new isoplanar MOS) while Harris was licensed for the full range of Fairchild processes.

Both licenses are world-wide except for Japan, and Mr. Borovoy explained that this was because they were negotiated before the new arrangements were agreed upon with the Japanese companies. In the wake of those arrangements, he said Fairchild planned to negotiate new licenses with its domestic partners that would permit them to operate in Japan.

In addition, the Harris agreement excludes circuits sold to U.S. government agencies.

Fairchild also reported last week that it was discussing new stock offering with one of its debenture holders. The holder, which the company would not name, holds $10 million in 5-3/4 per cent convertible subordinated notes due in 1989.

These notes are convertible into Fairchild common stock the rate of one share for each $78.87 of the principal amount of the notes. Fairchild's plan is to file a registration statement covering the public sale by the holder of some 124,000 shares into which the notes are convertible. This would not happen until the first quarter of 1974, the company said.

Tom Arnold

SHADOWS DO NOT FIGHT

by
*Tom Arnold**

(A commentary reconciling trade secret and patent law. cf *Kewanee* and *Goldstein*)

INTRODUCTION

"We must be especially wary against the dangers of premature synthesis, of sterile generalizations, unnourished by the realities of law in action."

Mr. Justice Frankfurter

Harshaw Chemical division of plaintiff Kewanee Oil, alone among all its competitors, knew the process techniques by which to grow 17 inch scintillation crystals. Twenty of the techniques, in use for over a year and not patented, were within the patentable class of subject matter under 35 USC S 101 and were also protectable as trade secrets under Ohio State law. Six former Harshaw employees, all bound by employment contracts, formed and went to work for *Bicron*.

Said the court, when Kewanee sued Bicron: "There can be no question on this record but what these individual defendants appropriated to the benefit of Bicron Harshaw's secrets, processes, procedures and manufacturing techniques." — And in violation of their contracts.

However: Patent law "policies" preempt such contracts as to all secrets in use for one year. Note that all the really valuable trade secrets are used for much more than one year. Typically they are used less in the first year when both technical and market development may be at their peak, than in several subsequent years, when the market is at its peak. So *Kewanee* preemption is generic to the major dollar value of all technology whose uses have been determined sufficiently for it to be valuable, and whose value is sufficiently proven for it to be the subject of a contract.

The *Kewanee* case is now before the Supreme Court for review. What has the Supreme Court said on the topic? Earlier this year, in *Goldstein v. California*, the Supreme Court in dictum wrote that the patent law preempts all law protective of "mechanical configuration." That phrase "mechanical configuration" was used in a context where it more likely meant "all applied technology," chemical and electrical as well as mechanical. And the Supreme Court's expression had no one year limitation.

What kinds of contracts are affected by these cases? *First: The contract for R. & D.* Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent laboratories or universities. A typical contract, might read: "Company shall pay $500,000 for R & D by Lab. Lab shall disclose and assign the results of R & D to Company. Neither Lab nor its employees shall disclose to competitors of Company or use competitively for ten years, the results of R & D paid for by Company." Since contracts for obligations of confidence are preempted by the rule of *Kewanee* and *Goldstein* that last clause is a nullity. By the *Kewanee* rule the R & D Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. By the *Goldstein* rule, they need not wait a year. Further, note that the patent law is said to preempt *all* trade secret obligation of confidence relating to applied technology appropriate for patent law consideration. Thus, not only lab employees, but the Lab itself is free to disclose the results to competitors — perhaps for a little cash. Or the Lab can set up a subsidiary to compete with the customer for whom it did the work.

Consider next: Supply contracts: Supply for manufacture by a supply contractor, with roprietary know-how of the customer, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example: Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's commercial operation. Compay now wants to equip all its plants throughout the world with the new autoclave reactor, wants to contract for their manufacture by an autoclave manufacturer. The contract typically takes the form: "Company discloses detailed process-specification for new secret reactor to supply contractor. Supply contractor agrees to keep the specifications secret, to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account." But the supply contractor's employees cannot, be bound by the last sentence of the contract. Nor can the supply contractor. Once supply contractor knows the specs, it is invited by the rule of preemption of "mechanical configuration" to seek in to sell the new reactor to all carbon black manufacturers. That, in the phrase of the Supreme Court in *Goldstein*, is the "carefully balanced" public policy of the patent law.

The subcontract: The subcontract by which General Contractor A subcontracts to Subcontractor B is the making of various items pursuant to confidential know-how developed by General Contractor A, is a contract commonly used in our society to an order of magnitude surely exceeding tens of millions of dollars annually. It is a sort of supply contract, as fully defeated by the preemption rule as the autoclave supply contract already discussed.

The know-how license contract: Says the Department of Commerce — "The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude." Individual licenses for chemical processes and related plants, have in the decade of the 60's gone at prices quite often in the multi-million dollar range. But under the preemption rule, to offer to sell your know-how, to offer a license for valuable know-how at an appropriately big price, is an invitation to your offeree to come raid for key technical employees, thereby to get (for a couple of $25,000 bonuses to the key employees) what otherwise would cost perchance several hundreds of thousands of dollars, or perhaps millions, in a know-how license.

Under the rule preempting "mechanical configuration", know-how licenses which heretofore moved in the billions of dollars per year order of magnitude, can never again be offered freely in the market, cannot move in the market place at prices commensurate with the value of the know-how. Competition resulting from such licenses must dissipate. The foundation stone of all economics, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

Access to foreign technology: United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the *Kewanee* rule. But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. cliensee cannot be bound to honor the obligation of confidence — nor thereby can the U.S. licensee be held accountable. For a German steel company to license a U.S. steel company in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies, all raid the U.S. company's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. Thus, the preemption rule forces the German Company to refuse to license U.S. buyers of technology. Moreover, the raiding by the several competitors, of the employees of the one licensee, may conceivably be faster than the U.S. employees' learning rate. So the U.S. licensee may never get effective operating knowledge of what is paid for, even if it could get the license. The preemption rule is thus seen severely to deter U.S. industry's access to foreign technology.

I am acquainted with one case already where a series of employee raids by several competitors delayed for years a major multimillion dollar development by the big company, because its development employees were raided as fast as they learned enough to do the development work. Society suffered the loss of this development for some years, as a direct result of excessive employee raiding.

Know-how sale to foreign purchasers; our balance-of-payments deficit: United States industry now receives payments of the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the preemption rule. At a time when the U.S. balance-of-payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations. But under the preemption rule the potential foreign licensee will pay a few $10,000 bonuses to key employees, set them up in Cleveland or Las Vegas, teaching what they know, and get sometimes 80% of the same know-how they now pay hundreds of thousands and millions for. The preempemption rule would be a significant blow to the nation's effort to restore a favorable international balance-of-payments.

Thousands of corporations have outstanding hundreds of thousands of contracts protective of trade secrets, — contracts with their employees, with outside R & D Labs, with subcontractors, with suppliers, with know-how licensees. Never have so many had their arrangements nullified by so few.

The law of preemption by the patent law was made in *Singer, Kellog, Scott, Sears, Compco, Lear,* and now the *Kewanee* and *Goldstein* cases. Not one of them was a trade secret case. Not once in a preemption context has trade secret law and practice been briefed to the Supreme Court. Neither Congress nor the courts have ever considered the pragmatic economics of trade secret law in action. But the line of preemption cases has now grown so long, that a justice and even the patent bar seems resigned to accept it, unmindful of both legislative and judicial history to the contrary.

The state of New York once granted a state patent to Fulton and Livingston on the steamboat. That patent was litigated to the United States Supreme Court in a case every one of you studied in law school. Daniel Webster for the infringer, and the attorney general of the United States, amicus, in support of the infringer, both opposed a Mr. Oakly for the state patent owner. The arguments on federal patent law preemption of state patent law, go on for forty pages or more of the original report of the case. Mr. Justice Marshall, perhaps the greatest activist of our judiciary's history, wrote for the court. The Fulton and Livingston New York state patent on the steamboat, was *not* held preempted by the federal patent law. The Supreme Court said that it could not be enforced as against interstate commerce because of the commerce clause. But the state patent lived on to be litigated yet again another day, as against intrastate commerce. That is a case studied by every licensed lawyer in the United States, the name of which is known to every lawyer in the United States. But we tend to forget its lessons, its arguments. That case is Gibbon v. Ogden.

Well, if patent law preemption of trademarks in *Singer* and *Kellogg* is wrong . . . if patent and copyright law preemption of light fixture designs in *Sears* and *Compco* is wrong . . . if copyright law preemption of record piracy in *Goldstein* is wrong . . . *What* is right?

The Supreme Court pointed the way in *Mazar v. Stein,* in 1954. There the Supreme Court discussed at some length the different scope of copyright protection (protection only against copying) and of patent protection (protection against use of the same concept whether copied or independently developed). There the issue was whether the patent law preempted the copyright law in protection of the artistic design of a lamp base. The court held that the availability of patent protection did not preempt copyright protection.

There is a common-law right to copy and use. The rule is subject to exceptions. Each of the exceptions is like a shadow, cast from its own light, of social purpose. Each shadow is of different shape, a different scope, and different life time. The shadows of the copyright to exclude others, the patent right to exclude others, trade secret right to exclude others, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold, for the same design (perhaps for a lamp fixture) may be copyrighted, may be patented, may be a trade secret until it is marketed, may be used as a trademark. But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, scope or term of the patent shadow. If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may in many circumstances be no longer confidential so the shadow of trade secret right is withdrawn — without affecting the longer lasting patent right. When the patent expires the patent right to exclude expires, — but no other right to exclude expires or is suggested in the patent statute to expire. If the trademark still functions properly as a trademark, why should not the social purpose of the trademark law survive the expiration of the patent? If after the 17th year of a process patent the owner at great expense develops a new and cheaper way to practice the same patented process, his right of freedom from theft of his new secret and from breach of trust and confidence, can continue out of the social purpose of equity, honesty and good faith, independent of whether or not the social purpose of the patent law is thereby served.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: each right to exclude expires with the running of its *own* social purpose. No *other* right to exclude should be affected by the expiration of one social purpose, just as each shadow being taken away may leave the others, one or more, not fighting.

There is merit in letting the social purpose of the patent law limit the scope and term of the *patent* right to exclude *and that only;* letting the social purpose of the trademark law limit the term of the trademark right to exclude, *and that only;* letting the social purpose of the tort law limit the scope and term of the trade secret right to exclude.

Perchance, *Kewanee* now on certiorari before the Supreme Court will be the vehicle by which we all learn: Shadows do not fight.

I have been commissioned by LES, the Licensing Executives' Society, to write a major-works type brief, specifically to write a complete reference tool for Supreme Court. The LES brief will cover the subject thoroughly. The brief for LES will follow the theme which I have reported to you here.

**Tom Arnold is a member of the firm Arnold, White, & Durkee. He is also the incoming secretary of LES.*

LICENSINTORG MEETING

by
*Mr. I. N. Solomatin**

Ladies and Gentlemen:

May I take the liberty to thank you all for coming here to get acquainted with Licensintorg activities.

As you know, the volume of international trade has been continuously increasing during the past years. To a great extent this has been due to the fact that new finished products have been more and more involved in the goods turnover, their output being in a direct connection with the scientific and technical progress. Another important component of this international trade volume is the selling and buying of licenses for the results of research and development. This international trade in licenses has been brought about by the expansion and intensification of the scientific research and development of today, for which considerable capital investment is needed. This is so, even for the most developed country in the world with the considerable financial and manpower resources at its disposal since it would be unable by itself alone to provide for adequate scientific research and development in all the many areas of the fundamental and applied research on a simultaneous basis, or to improve and modify the techniques being emloyed in all the industrial areas existing today. The aggregate efforts of the many technologically developed countries are absolutely indispensable in solving all the associated problems. As such, the justification and the necessity for expanding international lienses trading in the results of research and development and those of scientific and engineering experience is easily understood.

Such trading is of mutual advantage and encourages the technical progress of the world. We presume it would be quite appropriate to recall George Bernard Shaw hero who said the following:

"If you have an apple and I have an apple and we exchange them, we shall have an apple each. If you have an idea and I have an idea and we exchange them each of us will have two ideas".

Under the Soviet system our country has succeeded considerable in the economy, science and technology and at present the Soviet Union is, in effect, capable of meeting all its requirements for machines and equipment for various industries and agriculture.

In our country many industrial units being established nowadays are furnished with complex automation and mechanization systems based on the most modern technology and equipment developed by the Soviet scientific and research institutions. Other advanced technical systems come from the industrial organizations and the design bureaus where a considerable quantity of rather unique designs of the machines, equipments, apparatus and technological processes as well have been developed.

Both the designs and the processes have been favorably acknowledged by the Soviet and foreign technicians. At present all the fields of our industry have reached such a technical level that new ideas and inventions can be easily expected to emerge therein, and there is no doubt of the great interest in these developments for various foreign companies.

In recent years the USSR economic, scientific, technical and industrial relations with other countries have been increasing and many Soviet organizations through V/O "Licensintorg" have become exporters of the Soviet inventions and technical achievements to various countries of the world.

V/O "Licensintorg" established in 1962 concentrates its business activities in license trading. It is a juridical person and runs its business in conformity with its principal statute approved following the appropriate governmental regulations. In accordance with said statutes V/O "Licensintorg" is financially responsible for all its activities. The Government is not responsible for trading deals and other transactions effected by V/O "Licensintorg". "Licensintorg" is entitled to make foreign trade deals with various foreign organizations and companies in the USSR and abroad as well.

V/O "Licensintorg" is an organization established to effect license selling for Soviet inventions developed by the scientific and research institutes and industrial enterprises in all the production areas of our industry. V/O "Licensintorg" undertakes to render technical assistance to the buyers of the licenses. Said assistance covers transfer of know-how in the form of technical documentation, manuals, instructions, etc., granting of the rights to utilize patents; also to render technical assistance by training licensees and technicians at the USSR en terprises; sending of the Soviet technicians to the enterprises of our licensees to assist in acquiring the relevant skill for more effective use of the license.

Should the buyer of our processes so desire V/O "Licensintorg" can, in certain cases, and on a commercial basis, undertake the execution of the design part and engineering by calling in a wide range of scientific, research and design institutions for the purpose.

V/O "Licensintorg" is also engaged in buying licenses for foreign inventions, scientific and research achievements in all the areas of industrial production. V/O "Licensintorg" buys and sells licenses on behalf of the Soviet industrial and other enterprises and institutions having been authorized by them to act in their names.

Licensintorg also offers its services in engineering, in the metallurgical and casting production in particular; in chemical technology and in other industrial areas by carrying out engineering contracts through foreign contractors, engaging in design and research work and technical consultation for establishing industrial units and for utilizing new technology, etc.

V/O "Licensintorg" is in a position to use the services of the scientific and research organizations, those of the USSR Academy of Science and of the Academies of the Soviet Republics. It can invite various industries and our experienced technicians and scientists to participate in solving technical problems connected with the commitments assumed by V/O "Licensintorg".

As for patenting Soviet inventions in other countries or foreign inventions in the USSR it is out of the sphere of V/O "Licensintorg" activities. Patenting is effectd through the Pat-