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# Patent Misuse before and after Section 271

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is small, for racial intermarriage is not widespread in any area of the United States. Second, the number of such marriages will not greatly increase because of social and economic pressures. Writers suggest that legislation has probably little or no effect on the rate of racial intermarriage.<sup>46</sup> Thus, we are dealing with an idealistic or theoretical right when compared with education or landholding. The racial problems manifestly evident today concern areas more important to the country and to the negro, and at the same time, less important to the white than the instant problem.<sup>47</sup> In the last five years considerable progress has been made, but it is suggested, that for a court to minimize states' rights, to go against nearly 300 years of policy, and to expand the Constitution on the basis of somewhat tenuous reasoning, will result in great harm. As has been stressed, the subject is of great importance to millions of persons. To bring these deep rooted feelings to the fore could be disastrous. It would not only give ammunition to the radical segregationists, but would cause many persons, now gradually adjusting to integration in other areas, to resist further attempts at racial equality.<sup>48</sup> Even school integration is not dead, for some persons contend,

the *School Segregation* cases [are] not the law of the land, but are legally erroneous and . . . the errors with which they abound should have been detected and should now be corrected.<sup>49</sup>

Thus, in the absence of any clear basis to hold an anti-miscegenation law unconstitutional, and *Perez* is certainly not clear, it would be most improvident for the Supreme Court to grant certiorari at this time. If certiorari be denied, there is no pronouncement to inflame passions on either side, and time may accomplish what no edict can.

JOHN H. WILHARM, JR.

## *Patent Misuse Before and After Section 271*

In order for a person to have the benefits of a monopoly, granted by the patent laws of the United States, he must first have a patent. The fact that a person does have a patent, however, does not confer upon him *carte blanche* authority to use the benefits of the government granted monopoly in any way he sees fit. An invention is in-

46. REUTER, *RACE MIXTURE* 103 (1931).

47. See note 16 *supra*, and accompanying text.

48. "One barrier to a closer drawing together of the white and negro races in America has been the misconception on the part of many whites that the negro race desires amalgamation." S. LOGAN, *A NEGRO'S FAITH IN AMERICA* 27 (1946); "Most white Americans remain nonetheless opposed to intermarriage and many of them to the abolition of public segregation as a possible first step toward it." R. LOGAN, *WHAT THE NEGRO WANTS* 28 (1944).

49. Bloch, *The School Segregation Cases; A Legal Error That Should Be Corrected*, 45 A.B.A.J. 27, 99 (1959).

lectual property and as such property it should be capable of ownership by its creator, just as a physical item which one may create. Unfortunately such intangible subject matter would be incapable of being locked away from unauthorized use were it not for the patent laws. Our United States Patent Laws grant to the patent owner the right to exclude others from the manufacture, use, or sale of the invention defined in the claims of the patent. It is, therefore, a grant of monopoly in the defined invention. In certain instances a person may be guilty of patent misuse, and because of his conduct be deprived of the protection of the monopoly, which vested in him with the issuance of the patent.

The area of patent misuse brings into sharp focus the clash of two basic principles of American Jurisprudence. On one hand there is the desire to protect the inventions of a person in order to promote science. On the other hand, there is a strong policy in favor of free competition and against monopolistic practices. The question thus becomes, how far will the courts permit the extension of a lawful monopoly?

#### EARLY CASE LAW CONCERNING CONTROL OF PATENTED ITEMS

At the turn of the century, the courts were allowing a wide latitude in the permissive use of patented articles. In *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*<sup>1</sup> the court held valid a license to use a patented machine only as long as unpatented fasteners, which were used in the machine, were bought from the licensor. The court went on to say that whoever sold fasteners to the licensee, knowing that they were to be used in the machine in violation of the agreement, was guilty of contributory infringement. "Contributory infringement is intentional aid or cooperation in transactions, which collectively constitute complete infringement."<sup>2</sup> As the name implies, a contributory infringer is not guilty himself of infringement, but is one whose actions culminate in an infringement by another person. If a person sells a component part of a patented combination intending that such part be assembled and the combination sold, he is a contributory infringer.<sup>3</sup>

The holding in the *Heaton* case was expressly approved and followed by the Supreme Court in *Henry v. A. B. Dick Co.*<sup>4</sup> The Court held valid a licensing agreement between the owner of a patented machine and a licensee of the machine, providing that ink for the machine was to be bought exclusively from the licensor. The Court further held that a person who sold ink to the licensee knowing that

1. 77 Fed. 288 (6th Cir. 1896).

2. 3 WALKER, PATENTS § 507 (1937).

3. *Ibid.*

4. 224 U.S. 1 (1912); *cf.* *Leeds & Co. v. Victor Talking Machine Co.*, 213 U.S. 302 (1909)

it was to be used in violation of the agreement was a contributory infringer, and that also there must be an intent on the part of the seller that the product sold be used in an infringing way. Anyone could make and sell the ink, with one restriction — it could not be sold with the intent that it be used in violation of the licensing agreement. The doctrine of the *Dick* case, however, was short lived, for in 1917 the Supreme Court, in *Motion-Pictures Patents Co. v. Universal Film Mfg. Co.*,<sup>5</sup> expressly overruled the *Dick* case and held that the owner of a patented machine could not require the use of specific materials in conjunction with, and necessary to the operation of the machine, where such materials were not and could not be patented.

This view in the *Motion-Pictures* case became the accepted view of the Court<sup>6</sup> and proved to be the starting point for an expansion that, to all intents and purposes, completely eclipsed the doctrine of contributory infringement.

#### THE DEMISE OF CONTRIBUTORY INFRINGEMENT AND THE RISE OF MISUSE

One of the first cases in the gradual decline of the doctrine of contributory infringement was *Leitch Mfg. Co. v. Barber Co.*<sup>7</sup> The Barber Company, which owned a process patent, sold to road builders an unpatented staple article of commerce suitable to be used in the patented process, with an implied license that the buyer could use the patented process. In its petition the Barber Company alleged that the Leitch Manufacturing Company sold the same article, knowing that it was to be used for infringing the Barber Company's process patent. The Court held that the Barber Company had no right to limit the sale of a staple article of commerce, even though the seller knew that it was to be used to infringe a process patent.

*Mercoïd Corp. v. Mid-Continent Invest. Co.*<sup>8</sup> involved a licensing agreement between the owner of a combination patent and the manufacturers of switches used in the patent. The owner of the patent did not manufacture the combination, but licensed other companies to make switches and use them to produce the patented combination. Royalties were based on the sale of the combinations. The Court found that the switches did not have any substantial non-infringing use.<sup>9</sup> However, the Court held that the owner of a patent on a combination device cannot use the patent to control the sale of unpatented parts of the combination, even though the parts have no substantial

5. 243 U.S. 502 (1917).

6. *Carbice Corp. v. American Patents Develop. Corp.*, 283 U.S. 27 (1931).

7. 302 U.S. 458 (1938); see also *Morton Salt Co. v. G. S. Suppinger Co.*, 314 U.S. 488 (1942).

8. 320 U.S. 661 (1944); also companion case, *Mercoïd Corp. v. Minneapolis-H Reg. Co.*, 320 U.S. 681 (1944).

9. 320 U.S. 661, 664 (1944).

use other than as parts of the patented device. The Court further held that equity will deny relief to one who so uses his monopoly, even though the defendant is guilty of contributory infringement. Although this holding was a great expansion of the doctrine of patent misuse, the dictum of Mr. Justice Douglas in the decision was equally significant.

The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider.<sup>10</sup>

Because of this dictum, some courts subsequently held that the doctrine of contributory infringement had been abolished by the *Mercoïd* case.<sup>11</sup>

### THE RESTORATION OF CONTRIBUTORY INFRINGEMENT

Because judicial interpretation was eliminating or had eliminated the last vestiges of the doctrine of contributory infringement, the Patent Act of 1952<sup>12</sup> included Section 271,<sup>13</sup> which was a move to restore this doctrine within proper limitations.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufactured combination or composition, or a material or apparatus for use in practicing a patented process constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantive non-infringing use, shall be liable as a contributory infringer.<sup>14</sup>

Subsections (b) and (c) represent a clear attempt to codify and restore contributory infringement. However, in view of the *Mercoïd* case, perhaps even these subsections would not be enough. Implicitly, by this decision, recovery will be barred by misuse even though contributory infringement is shown. Therefore, certain acts were specifically designated as not being misuse of a patent.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of a patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) license or authorize another to perform acts which if performed without his consent would constitute

10. *Id.* at 669.

11. *Stokes & Smith Co. v. Transparent Wrap Mach. Corp.*, 156 F.2d 198 (2d Cir. 1946); *Landis Mach. Co. v. Chaso Tool Co.*, 141 F.2d 800 (6th Cir. 1944).

12. 35 U.S.C. §§ 1-293 (1952).

13. 35 U.S.C. § 271 (1952).

14. *Ibid.*

contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.<sup>15</sup>

The purpose of Section 271 (d) (3) was to remove any doubt that the mere bringing of a suit for patent infringement amounts to patent misuse. It has been suggested that the *Mercoid* case could be construed to have espoused that doctrine,<sup>16</sup> but this point is definitively decided by this section.

#### TYPES OF SITUATIONS GIVING RISE TO CLAIMS OF MISUSE

There are basically three situations that raise the question of patent misuse.

- 1) The patent covers a given apparatus but not the material used by the apparatus, and the material so used is suitable for non-infringing use.<sup>17</sup>
- 2) The patent covers a combination or process, but the individual components of the combination or materials used in the process are not patented and such materials are suitable for non-infringing use.<sup>18</sup>
- 3) The patent covers a combination or process and the individual components of the combination or materials used in the process are not patented but the individual components or materials are not suitable for substantial non-infringing use.<sup>19</sup>

Section 271 (e) expressly defines a contributory infringer as one who sells a component of a patented combination process which component is not a staple suitable for substantial non-infringing use. Since both situation (1) and (2) above concern staples suitable for non-infringing use, these two classes are not covered by the definition of a contributory infringer. The owner of a patent could not maintain a suit against one who is selling the article as a contributory infringer. The clear implication of this section is that under no circumstances could a person be liable as an infringer if he furnished a staple for use in a patented device, provided that the patent did not cover the staple in combination (Situation 1). But Section 271 (b) might cover Situation 2 in some instances, and a person might be liable, not as a contributory infringer, but as an infringer. The mere selling of a staple that is suitable for non-infringing use probably would not be considered an infringement, but it has been suggested

15. *Ibid.*

16. *Stroco Products, Inc. v. Mullenbach*, 67 U.S.P.Q. 168 (S.D. Cal. 1944); see Wood, *The Tangle of Mercoid Case Implications*, 13 GEO. WASH. L. REV. 61, 73, (1944).

17. *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912), is an illustration of this situation.

18. *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), is an illustration of this situation.

19. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944), is an illustration of this situation.

that the sale of a staple with directions for an infringing use and advertisement for that use could be considered as actively inducing infringement, thereby rendering such person liable as a direct infringer.<sup>20</sup> The major change envisioned by Section 271, however, is directed toward the third situation.

Section 271 (c) defines contributory infringement, and Section 271 (d) abolishes the defense of misuse under certain circumstances. Section 271 (d) seems to be directed squarely at the *Mercoïd* holding, although it has been suggested that the language of none of these subsections exactly covers the *Mercoïd* situation.<sup>21</sup> It is submitted, however, that Section 271 (c) and 271 (d) taken together meet the *Mercoïd* situation and have effectively changed that decision. In that case the defendant was selling a component of a patented device, and the Court held that it was not a staple of commerce suitable for substantial non-infringing use. Under Section 271 (c) the defendant would clearly be liable as a contributory infringer. The fact that the plaintiff licensed another to sell components, and derived revenue therefrom, does not, under Section 271 (d), make the plaintiff guilty of patent misuse, nor under this same section does the bringing of a suit make the plaintiff guilty of misuse. The wording of Section 271 was carefully chosen to preserve the doctrine of contributory infringement in appropriate cases, such as the *Mercoïd* case, and to leave undisturbed the doctrine of patent misuse as a defense to contributory infringement where that doctrine has applied historically.

#### DECISIONS UNDER SECTION 271

In *Hall Laboratories v. Spring Cotton Mills*,<sup>22</sup> the plaintiff owned a process patent. Plaintiff sold a chemical for use in that process, which chemical had other non-infringing uses. A 2-cent license fee per pound of chemical sold for use in the process was charged. If the chemical was bought for use other than in the process, no fee was charged. If persons bought the chemical from some other source for use in the process, the plaintiff required that 2 cents per pound be paid to it as royalties for using the process. The court held that this did not constitute patent misuse, and the plaintiff was not barred from enforcing its patent. However, in *Dr. Salisbury's Laboratories v. J. D. Russell Co. Laboratories*<sup>23</sup> the court held that the sale of a staple article of commerce, which was suitable for substantial non-infringing use, was specifically covered in Section 271 and did not constitute contributory infringement. The court said that it was not

20. Note, *Contributory Infringement and Misuse—The Effect of Section 271 of the Patent Act of 1952*, 66 HARV. L. REV. 909, 917 (1953).

21. *Id.* at 916.

22. 112 F. Supp. 29 (W.D.S.C. 1953).

23. 212 F.2d 414 (8th Cir. 1954).

deciding whether or not Section 271 had changed the law. It was merely giving import to the section and applying the classic definition of contributory infringement as codified and determined, and this was not contributory infringement.<sup>24</sup>

One of the first cases to give insight as to the direction the courts would take was *Southern States Equip. Corp. v. U. S. C. O. Power Equip. Corp.*<sup>25</sup> Strangely enough, the court did not even discuss patent misuse, but the facts were nearly identical with those of the *Mercoïd* case. One defendant company sold castings to another defendant company with which it was closely allied. These castings had no substantial non-infringing use (with one minor exception which was not considered material and was treated as if it did not exist). The opinion of the court did not even cite the *Mercoïd* case, but said that under Section 271 the company was clearly a contributory infringer and that the plaintiff patent owner was entitled to relief. Because of the close relationship of one defendant company to the other, the court held the contributory infringer was chargeable with knowledge as a matter of law. Although the court did not discuss the *Mercoïd* case, the implication of its decision appears to be that the court considered the *Mercoïd* case changed by the statute. This case presented a perfect fact situation for a discussion of the questions of patent misuse and whether or not the *Mercoïd* case was still controlling, but this discussion was not forthcoming.

The first court to face squarely the problem of whether or not Section 271 has changed the rule of the *Mercoïd* case was a district court, deciding *Sola Electric Co. v. General Electric Co.*<sup>26</sup> The plaintiff owned a patent on a system having some unpatented components. The plaintiff did not sell the whole system, but did sell unpatented ballasts which were part of the system and, with the sale of these ballasts, granted an implied license to use the system. The court found that these ballasts did not have any substantial non-infringing use. These facts fit the *Mercoïd* situation precisely and the court recognized this. The court held that under the doctrine of the *Mercoïd* case the plaintiffs were guilty of patent misuse and under the old law would not have been able to recover, but that this doctrine had been changed by Section 271. Acts such as this, which would have been misuse under the doctrine of the *Mercoïd* case, were now lawful.

The court has considered the statute in question (Section 271), the cases and articles relating to it, and the arguments of counsel, and cannot

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24. *Ibid.* However, the court says "[W]e believe that, whatever changes may or may not have been made in other respects, there has been no abrogation of the principle announced in the *Carbice* and *Mercoïd* cases." *Id.* at 416. This dictum is misleading in as much as the court expressly rests its decision on the clause of section 271 excluding staple articles of commerce not suitable for substantial non-infringing use.

25. 209 F.2d 111 (5th Cir. 1953).

26. 146 F. Supp. 625 (N.D. Ill. 1956).



escape the conviction that it was the purpose of Congress to change the law announced in the two *Mercoïd* cases . . . and that it did change the law as announced in those cases.<sup>27</sup>

This is a clear and dispositive holding that the law has been changed.

There seems to be no question that the mere bringing of a suit is not to be considered patent misuse.<sup>28</sup> This is clear from the language of the section and this is true notwithstanding the language in the *Mercoïd* case.<sup>29</sup>

#### CASES NOT CLEARLY WITHIN THE MERCOÏD DOCTRINE

Since the enactment of Section 271, the courts have not been inclined to apply the *Mercoïd* doctrine to related areas. In the *Sterns*<sup>30</sup> case the court refused to extend the doctrine to cover the lease of a patented combination. The court held that the combining of a patented article with a non-patented article and the sale or lease of the combination does not, in and of itself, constitute misuse. However, the refusal to sell the unpatented part of the device without selling the patented part can constitute misuse. This, of course, is one of the abuses of the patent monopoly which the doctrine of misuse is intended to prevent.

Another interesting case is *Electric-Pipe Line v. Fluid System*.<sup>31</sup> The owner of a patented combination installed the combination and guaranteed its operation. As a part of the agreement the owner of the patent required that all repair parts be bought from the patent owner who installed the combination. The court held that this situation was not covered by the decision in the *Mercoïd* case since that case dealt with unassembled parts. The court reasoned that since the owner of the patent installed the system and guaranteed it, it was not unreasonable to require that the repair parts be bought from the person who installed the system. In this case the court said that it did not consider whether Section 271 had changed the law with respect to the *Mercoïd* case since this situation was not covered by the doctrine announced in that case.

Another case, *United States v. United States Gypsum Co.*,<sup>32</sup> raised the interesting problem of the meaning of the phrase "otherwise entitled to relief."<sup>33</sup> The defendant in a prior case<sup>34</sup> had been found guilty of patent misuse in violation of the anti-trust laws. In this

27. *Id.* at 647.

28. *Sterns v. Tinker & Rasor*, 252 F.2d 589 (9th Cir. 1958); *Martin v. Alexander Corp.*, 160 F. Supp. 670 (S.D. Cal. 1958).

29. *Sterns v. Tinker & Rasor*, 252 F.2d 589 (9th Cir. 1958).

30. *Ibid.*

31. 231 F.2d 370 (2d Cir. 1956).

32. 134 F. Supp. 69 (D.D.C. 1955).

33. 35 U.S.C. § 271(d) (1952).

34. *United States v. United States Gypsum Company*, 124 F. Supp. 573 (D.D.C. 1954).