

1977

Time Commercial Financing Corp v. Carol
Brimhall, William Hesterman, Stephen D. Schultz
And Brimhall Products, Inc., A Corporation, And
4-Spectra, Inc And Walker Bank & Trust Company,
Administrator With The Will Annexed of The
Estate of Ray S. Brimhall, Deceased v. Brimco
Hydraulics & Engineering, Inc., A Corporat: On,
John B. Fairbanks, Jr., And Western Research And
Manufacturing Company : Appellant's Reply Brief

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IN THE SUPREME COURT OF
THE STATE OF UTAH

TIME COMMERCIAL FINANCING CORP.,
a Utah corporation,

Plaintiff-Appellant,

vs.

CAROL BRIMHALL, WILLIAM HESTERMAN,
STEPHEN D. SCHULTZ and BRIMHALL
PRODUCTS, INC., a corporation, and
4-SPECTRA, INC.,

Defendants-Respondents,

and

WALKER BANK & TRUST COMPANY,
Administrator with the Will annexed
of the Estate of Ray S. Brimhall,
deceased,

Defendant-Respondent and
Third-Party
Plaintiff,

vs.

BRIMCO HYDRAULICS & ENGINEERING, INC.,
a corporation, JOHN B. FAIRBANKS, JR.,
and WESTERN RESEARCH AND MANUFACTURING
COMPANY,

Third-Party Defendants-
Respondents.

Case No. 15136

FILED

SEP 26 1977

APPELLANT'S REPLY BRIEF

Clerk, Supreme Court, Utah

(Continued on inside of cover)

Appeal from the Judgment of the Third
District Court for Salt Lake County
Hon. James S. Sawaya, Judge

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MISLEADING STATEMENTS BY DEFENDANTS-RESPONDENTS

Throughout defendants-respondents' Brief there are statements and assertions that tend to mislead.

The Statement of Facts presented by them is colored by the general statement, page 5:

"TIMECO resisted paying royalties accruing during the period prior to July, 1975.",

without supporting citation to the Record, and by the inflammatory and argumentative assertion:

"In consonance with its well established position of resisting payment of royalties...".

Plaintiff-Appellant (TIMECO) instituted this lawsuit for the purpose of adjudicating conflicting contentions of the parties with respect to the patent rights concerned and seeking an injunction against and damages for competition thought to be illegal in view of such patent rights (R 2-7, 92-100). Royalties had been paid long before July, 1975 by TIMECO's predecessor, Brimco Hydraulics & Engineering, Inc. (R. 608-609, 611), and were being paid by TIMECO subsequent to its acquisition of Brimco Hydraulics & Engineering, Inc.'s rights, subject only to determination of the conflicting contentions of the parties (R. 612, 622). It was only when TIMECO's attorney obtained information as to Kenworth's (customer of adverse licensee Brimhall Products Co. but formerly customer of Brimco) stand on invalidity of the

Brimhall "Cab Latch" patent (R. 544-562) that TIMECO resisted further royalty payments on that cab latch under the U.S. Supreme Court doctrine of Lear v. Adkins, 395 U.S. 653 (1969). Such resistance has no relevancy to this appeal, since the question is solely whether royalties are payable on the cab latch patented to Messrs. Nordell and Kimball (the so-called "black cab latch"). Royalties have been fully paid and are being paid on a continuing basis for all Brimhall "Cab Latches" and "Valve Systems" sold by TIMECO.

Defendants-Respondents assert (page 6) that, by Judge Croft's decision of May 2, 1977, (R. 823-825) their Exception to the Sufficiency of the Bond (R. 808-809) was sustained, without making it clear that Judge Croft was concerned only with the supersedeas aspect of the matter relative to a stay of proceedings in the lower court. The proceedings were not stayed and are continuing in the lower court from the accounting standpoint and to determine defendant-respondents' liability for damages and possible off-set. Judge Croft was not concerned with the sufficiency of the undertaking under Rule 73(c) for costs of this appeal. As applied to defendants-respondents' arguments, the assertion is misleading and the fact recitation has no relevancy to this appeal.

Defendants-Respondents assert (page 7) that TIMECO itself asserts that its motion of January 31, 1977, was for a new trial under

Rule 59, and cite R-755 in support. This is positively misleading on an important issue. TIMECO has never asserted that its motion was for a new trial, and R-755 gives no support to defendants-respondents' statement. On the contrary, TIMECO stated in its Notice of Appeal (R-794-795) that the lower court "refused to alter or amend its order of January 24, 1977" in response to plaintiff's motion under Rule 59. Thus, the appeal was clearly taken under the provisions of Rule 59 (e), rather than under the provisions of Rule 59(a).

Defendants-Respondents imply (page 9) that the reason the undertaking by Messrs. Kimball and Nordell for costs on this appeal under the provisions of Rule 73(c) is insufficient is because they would be reluctant or unable to pay. However, no such reasons were set forth in the exception (R. 808-809) filed by them.

Defendants-Respondents assert (page 13) that TIMECO acknowledges that the trial court visually observed evidence at the hearing on December 22, 1977. TIMECO does no such thing. Any visual observation of physical exhibits was after the hearing and strictly off the record. As a matter of law, it could have played no part in the lower court's decision on plaintiff-appellant's motion.

On page 16, defendants-respondents make an absolutely false assertion to the effect that the court proceedings continued unreported without objection by TIMECO. Not only did TIMECO vigorously object

to any continuance of the proceedings upon departure of the court reporter, but the hearing was terminated forthwith.

On page 17, it is stated that:

"TIMECO also argues that the Trial Court should (emphasis added) have found that royalties are due under the exclusive license 'on any cab latch'".

This is not so. TIMECO's argument is that the lower court's decision is equivalent to a finding that royalties are due on any cab latch having superficial similarity to the Brimhall cab latch, and that such a decision has no legal justification.

ARGUMENT BY DEFENDANTS-RESPONDENTS

Notice of Appeal Fatally Defective

Defendants-Respondents argue that plaintiff-appellant's Notice of Appeal is fatally defective, because it appeals from the Order of April 11, 1977, rather than from the Order of January 24, 1977.

The Order of April 11, 1977 denied plaintiff-appellant's "Motion for Review and Withdrawal of Memorandum Decision and for Evidentiary Hearing". That motion was filed by plaintiff-appellant on January 31, 1977, and was not a motion for a new trial as said to be by defendants-respondents. Rather, in substance and effect it was a motion to alter or amend the judgment of January 24, 1977, as provided for by Rule 59(e) of the Utah Rules of Civil Procedure. Thus, plaintiff-appellant's motion effectively stayed the time for appeal from the lower court's order of January 24, 1977 as provided by Rule 73(a).

which states that the full time for appeal begins to run after an order "granting or denying a motion under Rule 59 to alter or amend the judgment".

Plaintiff-Appellant submits that its Notice of Appeal is not defective. It gives adequate notice of appeal based on the order of January 24, 1977, which order the lower court refused (by order of April 11, 1977) to alter or amend. The Notice of Appeal specifically sets forth the grounds of appeal as being the lower court's determination that plaintiff-appellant is liable "to pay royalties on a certain product".

The cases cited by defendants-respondents in support of their argument are not in point. Plaintiff-Appellant's motion of January 31, 1977, was not a motion for a new trial and the lower court's order of April 11, 1977, was not an order denying a new trial.

Insufficient Security on Appeal

Defendants-Respondents next argue that plaintiff-appellant's security on appeal is insufficient. They assert that Rule 73(c) requires a "bond" on appeal and that an "undertaking" does not satisfy the requirement of a bond. Rule 73(c) is entitled "Bond on Appeal" and Rule 73(d) is entitled "Supersedeas Bond". Rule 73(f), entitled "Judgment against Surety", states "The bond or undertaking (emphasis added) given pursuant to subdivisions (c) and (d) of the rule, shall, ...". This seems to clearly indicate that an undertaking is the equivalent of a bond

on appeal and will satisfy the requirements of Rule 73(c). It is noted that all the requirements of 73(f) are met by plaintiff-appellant's undertaking.

Further, the Clerk's Certificate (R. 1), which appears to be a standard form, uses the term "Undertaking on Appeal" and indicates that it was in "due form" and "properly filed".

Defendants-Respondents' "Notice of Exception to Sufficiency of Bond" filed with the lower court raised the technical objection based on semantics, but no other. The implication in their brief that the parties to the undertaking may not be willing to pay or may not be financially responsible, is entirely new, unsupported, and inappropriate to raise at this late date. As previously indicated, Judge Crofts' decision of May 2, 1977, was to the effect that Rule 73(b) and Rule 62(d) require a supersedeas bond in order for proceedings in the lower court to be stayed during an appeal. He ordered that proceedings below not be stayed pending this appeal and that a hearing be had to determine the amount of royalties due from plaintiff-appellant to defendants-respondents. His decision and resulting order had nothing to do with and in no way supports the position advanced by defendants-respondents herein with respect to the undertaking on appeal. It is submitted that plaintiff-appellant's undertaking is a proper cost bond under Rule 73(c).

Appeal Untimely

Defendants-Respondents also argue that plaintiff-appellant's appeal is untimely, since it was not filed within thirty days of the January 24, 1977 order. As previously pointed out, plaintiff-appellant filed a motion on January 31, 1977, which effectively stayed the period for appeal from the January 24, 1977 order, because it sought alteration or amendment of that order. The appeal herein was filed on April 13, 1977, two days after the denial (on April 11, 1977) of plaintiff-appellant's motion. The appeal is thus timely taken.

PLAINTIFF WAS NOT DENIED DUE PROCESS

Evidence Before the Court Sufficient

Defendants-Respondents point to the voluminous record in this case as indicating that the lower court had the necessary evidence before it to determine patent infringement. Yet, this case has involved many issues, and the voluminous record deals with all of these, except squarely with the question of concern here, i.e., whether or not the so-called "black cab latch" infringes any valid claim of the Brimhall patent. In this regard, during the hearing before the lower court on December 22, 1976, the court said (R 856-857):

THE COURT: May I make a very brief observation, and that is this: It seems to me if the issues become whether or not the black latch is one upon which royalties should be paid, then I assume it becomes a rather technical issue involving experts and patent-lizer (patent license) testimony type thing.

MR. ROSSA: I should hope not, your Honor.

THE COURT: Are you going to ask the Court to make comparisons just by observation, looking at both latches? (emphasis added)

MR. ROSSA: We have them here for the Court's inspection.

THE COURT: I understand you have. I am not the expert. (emphasis added)

These comments are most certainly an indication by the lower court that it did not have sufficient evidence to make a determination of infringement or validity. Moreover, the Findings of Fact (Para. 15, R. 609) establish plaintiff-appellant's implied exclusive license in terms of:

"...to make, use and sell devices covered by the claims of the 'Valve System' patent and 'Cab Latch' application..." (emphasis added).

There was no testimony, expert or otherwise, relating the claims to the physical structure of the "black cab latch".

Defendants-Respondents list eight items of alleged evidence before the lower court bearing on the question of infringement. As to these, it should be noted that Carol Brimhall Davis and Stephen D. Schultz are not patent experts and are not skilled in the field of patent law. Thus, their affidavits to the effect that the "black cab latch" infringes the Brimhall patent cannot be given any weight. David V. Trask is the attorney for defendants-respondents, and, as such,

cannot be regarded as an impartial expert witness. Significantly not included in the list is the affidavit of Philip A. Mallinckrodt of December 20, 1976 (R. 724-725), which specifically refutes the several affidavits alleging infringement and shows that there is a question of fact that should have been determined by the lower court on the basis of credible evidence. The "evidence" noted by defendants-respondents on pages 13 and 14 of their brief as "unreported" and "not part of the Transcript of record" was not evidence and could not legitimately have played any part in the decision. Judge Sawaya terminated the court proceedings and dismissed the reporter for other pressing duties before there was any observation of physical exhibits (R 863).

No Objection Offered in the Trial Court

Defendants-Respondents argue that at the end of the hearing on December 22, 1976, the matter was submitted for decision without reservation or objection by plaintiff-respondent as having been deprived of an opportunity to present evidence.

The hearing in question was on an ex parte order to show cause why plaintiff-respondent should not be held in contempt for failing to pay royalties as ordered and on a supplemental order for an accounting. Also considered at the hearing was plaintiff-respondent's Motion to Vacate such ex parte order on the ground that a motion for contempt is not a proper way of raising the issue of liability for

royalties on the so-called "black cab latch".

When the Nordell-Kimball patent was offered in evidence by plaintiff-appellant, the lower court said (R 856):

"On the issue of contempt, I would agree. It seems to me, however, that the principal issue... is whether or not the question of whether or not royalties should be paid for the manufacture and sale of the black latch... can be settled by a proceeding of this nature. I think that has to be determined before anything else is."

On that basis, plaintiff-appellant withdrew the proffered evidence with the comment that it may become pertinent at a later time. The lower court then proceeded to make its observation (R 856) quoted previously herein to the effect that if the issue became one of whether royalties should be paid on the "black latch" it would be a rather technical one involving experts and that he was not the expert who could make comparisons just by observation.

Defendants-Respondants then suggested demonstrating "the factual evidence" to prove that the cab latches in question are "virtually identical". This the lower court did not permit.

Thus, there was nothing for plaintiff-appellant to object to and no evidence that it could have offered relevant to the particular limited issue then before the lower court.

Presumptions Support Trial Court's Decision

It was on a strictly informal basis, after closing of court, that Judge Sawaya before leaving observed the cab latches which defendants-respondents had set up in the courtroom at the beginning of the hearing. No testimony was taken. All present treated the observation of the cab latches as strictly informal and off-the-record.

There is absolutely no basis in fact for the assertion by defendants-respondents that the proceedings continued unreported. The proceedings did not continue.

Defendants-Respondents assert that evidence pertinent to the questions involved on this appeal was submitted to the lower court at the hearing of July 12, 1973, which was unreported. However, it is clear from the cited portion of the record (R-264) that the hearing had to do with the Judgment and Findings of Fact and Conclusions of Law prepared and submitted by counsel, that the evidence was of a documentary nature, and that such evidence had nothing to do with the so-called "black cab latch".

As to the 993 pages of evidentiary testimony that are not before this Court (because they provided the basis for the Findings of Fact and Conclusions of Law which are part of the Record and otherwise have no bearing on the issues on this appeal), it would have been presumptuous for plaintiff-appellant to have designated those pages

for the Record. Defendants-Respondents undoubtedly did not do so because they recognized that none of those pages are relevant here.

THE DECISION BELOW HAS AN
ADEQUATE EVIDENTIARY BASIS

The Trial Court's Findings Are Adequate

Defendants-Respondents argue that it may be regarded as implicit that the lower court found that the "black cab latch" falls within the scope of the claims of Brimhall Patent No. 3,797, 882, but this in no way follows from the actual finding of the lower court that such accused cab latch "is of the type for which royalties are to be paid by the plaintiff to the defendants" (R. 869).

The lower court has consistently refused to consider questions of infringement and validity (R. 267, 580-581, 684, 858). Nothing was said by the lower court that indicates there was any change from this position in the making of its decision.

As was stated in the case of Trico Products Corporation v. Roberk Company, 369 F. Supp. 1146; 178 USPQ 589, 591 (D. C. Conn. 1973), which is cited by defendants-respondents on page 20 of their brief:

"In determining whether the defendant's accused device infringes, one of the fundamental tenets of the patent law is that nothing can infringe unless it trespasses on a claim. As Mr. Justice Brown explained in McClain v. Ortmyer, 141 U.S. 419, 425 (1891),

'*** nothing can be held to be an infringement which does not fall within the terms the patentee has himself chosen to express his invention.'

In other words, as succinctly summarized in *Aro Mfg. Co. v. Convertible Top Co.*, 365 U.S. 336, 339, 128 USPQ 354, 356-357, and n.4 (1961), '*** the claims made in the patent are the sole measure of the grant***'."

The Nordell-Kimball Patent Is Not Relevant

Defendants-Respondents argue that because the Nordell-Kimball patent was issued seven (7) months before issuance of the Brimhall Patent and because pending application are not considered by the Patent Office in examining another application by a different applicant, that the Patent Office did not have the Brimhall patent before it and that issuance of both patents does not attest to a significant difference between the two.

This is a ridiculous argument in the face of the fact, noted on page 10 of plaintiff-appellant's brief, that the existence and significant details of the Brimhall application were brought to the Examiner's attention in the later-filed Nordell-Kimball application (as was proper, and necessary to avoid a charge of fraud on the Patent Office). Pending applications are always available for inspection by any Examiner who may have an interest in doing so. If the differences pointed out in the Nordell-Kimball cab latch had not impressed the Examiner of that application as being sufficiently unique and significant to warrant

issuance of an additional patent, he could not have rejected the claims as unpatentable over the admittedly prior Brimhall cab latch. In view of the Nordell-Kimball reference to the Brimhall application by official Serial Number, it is reasonable to assume that the Examiner did inspect it in consonance with his duty to prevent the issuance of spurious patents.

Physical Observation Of The Products Is Sufficient

Defendants-Respondents continue to insist that the lower court made its decision on the basis of physical observation of the two cab latches in question. This it could not have done and did not profess to do. It used language for the minute entry (R. 754) and for its amended order (R. 869) that clearly indicates otherwise. It relied only on what was unchallenged, i.e. that the two cab latches are of the same type.

The cases cited by defendants-respondents as showing that expert testimony is unnecessary and that a court can decide the question of infringement and validity by mere observation are not appropo. Thus: Ronel Corporation v. Anchor Lock of Florida, Inc., 325 F. 2d 889, 140 USPQ 7, (CA5, 1963) dealt with a metal fastner which comprised a metal plate with projecting barbs for securing members together. The court compared this simple item having no moving parts with similar devices shown by prior patents and decided the patent at issue was invalid. The question of infringement was not reached. Interlago,

A. G. v. F. A. O. Schwarz, Inc., 400 F. Supp. 170, 187 USPQ 580 (N.D. Ga. 1975) dealt with interlocking toy building blocks, again having no moving parts, and made a similar holding of patent invalidity. Again, the question of infringement was not reached. Trico Products Corporation v. Roberk Company, supra, dealt with replacement blades for windshield wipers, again no moving parts. The court decided that no expert testimony was necessary to show that the accused structure did not infringe, because it clearly lacked structure recited in the patent claims.

In the present case, the lower court did not place its decision on observation of the two latches or comparison with the claims of the Brimhall patent. Moreover, the cab latches in question are relatively complicated, with moving parts actuated hydraulically. Obviously, they are of the same type, but there are significant structural and functional differences.

PATENT VALIDITY AND INFRINGEMENT

Defendants-Respondents insist that plaintiff-appellants seek to convert a post-judgment proceeding into a patent infringement lawsuit which is exclusively under Federal jurisdiction. Yet, in suits involving whether or not royalties were and are due, Federal courts themselves have rejected jurisdiction in favor of State courts.

Thus, in the recent case of Milprint, Inc. v. Curwood, Inc., 422 F. Supp. 579; 192 USPQ 769 (DCE Wisc. Feb. 24, 1977), the Federal court dismissed a complaint seeking a declaratory judgment of noninfringement and patent invalidity. The Federal suit was brought by the defendant in an action in the State court for royalties due under a license agreement. A motion to remand to the State court was granted. The Federal court said, Page 772:

"Furthermore, there is no question that contract actions based on patent license agreements and involving defenses of patent noninfringement or invalidity may be brought and maintained in state court. Lear v. Adkins, 395 U.S. 653, 162 USPQ 1(1969), and Product Engineering and Manufacturing, Inc. v. Barnes, 424 F. 2d 42, 165 USPQ 229 (10th Cir. 1970)."

Patent Validity is Res Judicata

In arguing that the question of patent validity is res judicata, defendants-respondents forget the fact that plaintiff-appellant's Motion for Summary Judgment of Patent Invalidity of May 27, 1974 (R. 564) had nothing to do with the question of infringement by the so-called "black cab latch" and was dismissed solely on the ground that it was not timely filed (R. 581).

There has been no adjudication of the question of validity, nor could there have been, except by a granting of plaintiff-appellant's Motion holding the Brimhall patent invalid. The Motion was not granted and the question of validity remains a viable one for consideration by

the trial court along with the question of infringement.

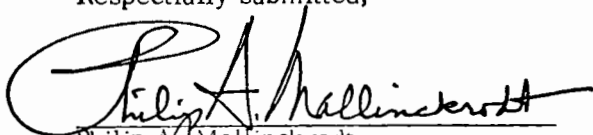
In this connection, it should be noted that the court in the Trico case (supra), after finding the patent not infringed, went on to consider validity and found the patent invalid. It said in footnote 6:

"Consideration of the validity of the Lenz patent is required so that the public interest will be adequately protected. Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F. 2d 555, 557, 165 USPQ 355, 356-357 (5th Cir.), cert. denied, 400 U.S. 956, 168 USPQ 1(1970)."

Patent Infringement Inferred

Contrary to the assertion by defendants-respondents, there was no finding by the lower court -- inferentially or otherwise -- that the so-called "black cab latch" falls within the scope of the Brimhall patent. Because there was no such finding, plaintiff-appellant has taken this appeal on the ground that it was reversible error for the lower court to find that such "black cab latch" does fall within the scope of the Amended Decree of July 30, 1975.

Respectfully submitted,


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