eastern Air Lines*⁵ ("locality test"), maritime law does not require the indiscriminate application of the law of the state where the tort took place. It looked to the Supreme Court's decision in *Lauritzen v. Larsen*⁶ as providing proper guidance for the applicable law. In applying the law of Pennsylvania over the law of Massachusetts, situs of the maritime tort, the appellate court held:

Admiralty courts, like state courts, have an obligation to refrain from applying a rule when its application would be inappropriate, if not inequitable, to apply the law of Massachusetts to this case simply because Eastern's aircraft happened to crash into that state's navigable waters.⁷

The court's decision in the instant case is not surprising in light of the strong persuasion and thorough analysis presented by the court in *Scott*. However, the question will not be settled until more decisions are handed down in other circuits or by the Supreme Court.

W.A.S.

⁴ 399 F.2d 14 (3d Cir.), cert. denied, 393 U.S. 979 (1968). See Note, *Conflict of Law—Maritime Tort—Significant Contact Theory*, 34 J. AIR L. & COM. 651, 655-59 (1968); Comment, 35 J. AIR L. & COM. at 631.

⁵ 316 F.2d 758 (3d Cir.), cert. denied, 375 U.S. 940 (1963). See Note, 34 J. AIR L. & COM. at 653-54; Comment, 35 J. AIR L. & COM. at 621.

⁶ 345 U.S. 571 (1953). See Note, 34 J. AIR L. & COM. at 658-59; Comment, 35 J. AIR L. & COM. at 630-31.

⁷ 316 F.2d at 28-29.