ANTITRUST LAWS AND PUBLIC POLICY
IN RELATION TO PATENTS

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The purpose of this paper is to briefly review, first, basic antitrust, misuse and other public policy considerations as they relate to patents and patent agreements, and secondly, techniques and related problems of correcting or purging illegal activities.

As a general proposition, if a patent owner is operating within the scope of his patent right, he is protected in his activity. Conversely, if he is operating outside of the scope of his patent right, his activity is unprotected by the patent laws. In connection with unprotected activity, a patent owner is confronted, not only with the antitrust laws (see Appendix) but also with the patent misuse doctrine.¹ Under this doctrine, a patent owner is barred from enforcing a license agreement containing a restriction that is outside the scope of the licensed patent.² A patent owner is also barred from obtaining relief for either contributory or direct infringement of any patent that is being used to support activity that is outside the scope of the patent grant.³ The judicial view underlying this doctrine is that the improper

¹ This doctrine evolved from the decision in Motion Pictures Patent Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917), and its underlying theory was outlined in detail in Morton Salt Co. v. Suppiger, 314 U.S. 488 (1942).
² Radio Corporation of America v. Lord, 28 F.2d 257 (3rd Cir. 1928).
and unprotected activity serves to extend unjustly the scope of the limited patent monopoly. The misuse doctrine has been considered applicable to such diverse activities as those relating to tie-ins,\(^4\) price fixing,\(^5\) exclusive dealerships,\(^6\) intentional patent mismarking,\(^7\) restrictions on the use of competitive products or processes,\(^8\) and discriminatory pricing.\(^9\)

An important, but unsettled question is whether every misuse of a patent is a violation per se of the antitrust laws. From broad pronouncements of the Supreme Court,\(^10\) one might conclude that the answer to this question is "Yes." However, the better view, and one which is supported by the Attorney General’s Committee that studied the antitrust laws, is that every patent misuse is not automatically a violation per se of the antitrust laws.\(^11\)

Many types of restrictions, limitations and conditions have appeared in patent agreements. Typical provisions which will be examined concern price, territory, quantity, style, customers, royalties, grantbacks, and tying arrangements.

First, consideration will be given to these restrictions and limitations as they may appear in manufacturing licenses.

With respect to price fixing, the Supreme Court held in the 1926 *General Electric* case\(^12\) that a licensor could properly exercise control over the price at which licensed articles were to be sold by its manufacturing licensee. However, in subsequent decisions,\(^13\) the *General Electric* rule has been considerably circumscribed and at

present the status of price fixing by license agreement is uncertain. It is doubtful that price fixing can be sustained except in the following circumstances:

1. The licensor sells patented products in competition with its licensee;\(^\text{14}\)
2. The price established by the licensor applies to patented products only;\(^\text{15}\)
3. The licensor establishes and enforces the price independently of its licensee;\(^\text{16}\) and
4. Price control is exercised by the patent licensor over one licensee only.\(^\text{17}\)

In the Gypsum case,\(^\text{18}\) which is illustrative of price fixing cases, the Gypsum Company, owner of numerous patents relating to various types of gypsum board and dominant in the industry, entered into patent license agreements with its competitors each of whom knew that other competitors were entering into substantially identical agreements. Each licensee agreed to pay as royalty a stipulated percentage on the selling price of all plaster board and gypsum wallboard of every kind whether or not made by patented processes or covered by product claims, and further agreed not to sell patented wallboard to manufacturing distributors unless the Gypsum Company gave its consent as to each prospective purchaser. The Gypsum Company reserved the right to fix the minimum price at which each licensee sold wall board embodying the licensor's patents. Pursuant to this reservation, the Gypsum Company issued bulletins which defined in detail both the prices and terms of sale for patented gypsum board and adopted a basing point system of pricing. Discounts to jobbers were eliminated by the Gypsum Company and the former were effectively forced out of business. Licensees who sold plaster together with patented board were required to sell plaster at prevailing prices and not at any discount. To insure compliance with the price bulletins and to receive complaints from licensees about violations of price bulletins, the Gypsum Company established a wholly owned subsidiary named

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Board Survey, Inc. The Gypsum Company and the licensees ceased manufacturing unpatented gypsum board after the license agreements were executed. In view of the foregoing, the government charged that the Gypsum Company and its licensees had violated both sections 1 and 2 of the Sherman Act by a conspiracy to restrain and monopolize interstate trade in gypsum products. Upon conclusion of the government's case, the trial court granted defendants' motion to dismiss the complaint, but the Supreme Court reversed and remanded the case for further proceedings. On remand, the trial court granted the government's motion for summary judgment, and the Supreme Court affirmed.

Limitations relating to the territory in which a manufacturing licensee is authorized to practice a patented invention have been held consistently by the courts to be within the patent laws. In fact, the Patent Code specifically provides that a party may "convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."  

In the Becton case, wherein territorial restrictions were approved, American Stainless Steel Company, owner of United States patents for an alloy producing so-called stainless steel, granted to Cottrell & Co., of London, England, an exclusive license to import into and sell in the United States hypodermic needle tubing made of the patented alloy. Subsequently, Cottrell and the appellant entered into a contract under which appellant was granted the right to sell hypodermic needles made of the patented alloy throughout the Western Hemisphere and Cottrell agreed to supply the appellant's entire requirements for hypodermic tubing and not to supply hypodermic needles or tubing for the manufacture of such needles to any other person or concern in the Western Hemisphere (with certain exceptions). Appellee, a manufacturer of hypodermic needles, being unable to obtain tubing of satisfactory hardness from United States mills, sought, but was unable to obtain, tubing from Cottrell in England. Appellee then brought suit charging that the contract between appellant and Cottrell was an unreasonable restraint of trade and that because of it appellant had an unlawful monopoly of the entire supply of stainless steel tubing suitable for hypodermic needles in the United States. The Court of Appeals, however, concluded that the contract in question was within the scope of the patent monopoly and did not offend the antitrust laws.

In the area of quantity control, the courts have been quite liberal in permitting a patent owner to impose, direct or indirect, production limitations on the number of patented articles that the licensee may make.\textsuperscript{22}

Style and customer restrictions, although sometimes grouped together and collectively referred to as field of operation or field of use restrictions, will be discussed separately.

In the case of style restrictions, the courts have generally held it permissible for a licensor to grant a limited license to use the patented invention in making only specified styles of a product and to exact a covenant from the licensee that it will not make any styles of the patented product other than those licensed.\textsuperscript{23} Basically, such a covenant is merely an agreement by the licensee not to infringe upon the licensed patent in unlicensed fields. Contrastingly, the courts have not permitted licensors to exact a covenant from a licensee that he will not make, use, or sell any product that is competitive to the licensed subject matter. This type of limitation, which concerns a licensee's activity with devices not covered by the licensed patent, exceeds the scope of the patent grant. Such restrictions have been held to be a misuse of the licensed patent and illegal under section 1 of the Sherman Act.\textsuperscript{24}

Simple restrictions concerning the customers to whom the patent licensee may sell patented devices have been treated by the courts as being within the patent right. Thus, it has been held proper for a licensor to restrict its licensee to selling patented devices solely to customers who will use the patented device for certain described purposes,\textsuperscript{25} to customers who will use or resell the patented device in a specified territory,\textsuperscript{26} or to customers who are of a designated trade classification.\textsuperscript{27}


\textsuperscript{25} General Talking Picture Corp. v. Western Electric Company, 304 U.S. 175 (1938).


\textsuperscript{27} Sinko Tool & Mfg. Co. v. Casco Products Company, 89 F.2d 916 (7th Cir. 1937).
With respect to royalty conditions, it is generally permissible for a licensor to use almost any base in the determination and computation of royalty payments. Thus, royalty payments may be measured by the number of patented articles produced by the licensee, the amount of raw materials used by the licensee in producing the patented article or on a percentage of the licensee's total sales whether including licensed inventions or not.\(^{28}\) In the *Automatic Radio* case, \(^{29}\) the Supreme Court indicated that it is permissible to exact royalties for the *privilege of use*, as well as for the *actual use* of the patent right.

Whether a licensor can properly contract for the payment of royalties beyond expiration of the licensed patent is at present unsettled. In the *Ar-Tik Systems* case, \(^{30}\) for example, the Third Circuit Court of Appeals ruled that an agreement which required a licensee to pay royalties for the use of a patented frozen dessert machine beyond the patent expiration date was illegal and unenforceable. The Court of Appeals held, in effect, that royalty payments for the use of an invention upon which the patent had expired are unrelated to the use of an existing patent right, that under the patent laws the invention of an expired patent should be available for unrestricted exploitation by everyone, and that the patent laws preclude a patentee from extending or continuing the benefits of a patent monopoly beyond its expiration.\(^{31}\) The court relied primarily on the authority of the Supreme Court decision in the *Scott Paper* case, \(^{32}\) wherein it was held that the assignor of a patent is not estopped, by virtue of his assignment, to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art,


\(^{31}\) See also: *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3rd Cir. 1959), wherein the court stated: "We conclude also, and quite apart from all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue in full force and effect to the expiration of the last to expire of any of Securit's patents set out in 'Schedule A' constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit." But compare *Well Surveys, Incorporated v. McCullough Tool Company*, 199 F. Supp. 374, 395 (N.D. Okla. 1961).

expired patent. However, in other cases, including *Thys Company v. Brulotte*, courts have rendered decisions directly contrary to the decision in the *Ar-Tik Systems* case. Since the United States Supreme Court granted certiorari in the *Thys Company* case on February 17, 1964, the conflict presented by the *Ar-Tik Systems* and *Thys Company* cases may be ultimately resolved in the near future.

On the subject of grant-backs, the courts at the present time have refused to declare either assignment-back provisions or license-back provisions illegal per se, and have condemned such conditions only against the background of monopolistic practices and other illegal restraints of trade.

Courts have approved specific grant-backs on the basis of one or more of the following reasons: (a) the grant-backs were not employed with the purpose or effect of violating the antitrust laws; (b) the licensees were required to license-back only patents which could not be exploited without risking infringement of the licensor's basic patent; (c) the improvements gained by the licensor through grant-backs were disseminated among all licensees without extra charge; (d) no adverse effect on competition by the grant-backs was shown; (e) the rights granted pursuant to the grant-back provisions did not in fact enhance the licensor's power; (f) no one was refused a license by the primary licensor.

In view of the increasing attack on grant-backs, and because of what might be termed increasing liberality in the construction of the antitrust laws, it is doubtful that unlimited grant-backs, particularly by assignment, will continue to escape judicial condemnation. Accordingly, to minimize the risks in this area, the safest approach would be to set up a grant-back in the form of a nonexclusive license covering subject matter no broader in scope than the subject matter of the main license agreement.


36. *Supra* note 34.
Prior to 1952, the law with respect to tying arrangements imposed on manufacturing licensees was fairly well settled. Up to that time it had been almost uniformly held that the tying together of the grant of a patent license with the sale of supplies or components required for practicing the licensed invention constituted not only a misuse of the licensed patent,\(^37\) but also in many cases a violation of the antitrust laws.\(^38\) Then, in 1952, section 271 was introduced into the Patent Code. In view of this section and of several cases\(^39\) concerned with its interpretation, a licensor may now engage in limited practices that previously might have been regarded as prohibited under the rationale of the pre-1952 tying cases.\(^40\) The question has arisen as to whether section 271 has created any exemptions under the antitrust laws. Since section 271 does not refer to the antitrust laws and creates exemptions to the misuse doctrine only, and if, as we have assumed, misuse is not equivalent to an antitrust violation, it appears doubtful that this section serves to limit the antitrust laws in their application to tying arrangements.

Two fairly recent cases offer a study of contrasts in connection with tying arrangements. In *Switzer Bros. v. Locklin*,\(^41\) Switzer was the owner of patents relating to the production of daylight fluorescent devices and displays, and was also the owner of the trademark Day-Glo used in marketing its fluorescent materials. Switzer licensed (a) manufacturers of daylight fluorescent materials who would market them exclusively under the Day-Glo mark, (b) dealers who would handle Day-Glo materials exclusively and (c) end-use manufacturers, numbering more than 4000, who would use the Day-Glo mark on all their devices. The material manufacturing licensees and dealer licensees agreed to sell fluorescent materials only to other Switzer licensees, and the dealer licensees and end-use manufacturing licensees agreed to buy their materials only from Switzer or other sources approved by Switzer. In connection with a patent infringement suit

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40. Certain tie-ins of *components* may be permissible provided the components constitute a material part of the invention, are especially made or especially adapted for use in the patented invention, and are not a staple article or commodity of commerce suitable for substantial noninfringing use. 35 U.S.C. § 271 (1952).

41. 297 F.2d 39 (7th Cir. 1961).
instituted by Switzer, the court found that Switzer's patents were limited to certain end-use devices, that basic fluorescent materials had substantial noninfringing uses and that Switzer's licensing program was illegal because it fostered a Switzer monopoly in the daylight fluorescent industry.

Although the second case, _Dehydrating Process v. Smith_, did not concern restrictive licensing, it nevertheless is interesting because it suggests one justification for tying arrangements. In this case, the defendant was a manufacturer of storage equipment including a patented glass lined silo and a patented unloading device. From 1951 through 1957, if requested, defendant sold its unloader separately from its silo. Then, in 1958, because of complaints by half of the customers who had purchased separate unloaders and installed them unsatisfactorily with silos not manufactured by defendant, defendant adopted a policy of not selling unloaders unless they were to be installed in presently purchased, or already owned silos of its own manufacture. Pursuant to this policy, defendant refused to sell its unloaders to a contractor for installation with the latter's tanks under a contract with the plaintiff. Plaintiff, in a treble damage action, alleged that such refusal to sell hampered its business operations and that defendant's method of selling effected a tie-in violative of section 3 of the Clayton Act. A directed verdict in favor of the defendant at the close of the evidence was affirmed on the general basis that a proper business reason—namely, a reduction of dissatisfied customers—justified defendant's sales policy.

Having completed a review of the major restrictions imposed on manufacturing licensees, we shall now consider the status of restrictions imposed on purchasers of patented articles. In a number of cases, the Supreme Court has broadly stated that the first sale of a patented commodity removes that commodity from the scope of the patent grant. As an example, in the _Univis Lens_ case, the Univis Lens Company assigned certain of its patents, purportedly covering both the production and the finishing of lens blanks, to the Univis Corporation. In return, the Lens Company was given a license, conditioned on the payment of royalties, to manufacture and sell lens blanks to other designated licensees of the corporation. Subsequently, the corporation issued royalty free licenses to wholesalers permitting them to purchase blanks from the Lens Company, to finish grinding the blanks and to sell the finished lenses to licensed prescription retailers at prices fixed by the corporation. The licensed prescription retailers, at no royalty charge, were permitted to prescribe and fit lenses

42. 292 F.2d 653 (1st Cir. 1961).
and to sell them to customers at prices prescribed by the corporation. Royalty free licenses were also issued to finishing retailers permitting them to purchase blanks from the Lens Company, to finish grinding and mounting the blanks and to sell the finished lenses to customers at prices prescribed by the corporation. When the validity of the described licensing arrangement was challenged by the government, the Supreme Court condemned, under section 1 of the Sherman Act, all of the licenses, other than the initial one given to the Lens Company. The Court noted that the first vending of an article, whether in its completed form or not, puts the article beyond the reach of the patent monopoly.

If this principle were to be applied uniformly, all restrictions on purchasers of patented articles would be outside the scope of the patent grant. However, the law on such restrictions has not developed so rigidly. In brief, it may be stated that certain restrictions on purchasers, such as resale price maintenance\textsuperscript{44} and tying agreements involving supplies,\textsuperscript{45} have clearly been held to be outside the scope of the patent monopoly, while other restrictions, such as field of use restrictions\textsuperscript{46} and use royalties,\textsuperscript{47} have been held to be within the scope of the patent right. The status of other restrictions on purchasers remains unsettled.

Somewhat related to restrictive licensing is the problem of monopolization created by the acquisition of patent rights by one or more parties pursuant to assignment or license agreements. In general, the mere accumulation of patents is not in and of itself illegal, and this principle has been applied to the accumulation of patents by a company on its own research.\textsuperscript{48} Correspondingly, simple unrestricted patent pools, which are unlimited both in respect to the number of participants and in respect to the rights accorded the participants,

\textsuperscript{44} Boston Store of Chicago v. American Graphophone Co., 246 U.S. 8 (1918); Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).


have been approved by the courts. Additionally, in the absence of other restrictive circumstances, it is permissible for the owners of the pooled patents to charge a reasonable royalty for the use of such patents.

Aside from a wholly unrestricted patent pool, a pool may be restricted in respect to the number of participants. An agreement for such a closed pool is outside the scope of the patent laws and is somewhat analogous to an agreement among competitors not to do business with a particular class of customers. Thus, several courts have held closed pools to be violative of sections 1 and 2 of the Sherman Act.

A pool that is not restricted in respect to the number of participants but, instead, is restricted in respect to the rights accorded participants is classifiable somewhere between an open pool and a closed pool. Here, it seems clear that any restriction that cannot properly be imposed by a patent owner acting individually, cannot be imposed by a group of patent owners. Resale price control would be in this category. Restrictions that a patent owner acting individually may impose on its licensees has a less settled status when imposed pursuant to a pooling arrangement. These brief conclusions may be drawn. Price control pursuant to a pooling arrangement not only is outside the scope of the patent laws, but also is illegal under section 1 of the Sherman Act. On the other hand, simple field of operation restrictions have been sustained in several cases. In general, the validity of pooling restrictions depends upon the entire circumstances surrounding the business dealings of the parties involved.

Three cases will serve to illustrate the manner in which the subject of accumulation and group pooling of patents has been approached by the courts. In United States v. Singer Manufacturing Company, the complaint alleged that the defendants and co-conspirators had engaged in a combination and conspiracy to restrain and monopolize, and

50. Supra note 49.
that the defendant had attempted to monopolize interstate and foreign trade and commerce in the importation, sale and distribution of household automatic zigzag sewing machines in violation of sections 1 and 2 of the Sherman Act. According to the evidence relied on by the government, the defendant during a period of about three years: purchased a United States patent; entered into separate nonaggression cross license agreements with an Italian corporation, a Swiss corporation and a German corporation; acquired patent applications from the Swiss and German corporations; filed a complaint before the United States Tariff Commission seeking to exclude the importation of certain machines covered by the claims of one of its patents; and instituted four infringement suits based on domestic sales of machines imported from Japan. In view of these activities, the Supreme Court held that the defendant had violated the Sherman Act. The Court refused to accept the district court's findings that defendant was not a party to an unlawful conspiracy, and that defendant's acquisition of patent rights was motivated by a legitimate desire to protect its own commercial models of zigzag sewing machines through the resolution of conflicting rights of others.

In the *Kobe v. Dempsey* case,\(^\text{56}\) the plaintiffs filed suit for infringement of several patents relating to hydraulic pumps for oil wells. The court found the following: the plaintiffs had cornered the hydraulic pump business for oil wells; that every important patent which was issued relating to this field found its way into the plaintiffs' pool; that no other such pump was manufactured by anyone other than one of the plaintiffs until defendants marketed one; and that the suit for infringement against the defendants was part of the plaintiffs' plan to maintain a monopoly position. On the basis of these findings, the plaintiffs were held guilty of unlawful monopolization and defendants were awarded treble damages.

Although simple field of operation restrictions have generally been upheld, it should be borne in mind that such restrictions have been condemned when part of an overall plan or program to restrain or monopolize trade. The *Hartford-Empire* case\(^\text{57}\) is a leading illustration of this principle. Over a period of years, ostensibly in settlement of

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various interferences and litigation, and pursuant to cross license agreements, a group of manufacturers of glassware and of machinery for making glassware pooled most of the important patents in the glassware industry. The participating manufacturing licensees also allocated fields of manufacture among themselves. Thus, one company had exclusive rights in the non-container field, another company had exclusive rights to manufacture milk bottles, other companies had limited rights to manufacture fruit jars and still other companies had limited rights to manufacture machinery.

The District Court found that invention of glass-making machinery had been discouraged, that competition in the manufacture and sale or licensing of such machinery had been suppressed, and that the system of restricted licensing had been employed to suppress competition in the manufacture of unpatented glassware and to maintain prices of the manufactured products.\(^5\)\(^8\)

Accordingly, the general arrangement was found to violate sections 1 and 2 of the Sherman Act and section 3 of the Clayton Act.\(^5\)\(^9\)

In respect to the accumulation of patent rights pursuant to assignment or license agreements, section 7 of the Clayton Act must not be overlooked. This section provides, in part, that no corporation shall acquire the whole or any part of the assets of another corporation where the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly. In the related field of copyrights, the court held in *United States v. Columbia Pictures*\(^6\)\(^0\) that the licensee under an exclusive long-term license distribution arrangement concerning copyrighted films for television exhibition acquired a part of the licensor's assets within the meaning of section 7. The court noted that the words "acquire" and "assets" are "generic, imprecise terms encompassing a broad spectrum of transactions whereby the acquiring person may accomplish the acquisition by means of purchase, assignment, lease, license, or otherwise."

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\(^5\)\(^8\). Hartford-Empire Company v. United States, 323 U.S. 386, 400 (1945).

\(^5\)\(^9\). In a later case, restrictions on the use of leased glass making machinery were upheld on the basis that they were neither inherently illegal nor part of the conspiracy condemned in the government's case against the Hartford-Empire Company. Turner Glass Corporation v. Hartford-Empire Co., 173 F.2d 49 (7th Cir. 1949).

In either drafting or reviewing restrictive patent license agreements, one further principle should be borne in mind. Under ordinary circumstances, a licensee is estopped to deny the validity of the patent under which he is licensed. However, an exception to this estoppel rule has arisen in cases involving antitrust issues. For example, when a price fixing restriction, which in the absence of patent protection is illegal per se, is embodied in a patent license agreement, the doctrine is now established that the licensee may challenge the validity of the licensed patent in an effort to demonstrate that the price provision is illegal because not justified by a valid patent.\footnote{Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 (1942); McGregor v. Westinghouse Electric & Mfg. Co., 329 U.S. 402 (1947); Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947).}

Although this doctrine has been primarily confined to price control licenses, there is no fundamental reason why it may not be extended to other types of restrictive licenses in the future. In this connection, it is well to note that the Supreme Court has indicated in the Gypsum case\footnote{United States v. United States Gypsum Co., 333 U.S. 364, 386-388 (1948).} that the government can, in an antitrust proceeding, attack the validity of the patents of the defendant. Such attack presumably would be for the purpose of showing the lack of patent justification for the otherwise illegal activities of the defendant.

So far we have reviewed representative restrictions and conditions primarily imposed on licensees. The focus of attention will now be shifted to various agreements or covenants made by a licensor for the benefit of his licensee. There are two areas which especially warrant consideration.

First, any agreement by a licensor that he will not deal with or promote products or processes that are competitive to his licensed invention, unless restricted to products or processes covered by the licensed patent, is wholly outside the scope of the patent grant. Such a provision prevents the licensor from dealing with unpatented competing goods or processes and patented competing goods or processes not covered by the licensed patent. Since this restriction benefits solely the licensee through the complete elimination of the competition of the licensor, and because the licensee is not entitled to such protection under the licensor's patent, no justification for this practice can be found in the patent laws. Accordingly, the courts have viewed agreements of this type with extreme disfavor.\footnote{McCullough v. Kammerer Corporation, 166 F.2d 759 (9th Cir. 1948); Touchett v. E Z Paintr Corporation, 150 F. Supp. 384 (E. D. Wis. 1957).}

The second type of restriction imposed on a licensor that has been running into some difficulty is the granting of a license accompanied
by a covenant by the licensor that he will not grant other licenses without the consent of the immediate licensee. Under this arrangement, an applicant for a license must obtain the consent of two parties—the licensor and his immediate licensee. Applicable here is the general principle that although a patent owner acting alone may refuse to license anyone, he cannot refuse to grant a license when the refusal is pursuant to a conspiracy or combination. On the basis of this principle, the noted covenant is objectionable. Although it has been argued that a limited exclusive license of the character described has a less severe effect on competition than an absolute exclusive license, several courts have expressed the view that this type of restriction on the licensor—a veto power by the licensee—is illegal.

At this point, we shall take notice of two principal forms of antitrust remedies that are peculiar to patent-antitrust cases. One is compulsory licensing of patents and the other is compulsory sale of patented devices.

Although there is no general statutory authority for compulsory licensing, many courts in antitrust cases have ordered compulsory licensing of patents at a reasonable royalty. The circumstances under which compulsory licensing is appropriate are outlined in considerable detail in the *Imperial Chemical* case. With respect to the issue of whether dedication or compulsory royalty free licensing may be properly ordered in a patent-antitrust case, the Supreme Court left the matter open in the *National Lead* case for future consideration in other cases. As one might expect, this indefinite position of the Supreme Court has created a diversity of opinion among the lower courts on this question.

When a patent owner who has leased rather than sold his patented devices is found guilty of violating the antitrust laws, a number of courts have adopted the further remedy of compulsory selling as an appropriate remedy for restoring competitive conditions in the industry. 69

On the basis of public policy considerations, courts have also concerned themselves with the background of patent interference settlement agreements. For example, in Precision Co. v. Automotive Co., 70 one Zimmerman while employed by Automotive developed a torque wrench upon which a patent application was filed. A co-employee of Zimmerman, who was fully acquainted with the latter’s torque wrenches, secretly collaborated with an outsider by the name of Larson in developing a new wrench. Then, Larson filed a patent application on the newly developed wrench, and Larson and others organized Precision Co. to manufacture the wrenches. When certain of the claims of the two Zimmerman and Larson applications became involved in an interference in the Patent Office, Larson falsely swore as to the date of conception and other dates set forth in his preliminary statement so as to antedate Zimmerman’s invention. Larson’s collaborator, due to dissatisfaction with the course of events, met with representatives of Automotive, claimed that he had developed Larson’s wrench and disclosed the foregoing circumstances under oath. This evidence was reviewed separately with two disinterested attorneys who advised, in effect, that it was insufficient to bring to the attention of either the Patent Office or the District Attorney. Subsequently, pursuant to settlement agreements, Larson conceded priority in Zimmerman. Larson’s application was assigned to Automotive, which in turn granted Precision a limited license to complete certain unfilled orders for wrenches. Then Larson, Precision and its major customer acknowledged the validity of the claims of the patents to issue on the Larson and Zimmerman applications. Thereafter, when Precision began to manufacture a new wrench, Automotive filed suit claiming that this was an infringement of its patents received on the Larson and Zimmerman applications and a breach of the interference settlement agreements. The Supreme Court held that Automotive had unclean hands and thus was not entitled to relief. As noted by the court,

Instead of doing all within its power to reveal and expose
[Larson’s] fraud, [Automotive improperly] procured an out-

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side settlement of the interference proceedings, acquired the Larson application itself, turned it into a patent and barred the other parties from even questioning its validity.\textsuperscript{71}

Similarly, the legislature has addressed itself to the problem of interference settlement agreements. A recent amendment to the Patent Code provides that agreements settling patent interference proceedings must be filed in the Patent Office.\textsuperscript{72} The Commissioner of Patents is obligated to notify the parties to an interference of this filing requirement, and settlement agreements normally must be filed before the termination of the interference. Upon request of any party filing such agreement, the copy will be made available only to government agencies on written request or to other parties on a showing of good cause. The failure to file a copy of such agreement renders the agreement and the patent involved permanently unenforceable. The purpose of this legislation is to publicize interference settlement agreements so as to reduce or eliminate the incorporation of restrictive provisions therein and help prevent the use of the agreements as a means of violating the antitrust laws.

The final topic for consideration concerns techniques and related problems of correcting or purging illegal license arrangements. A finding that a patent owner has misused his patent by granting improper restrictive licenses or by other improper conduct does not operate to invalidate the patent,\textsuperscript{73} nor does it forever foreclose the owner from enforcing the patent. As indicated by the Supreme Court in the \textit{Morton Salt} case, full rights to enforce a patent that has been misused may be reinstated when it can be shown "that the improper prac-

\textsuperscript{71} As to Automotive's contention that it did not have absolute proof of fraud, the court stated:

Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue . . . This duty is not excused by reasonable doubts as to the sufficiency of the proof of the inequitable conduct nor by resort to independent legal advice. Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. \textit{Id.} at p. 818.

Compare: Campbell v. Mueller, 159 F.2d 803 (6th Cir. 1947).

\textsuperscript{72} Title 35, U.S. Code, Sec. 135 (c), as added by P. L. 87-831, October 15, 1962, 76 Stat. 958.

\textsuperscript{73} Paul E. Hawkinson Co. v. Dennis, 166 F.2d 61 (5th Cir. 1948); Novadel-Agene Corporation v. Penn, 119 F.2d 764, 767 (5th Cir. 1941); Harvey v. Levine, 204 F. Supp. 947, 959 (N.D. Ohio 1962); Georgia-Pacific Plywood Co. v. United States Plywood Corp., 139 F. Supp. 234 (S.D.N.Y. 1956).
tice has been abandoned and that the consequences of the misuse of
the patent have been dissipated.\textsuperscript{74}

Thus, upon effective elimination of an illegal provision in a license
agreement or upon cessation of other improper practices, and after
dissipation of the consequences of the misuse, the patent owner may
again enforce the license agreement or the patent involved.\textsuperscript{75} However,
upon reinstatement of a patent owner's rights, recovery can be
had only for acts of infringement occurring thereafter and not for
acts of infringement that had occurred during the period of misuse.\textsuperscript{76}
Similarly, royalties accruing during the period of existence of an il-
legal license arrangement cannot be recovered.\textsuperscript{77} Also, in several anti-
trust decrees, defendants have been enjoined from prosecuting all
suits for past infringement or past royalties due.\textsuperscript{78}

The correction or alteration of an illegal license arrangement or
other improper practice should be effected at the earliest possible time.
Of course, a propitious time to do so is before suit is brought by or
against the patent owner in connection with a license arrangement or
patent involved in misuse. However, corrective action may be taken
at almost any time. Courts have undertaken to examine changes in
a patent owner's licensing program or method of doing business even
though such changes were made after suit was filed but before trial,\textsuperscript{79}
or during the progress of the trial,\textsuperscript{80} or in supplemental proceedings

\textsuperscript{74} Morton Salt Co. v. Suppiger, 314 U.S. 488, 492, 493 (1942).

\textsuperscript{75} United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 473
(1975); B. B. Chemical Co. v. Ellis, 314 U.S. 495, 498 (1942).

\textsuperscript{76} Eastern Venetian Blind Co. v. Acme Steel Co., 188 F.2d 247, 254 (4th
Cir. 1951); Sylvania Industrial Corporation v. Visking Corporation, 132 F.2d 947,
959 (4th Cir. 1943); Novadel-Agene Corporation v. Penn, 119 F.2d 764, 767 (5th
Cir. 1941); American Lecithin Co. v. Warfield Co., 42 F. Supp. 270 (N.D. Ill.
1941).

\textsuperscript{77} United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 465
(1957); Park-In Theatres v. Paramount-Richards Theatres, 90 F. Supp. 730, 735
(D. Del. 1950), \textit{affirmed per curiam}, 185 F.2d 407 (3rd Cir. 1950).

\textsuperscript{78} Hartford-Empire Co. v. United States, 323 U.S. 386, 419 (1945); United
(1947).

\textsuperscript{79} Baker-Cammack Hosiery Mills v. Davis Co., 181 F.2d 550 (4th Cir.
1950); Air Products v. Boston Metals Co., 98 F. Supp. 719, 729 (D. Md. 1951);

\textsuperscript{80} Standard Oil Co. v. United States, 283 U.S. 163, 181 (1931); White Cap
Co. v. Owens-Illinois Glass Co., 203 F.2d 694, 698 (6th Cir. 1953); Campbell v.
Mueller, 159 F.2d 803 (6th Cir. 1947); Universal Sewer Pipe Corp. v. General
following a trial court decision\textsuperscript{81} or during appeal proceedings.\textsuperscript{82} For example, in Sylvania v. Visking,\textsuperscript{83} action was brought by Visking for infringement of four patents. In a district court opinion dated April 3, 1941, Visking was found to have misused its patents. Thereafter, Visking cancelled all restrictive licenses and on June 27, 1941, instituted supplemental proceedings. On reopening the case, the district court held that Visking had purged itself of misuse by May 12, 1941, and was thus entitled to an injunction against future infringement of its patents and an accounting from the date of purge for past infringement. As another example, in Flexwood v. Faussner,\textsuperscript{84} thirteen days after the date of oral argument before the Court of Appeals, the plaintiffs filed an amended agreement removing certain contested clauses. The court stated:

We see no reason why we should not consider the new contract. We understand that a reviewing court may always consider evidence presented to it that shows a case has become moot or that a cause of action or a defense has ceased to exist. This principle should certainly be applicable to a defense not presented to a trial court and presented for the first time to the reviewing court.

Changes in licensing provisions are usually initiated by the patent owner but occasionally are made pursuant to the directions of a court.\textsuperscript{85}

Abandonment of an improper licensing program may be accomplished by cancelling objectionable clauses,\textsuperscript{86} by cancelling objectionable agreements\textsuperscript{87} or by offering unrestricted licenses.\textsuperscript{88} Public announcements to the trade of future unrestricted dealings have also

\textsuperscript{81.} Sylvania Industrial Corporation v. Visking Corporation, 132 F.2d 947 (4th Cir. 1943).

\textsuperscript{82.} Flexwood Co. v. Faussner & Co., 145 F.2d 528, 542 (7th Cir. 1944).

\textsuperscript{83.} Supra note 81.

\textsuperscript{84.} Supra note 82.

\textsuperscript{85.} Standard Oil Co. v. United States, 283 U.S. 163, 181 (1931); Eastern Venetian Blind Co. v. Acme Steel Co., 188 F.2d 247, 252 (4th Cir. 1951).

\textsuperscript{86.} Standard Oil Co. v. United States, 283 U.S. 163, 181 (1931); Campbell v. Mueller, 159 F.2d 803 (6th Cir. 1947); Flexwood Co. v. Faussner & Co., 145 F.2d 528 (7th Cir. 1944).

\textsuperscript{87.} Sylvania Industrial Corporation v. Visking Corporation, 132 F.2d 947 (4th Cir. 1943); Metals Disintegrating Co. v. Reynolds Metals Co., 228 F.2d 885, 889 (3rd Cir. 1958); Philad Co. v. Master Hair Shoppe, Inc., 53 USPQ 243 (N.D. Ohio 1942).

\textsuperscript{88.} Baker-Cammack Hosiery Mills v. Davis Co., 181 F.2d 550 (4th Cir. 1950).
been viewed by the courts as evidence of abandonment.\textsuperscript{89} In \textit{Well Surveys v. McCullough},\textsuperscript{90} a complete purge of previously existing patent abuses was accomplished when the plaintiff amended its standard forms of license agreement to remove objectionable provisions, published notice advising the public that it was prepared to license any or all of its patents on reasonable terms and wrote letters to all of its existing licensees offering termination of existing agreements and the negotiation of new agreements on reasonable terms. However, not all revised licensing programs have been deemed sufficient to rectify prior illegal practices. For example, the offer of a license requiring the licensee to pay damages for alleged prior infringement,\textsuperscript{91} and the mere offer of alternative licenses which are less desirable from a royalty standpoint than concurrent restrictive licenses,\textsuperscript{92} have been disapproved.

A complete purge involves not only abandonment of the improper practice but also dissipation of the consequences of the misuse. The issue of whether a misuse has been purged is essentially a question of fact.\textsuperscript{93} In most cases, once it has been shown that an illegal licensing arrangement has been cancelled and that improper operations under the arrangement have in fact been discontinued, the courts find that the consequences of the misuse ended with the cancellation.\textsuperscript{94} Correspondingly, although the application of the misuse doctrine is not avoided merely because a restrictive provision in a patent agreement


\textsuperscript{90} \textit{Supra} note 89.

\textsuperscript{91} American Lecithin Co. v. Warfield Co., 42 F. Supp. 270 (N.D. Ill. 1941), \textit{affirmed on other grounds}, 128 F.2d 522 (7th Cir. 1942).


has not been 
the mere cancellation of such a provision is effective in completing a purge since there are no consequences to be dissipated. However, when an illegal arrangement has been enforced and has permitted the parties to gain a competitive position that they would not have otherwise enjoyed, the mere cancellation of the arrangement will not suffice to remove the consequences of misuse. Sufficient time must elapse following cancellation to permit restoration of normal competitive conditions.

In connection with unilateral cancellation of illegal provisions or agreements, several diverse contract principles have been followed by the courts. Generally speaking, a provision of an agreement may be unilaterally cancelled or waived by the party for whose benefit the provision was incorporated. Thus, it has been held that a licensor may purge its licenses by unilaterally cancelling price maintenance provisions which were inserted for the licensor's benefit. However, where a price fixing provision was embodied in a patent license agreement at the request of the licensee, one court decided that the provision could not be unilaterally removed by the licensor. In another series of related cases involving a price fixing provision in a patent license agreement, an attempt by the licensor to delete the provision was refused recognition by the licensee. A request by the licensee for reformation of the agreement and a refund of royalties was denied by the courts for the reason that the parties were found to be in pari delicto and thus not entitled to assistance by the courts, and the agreement was ultimately declared null and void as against public policy.

103. Metals Disintegrating Co. v. Reynolds Metals Co., 228 F.2d 885, 889 (3rd Cir. 1956).
As a general proposition under the *pari delicto* doctrine the law will leave parties to an illegal contract where it finds them. However, one who becomes a party to an illegal scheme as a result of economic coercion is usually not considered in *pari delicto*, and courts are reluctant to invoke the *pari delicto* doctrine if it will work an injustice.

The problems involved in an attempted unilateral cancellation of an agreement having an illegal provision are illustrated in the *Culligan* case. Culligan had entered into a number of franchise agreements each of which obligated the dealer to purchase its full requirements for specified equipment and materials from Culligan and assigned the dealer a designated exclusive sales area. Then, as the result of a complaint brought under section 3 of the Clayton Act, Culligan entered into a consent settlement with the Federal Trade Commission and agreed to terminate all exclusive dealing arrangements. Thereafter, Culligan notified its dealers that the consent order "by its nature invalidated all Culligan franchises" and offered a new form of franchise agreement for nonexclusive territories. The dealers who refused to sign the new agreements were informed that their existing agreements were cancelled, that Culligan would no longer sell its products to them and that they should discontinue the use of the Culligan name in their businesses. Several dealers brought a declaratory judgment action. The district court resolved all issues in favor of the dealers and issued an injunction restraining Culligan from interfering with the rights of the dealers in their franchise agreements. The Court of Appeals affirmed on the basis that the illegal provisions of the original agreements were severable because they were not illegal per se, that the original agreements less the requirements provisions did not lack consideration or mutuality because the dealers had invested large sums of money in business conducted under the Culligan name and had commitments to advertise Culligan products for considerable periods in the future and that to invoke the doctrine of *pari delicto* would work an injustice on the dealers.

The subject of antitrust, misuse and public policy principles as they relate to patents and patent agreements is quite broad. Although all ramifications of this subject have not been covered, it is believed that the foregoing presentation will provide an understanding of the fundamental concepts involved.

APPENDIX

The substantive provisions of the Sherman Act that concern patent activities appear, in part, as follows:

Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal.

Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor.

The main substantive provisions of the Clayton Act that affect patent activity read, in part, as follows:

Sec. 3. It shall be unlawful for any person engaged in interstate commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale on such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Sec. 7. No corporation engaged in interstate commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.