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## Patent Law - License Agreements - Royalties Paid Are Not Recoverable by Licensee upon Showing of Patent Invalidity

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If this is what the opinion stands for, it would have been more useful to clearly state that fact. As matters stand, it appears just as reasonable to assume that at least some courts will not interpret this to be the case. This could result in an effort toward analogy likely to be less successful than if the Court had chosen to more completely assess all factors in the balance in order to purposefully form a groundwork for future decisions. As the law cannot provide a remedy for every wrong, the Court may be justified in concluding that there cannot be a predictable methodology for every area of the law in which remedies are afforded. It is submitted, however, that to disguise that position does not aid in the making of what are already exceptionally difficult decisions.

*Michael G. Trachtman*

PATENT LAW — LICENSE AGREEMENTS — ROYALTIES PAID ARE NOT  
RECOVERABLE BY LICENSEE UPON SHOWING OF PATENT INVALIDITY.

*Troxel Manufacturing Co. v. Schwinn  
Bicycle Co.* (6th Cir. 1972)

In 1966, appellant Schwinn Bicycle Co. was issued a design patent covering a bicycle seat and strut assembly.<sup>1</sup> The following year, Schwinn notified the Troxel Manufacturing Company that the design for bicycle seats manufactured and sold by Troxel infringed upon the Schwinn patent. A non-exclusive license agreement was subsequently negotiated by Troxel and Schwinn, exculpating Troxel from the alleged past infringement and fixing a per-unit schedule for royalties due upon future manufacture.<sup>2</sup>

Later, in accord with this agreement, Troxel notified Schwinn that the patent was infringed by bicycle seats being sold by the Goodyear Tire and Rubber Company.<sup>3</sup> In January, 1969, Schwinn's infringement suit against Goodyear resulted in a finding by the district court of patent invalidity.<sup>4</sup> Immediately thereafter, Troxel notified Schwinn of its in-

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1. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 160 U.S.P.Q. 587 (N.D. Cal. 1969), *aff'd* 444 F.2d 295 (9th Cir. 1970). The patent was Design Patent No. 204,121, issued March 15, 1966 to Schwinn as an assignee. Application had been made on January 15, 1965. *Id.* at 587.

2. *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1254 (6th Cir. 1972). The royalty rate was a low 5 cents per unit. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295, 300 (9th Cir. 1970).

3. Schwinn was obligated under the license contract to enforce the patent against infringers. 465 F.2d at 1254.

4. The patent was held invalid since the invention had been substantially described in an advertisement more than one year prior to the date of application for the patent. Also, the invention failed to meet the requirement for patentability that it not be obvious to one of ordinary skill in the art to which the subject matter pertained. 160 U.S.P.Q. at 588. *See* U.S.C. §§ 102, 103 (1970).

attention to escrow royalties accruing during Schwinn's appeal of the district court's finding of invalidity. However, upon Schwinn's initiation of an action for the escrowed funds, Troxel made full payment of accrued royalties and agreed to continue making payments.<sup>5</sup> In 1970 the district court decision was affirmed<sup>6</sup> and Schwinn released its licensees from payment of royalties becoming due after the date of affirmance.<sup>7</sup> Three months later, Troxel commenced the instant suit seeking recovery of all royalties paid or, in the alternative, recovery of royalties which had accrued after the district court found the patent invalid.<sup>8</sup>

The district court, relying upon the landmark United States Supreme Court decision of *Lear, Inc. v. Adkins*,<sup>9</sup> found the overriding federal policy in favor of the public use of properly unpatentable ideas controlling when royalties once paid are sought to be recovered after a showing of patent invalidity.<sup>10</sup> Accordingly, summary judgment was granted Troxel for all royalties paid.<sup>11</sup> On appeal the Sixth Circuit Court of Appeals reversed and remanded, *holding* that once a patent is declared invalid, the disenfranchised patentee is not required to refund all royalties collected under a licensing agreement prior to the final adjudication of patent invalidity. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972).

Patent law is founded upon article I, section 8, clause 8 of the United States Constitution, which specifically empowers Congress to grant patent monopolies for limited periods of time. In accordance with this constitutional mandate, Congress has enacted legislation designed to provide a patent system that will best accomplish the constitutional directive "[t]o promote the Progress of Science and useful Arts . . ."<sup>12</sup>

5. 465 F.2d at 1255.

6. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (9th Cir. 1970), *aff'g* 160 U.S.P.Q. 587 (N.D. Cal. 1969).

7. 465 F.2d at 1255.

8. *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269 (W.D. Tenn. 1971). Jurisdiction was based on diversity of citizenship. *Id.* at 1269. See 28 U.S.C. §§ 1332, 2201, 1665 (1970). See also note 4 *supra*.

9. 395 U.S. 653 (1969). *Lear* originated as an action by an inventor for royalties allegedly due under a license agreement. The California Supreme Court held that since the license agreement was a valid contract, *Lear* was precluded from questioning the patent under the doctrine of licensee estoppel. *Adkins v. Lear, Inc.*, 67 Cal.2d 882, 435 P.2d 321, 64 Cal. Rptr. 545 (1967).

10. On certiorari, the United States Supreme Court refused to invoke the licensee estoppel rule in the face of overriding federal policies in favor of free competition in the use of ideas, and accordingly vacated the judgment of the California Supreme Court and remanded, holding that if *Lear* should successfully attack the validity of the patent, *Adkins* would not be entitled to recover the unpaid royalties, even those accruing before the finding of patent invalidity. 395 U.S. at 674. See notes 20 & 22 and accompanying text *infra*.

11. 334 F. Supp. at 1271.

12. In holding that the rationale of *Lear* required full recovery of royalties paid on an invalid patent, the district court did not consider the merits of Troxel's alternative claim for recovery of those royalties paid after the district court had found the patent invalid. That claim was based upon the contract doctrine of eviction which considers a finding of patent invalidity to evict or void a license agreement through failure of consideration. *Id.* at 1272. See note 53 and accompanying text *infra*.

12. U.S. CONST. art. I, § 8, cl. 8. The public benefit accruing from the grant of a patent monopoly results from the additional incentive to invent, the stimulation

Patents so granted are considered to have the attributes of personal property, and may be assigned or licensed, at the option of the patentee.<sup>13</sup> The property right of a patent monopoly may be protected from unauthorized use by a civil action for infringement.<sup>14</sup> In the case of a breached license agreement, the patentee licensor may, at his option, sue for forfeiture of the license, for damages in either an infringement action or an action on the contract, or for specific performance.<sup>15</sup>

In actions to enforce patent rights, the validity of the patent in question is presumed.<sup>16</sup> This presumption, however, has been described as "far from conclusive,"<sup>17</sup> as the courts have been firm in requiring adherence to the constitutional requirement that the patent serve a public purpose.<sup>18</sup>

A declaration of patent invalidity constitutes an affirmative defense to an action for infringement or recovery of royalties.<sup>19</sup> The availability of this defense, however, was, in the past, often precluded by the licensee estoppel doctrine, which held a licensee estopped from disputing the validity of the patent he had bargained to utilize.<sup>20</sup>

of capital investment in developing the invention provided by the vision of an exclusive position, and the public disclosure of inventions that might otherwise remain secret. See REPORT OF THE PRESIDENT'S COMMISSION ON THE PATENT SYSTEM, "TO PROMOTE THE PROGRESS OF . . . USEFUL ARTS" IN AN AGE OF EXPLODING TECHNOLOGY 2-3 (1966).

13. The monopoly granted runs for a period of 17 years from the date of issuance. 35 U.S.C. § 154 (1970). A design patent, however, granted for the invention of "any new original and ornamental design for an article of manufacture" may run no longer than 14 years. 35 U.S.C. §§ 171, 173 (1970). Patent holders utilizing their patents within the valid scope of the statutory grant risk no antitrust liability. See *Simpson v. Union Oil Co.*, 377 U.S. 13 (1964), where the Court stated:

The patent laws which give a 17-year monopoly on "making, using, or selling the invention" are *in pari materia* with the antitrust laws and modify them *pro tanto*.

*Id.* at 24.

14. 35 U.S.C. § 281 (1970).

15. See 4 A. DELLER, *DELLER'S WALKER ON PATENTS* § 420 at 699, 702 (2d ed. 1964).

16. The presumption of validity afforded an issued patent is not conclusive, but merely acts to place "[t]he burden of establishing invalidity of a patent . . . on the party asserting it." 35 U.S.C. § 282 (1970).

17. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295, 300 (9th Cir. 1970).

18. See *Cuno Engineering Corp. v. Automatic Devices Corp.* 314 U.S. 84 (1941), wherein the Court stated:

[A genuine "invention" or "discovery" must be demonstrated] . . . lest in the constant demand for new appliances the heavy hand of tribute be laid on each slight technological advance in an art.

*Id.* at 92. The Supreme Court has criticized the "notorious difference between the standards applied by the Patent Office and by the courts," and has suggested that the Patent Office more closely conform to the standards of patentability codified in the Patent Act of 1952, 35 U.S.C. 1 *et seq.* (1970), as interpreted by the courts. *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1965). The standards required of a patentable invention are, in brief, novelty, utility, and nonobviousness. See 35 U.S.C. §§ 101 to 103 (1970). The "notorious difference" has resulted in more than 80 per cent of patent infringement cases ending with a finding of patent invalidity. *Milgrim, Sears to Lear to Panton: Of Whales and Other Matters*, 46 N.Y.U.L. Rev. 17, 31 (1971).

19. 35 U.S.C. § 282 (1970).

20. See, e.g., *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), expressly overruled *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). Before *Lear*, the impact of *Hazeltine* had been severely limited by a series of decisions carving out exceptions to the licensee estoppel doctrine. See, e.g., *Sola Elec. Co. v. Jefferson*

The Supreme Court in *Lear, Inc. v. Adkins*,<sup>21</sup> however, rejected the licensee estoppel doctrine, declaring that the strong federal policies favoring free competition in ideas which are not patentable override the technical requirements of contract doctrine.<sup>22</sup> The *Lear* Court not only disposed of the procedural rule of licensee estoppel, but also decided that, contrary to the explicit terms of the license agreement, the licensee need not tender royalties accruing *at least* during the time royalties were contested and unpaid before a finding of patent invalidity.<sup>23</sup>

Again, in 1971, the Supreme Court made evident its intention to keep patent monopolies strictly within their statutory bounds. In *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*,<sup>24</sup> a licensee charged with patent infringement was allowed to enter a plea of estoppel based upon a prior finding between the patentee and a third party licensee that the patent was invalid. In dismissing the long standing doctrine of mutuality of estoppel as applied to patent litigation,<sup>25</sup> the Court noted:

Although recognizing the patent system's desirable stimulus to invention, we have also viewed the patent as a monopoly which, although sanctioned by law, has the economic consequences attending other monopolies. A patent yielding returns for a device that fails to meet the congressionally imposed criteria of patentability is anomalous.<sup>26</sup>

Thus it seems clear that recent Supreme Court decisions invoking anti-trust concepts and emphasizing the public interest in preserving free markets have significantly eroded protections once afforded the patentee.<sup>27</sup>

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Elec. Co., 317 U.S. 173 (1942) (licensee estoppel rule inapplicable where license agreement contains a price fixing agreement); Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co., 266 U.S. 342 (1924) (evidence of prior art admissible to limit proper scope of patent).

21. 395 U.S. 653 (1969).

22. *Id.* at 656, 670. The public interest argument, determinative in *Lear*, had been previously utilized by the Supreme Court in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964). In *Stiffel*, the operation of a state unfair competition law which prohibited the copying of unpatented articles when public confusion as to the identity of the producer would result was held invalid as inimical to the federal policy of insuring the free use of products not protected by a valid patent. *Id.* at 232-33.

23. 395 U.S. at 673-74.

24. 402 U.S. 313 (1971). For a perceptive analysis of the impact of *Blonder-Tongue* on patent law, see Comment, *Blonder-Tongue Bites Back: Collateral Estoppel in Patent Litigation — A New Look*, 18 VILL. L. REV. 207 (1972).

25. The leading case expounding the doctrine of mutuality of estoppel, *Tripplett v. Lowell*, 297 U.S. 638 (1936), was overruled in *Blonder-Tongue* to the extent that it foreclosed a plea of estoppel by one facing a charge of infringement of a patent which had once been declared invalid. 402 U.S. at 350.

26. 402 U.S. at 343.

27. Other examples of the influence of antitrust considerations on patent law include the "misuse doctrine" which indicates that a court of equity may deny a patentee the enforcement of his patent rights if he has used the monopoly power of his patent to compel purchases in unpatented commodities. See, e.g., *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488 (1942). The enforcement of a patent procured by intentional fraud may violate section 2 of the Sherman Act, 15 U.S.C. §§ 1-7 (1970), and subject the patentee to treble damages. See e.g., *Walker Process Equip., Inc. v. Food Mach. and Chem. Corp.*, 382 U.S. 172 (1965). License agreements that include royalty provisions projecting beyond the expiration date of the patent have been declared per se unlawful. See e.g., *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Mandatory

This was the context then, in which the district court found *Lear* to preclude the retention of royalties paid on an invalid patent. The district court, in ordering the return of royalties paid under the license agreement, found the rationale of *Lear* favoring the free use of unpatentable ideas and prohibiting the collection of royalties due but unpaid on an invalid patent to be equally applicable to the case where royalties are in fact paid and the patent is later held invalid.<sup>28</sup>

The district court, unmoved by Schwinn's argument that such a rule would place an oppressive and unfair burden on licensors, noted that they were in no worse a condition than that which they would have enjoyed had they not exacted undeserved monopoly profits on an invalid patent and that they have "at least . . . had the use of the licensee's money."<sup>29</sup> The court found no cause for treating a licensee who had paid royalties any differently than one who had not.<sup>30</sup> Reaching opposite conclusions and overruling the district court, the Sixth Circuit declared that the public interest in free markets was sufficiently protected under *Lear* without compelling the return of royalties already paid under a license agreement.<sup>31</sup>

The circuit court based this decision on two considerations: (1) policy — the probable effect of allowing a recovery of royalties already paid on patent licensing, patent litigation, and the utilization of the patent system itself by inventors,<sup>32</sup> and (2) equity — the relative position of the licensor patentee vis-à-vis his licensee.<sup>33</sup>

In analyzing the policy reasoning behind *Lear*, the circuit court first acknowledged that the purpose of *Lear* was to "unmuzzle" licensees, but also noted that an articulated goal of *Lear* was to "encourage an early adjudication of invalidity of patents."<sup>34</sup> By allowing licensees to recover past royalties, the court concluded that early litigation of patent validity would be discouraged because a licensee would be wise to delay in the hope that another party would assume the initiative and expense of chal-

package licensing may constitute patent misuse. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969). Cross-licensing agreements including price provisions have been held per se illegal. See, e.g., *United States v. Line Material Co.*, 333 U.S. 287 (1948).

This infusion of antitrust concepts into the law of license agreements, which was once grounded predominantly on contract and patent law, has led one commentator to observe that: "In a vast sense, patent licensing has become a complicated bramble-bush in the forest of antitrust law." Austern, *Umbras and Penumbras: The Patent Grant and Antitrust Policy*, 33 GEO. WASH. L. REV. 1015, 1030 (1965).

28. *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 334 F. Supp. 1269, 1271 (W.D. Tenn. 1971).

29. *Id.*

30. *Id.*

31. 465 F.2d at 1260.

32. See text accompanying notes 33 & 34, and note 35 and accompanying text *infra*.

33. See note 40 and accompanying text, and text accompanying notes 41 & 42 *infra*.

34. *Id.* at 1257.

lenging the patent in question.<sup>35</sup> Also, the circuit court noted that marginal litigation of dubious merit relating to patent validity would be encouraged since a licensee would have little to lose but possibly much to gain from bringing suit near the end of the licensed patent's term for royalties paid.<sup>36</sup> It is submitted, however, that this argument fails to consider the already significant inhibitory effect, recognized by the Supreme Court recently in *Blonder-Tongue*, that the costs of litigation have upon the pursuance of marginal (and even merited) claims against patentees.<sup>37</sup> Furthermore, an obvious effect of allowing the recovery of royalties already paid would be to induce the challenging of questionable patents in situations where the savings possible through a mere release from prospective royalties would not alone be great enough to justify the risks and costs incurred.<sup>38</sup> Also, it is submitted that any apparent encouragement to tardy and marginal litigation would be further enervated by the natural inclination of licensees to bring suit rather than pay royalties when the patent initially appears vulnerable to challenge.

The argument for promoting early adjudication in patent litigation should be placed in proper perspective. It should be noted that encouraging early adjudication is a policy preference supportive of and ancillary to the larger federal concern of promoting free and open markets and of utilizing private litigation as a means of enforcing that end.<sup>39</sup> Therefore, if federal policy strongly encourages licensees to test patents of questionable legitimacy that might otherwise remain unwarranted restraints upon competition, it is submitted that it should not be disregarded merely because a possible side effect might be to lessen the pressure on disgruntled licensees to litigate their claims promptly.

The circuit court also considered significant the hardship on patentee licensors, and the consequential inhibiting effect on licensing likely to occur if royalties were held recoverable upon a showing of patent

35. *Id.*

36. The court noted that the licensee, by bringing suit near the end of the patent term, "would have a chance to regain all the royalties paid while never having been subjected to the risk of an injunction." *Id.*

37. The average cost involved in litigating the validity of a patent is about \$50,000. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 335 (1971).

38. *Id.* at 347-48. The Court stated:

[T]he outlay required to try a lawsuit presenting validity issues is the factor which undoubtedly forces many alleged infringers into accepting licenses rather than litigating.

*Id.* In the instant controversy, the timidity of Troxel in paying royalties upon demand following the district court's finding of invalidity is perhaps understandable when the low royalty payments demanded are contrasted to the probable costs of defending a patent infringement action. See notes 2 & 37 *supra*.

39. See, e.g., *Perma Life Mufflers, Inc. v. Int'l Parts Corp.*, 392 U.S. 134 (1968), wherein the Court stated:

[T]he purposes of the antitrust laws are best served by insuring that . . . private action will be an ever-present threat to deter anyone contemplating business behavior in violation of the antitrust laws.

*Id.* at 139.

invalidity.<sup>40</sup> Even more important, in the circuit court's view, was the possibility that the imposition of liability on patentees for past royalties received might ultimately discourage the use of the patent system itself.<sup>41</sup> Too great a hardship imposed on patentees may induce inventors to keep discoveries secret, and thus avoid the public disclosure required for patent protection.<sup>42</sup> However, it is submitted that even a cursory evaluation of trade secret law indicates that an inventor, if he seeks to capitalize on his discovery, has little real alternative to utilization of the patent system because trade secret protection is much more limited than the government sanctioned monopoly afforded a valid patent.<sup>43</sup> Hence, inventors of legitimate discoveries will hardly be inhibited from seeking patent protection. More spurious claims may well be discouraged, but this would act to the benefit of an already overburdened patent system<sup>44</sup> and would be in consonance with the "free competition in ideas" mandate of *Lear*.<sup>45</sup>

The basis of the circuit court's conclusion as to the hardship imposed on patentees under the district court's interpretation of *Lear* was the understanding that "patentability" is an elusive concept.<sup>46</sup> In light of the uncertainty in application of the standards of patentability, the court reasoned that it would be unfair to hold patentees responsible for the errors of the Patent Office.<sup>47</sup> Thus, to the circuit court, a basic unfairness and misplacement of responsibility would result from requiring licensors to refund royalties paid before the invalidation of the patent.

40. The court stated:

Under the decision of the District Court, any person who has licensed . . . would have a continuous cloud over . . . royalties . . . . He would be compelled to retain all royalties received in a relatively liquid state . . . .

465 F.2d at 1257-58.

41. *Id.* at 1258.

42. See note 12 *supra*.

43. One authority has stated:

It is axiomatic that, unlike a patentee who enjoys a 17 year period of exclusivity, a trade secret owner has no rights against an independent subsequent developer including one who copies matter marketed or otherwise made public by the owner.

Milgrim, *supra* note 18, at 29.

44. See note 49 *infra*.

45. The history behind the Schwinn-Troxel license agreement is illustrative of the dangers in allowing owners of questionable patents to exact their "tribute" for ideas properly in the public domain. Schwinn used its patent offensively, seeking out "infractors" who became licensees under the threat of suit. The licensees, in turn, acted as policemen for Schwinn in enforcing the patent. See note 3 and text accompanying notes 1-3 *supra*. The ultimate link in the chain forges a circle when the patentee uses the "commercial success" of widespread licensing as evidence of the validity of the patent. Schwinn argued that point in urging the validity of its patent. The district court acknowledged the relevance of the factor of commercial success where patentability was a close question but refused to consider commercial success where, as in the instant case, the patent was obviously invalid on other grounds. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 160 U.S.P.Q. 587, 588 (N.D. Cal. 1969). While courts have generally considered commercial success when determining patent validity, it is clear that "commercial success without invention will not make patentability." *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 153 (1950).

46. See note 19 and accompanying text *supra*.

47. 465 F.2d at 1259.



This overview of the problem, however, is overly sympathetic to the position of the patentee. Due to the uncertainty of judicial acceptance or a particular patent,<sup>48</sup> blind reliance on a Patent Office issuance may not be justified or reasonable. Therefore, to require a patentee to defend the validity of a patent — and base his right to royalties on the result — does not appear inequitable, and might well have a beneficial “tightening” effect on the operation of the patent system.<sup>49</sup> Additionally, the argument for justified reliance on the pronouncement of the Patent Office works both ways. The circuit court decision would have the incongruous result of penalizing a licensee for assuming the validity of a patent, while excusing the patentee himself.<sup>50</sup>

In evaluating the position of licensee Troxel, the circuit court emphasized Troxel’s indiligence in bringing suit:

Troxel could have challenged the patent initially instead of taking a license. . . . It waited for someone else to challenge the patent. . . . Troxel . . . elected to remain a royalty-paying licensee. During all this time it had the benefit of freedom from suit . . . .<sup>51</sup>

However, the clear command of *Lear* was that when license agreements are at issue, the equities of the parties and the usual rules of contract law are to be evaluated in light of the overriding federal interest in promoting free competition in ideas not protected by valid patents.<sup>52</sup> It is submitted that, in weighing the equities of the parties, focusing on a perhaps undeserved advantage on the part of a licensee who had elected not to challenge a patent rather than on the fact that the patentee has enjoyed monopoly profits on an invalid patent is to ignore the priority of this federal interest in discouraging unwarranted limits on competition.

In rejecting the district court’s conclusions as to the applicability of *Lear*, the Sixth Circuit fell back on its own long standing rule of eviction:

It has been the established rule in this Circuit for nearly forty years that a final adjudication of invalidity operates as an eviction

48. See note 18 and accompanying text *supra*.

49. Spurious patents are distressingly common. For an impressive list of patents improvidently granted, see *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 156–58 (1950).

Infusing a greater measure of private responsibility into the patent system might well have a beneficial effect. The courts have been critical of the standards applied by the Patent Office, and the problem is steadily becoming more serious as both patent applications and the body of prior art which must be considered before granting a patent increase yearly. See generally Brenner, *The Challenges to the Patent Systems in the 1970’s*, 53 J. PAT. OFF. SOC’Y 407, 410 (1971).

50. It should be noted that the circuit court also stated that the licensee’s equities are less compelling since royalties are typically passed on to consumers through price increases. 465 F.2d at 1260. *But see Hanover Shoe, Inc. v. United Shoe Mach. Corp.*, 392 U.S. 481 (1968) in which the “passing on” defense was specifically rejected. In holding the defense unavailable to defendants in an antitrust action, the Supreme Court noted: (1) the almost insurmountable difficulties of proof in establishing, *post hoc*, the impact of a price increase on the total sales and general economic condition of a business, and (2) that allowing such a defense would enervate private enforcement of antitrust legislation by leaving only ultimate consumers who may have but minimal interests with standing to bring suit. *Id.* at 492–94.

51. 465 F.2d at 1260.

52. See notes 21–23 and accompanying text *supra*.

from the license, terminating the licensee's obligation to continue making royalty payments after that date but giving no right to recoup royalties already paid.<sup>53</sup>

Since the circuit court found the eviction doctrine expressed in *Drackett Chemical Co. v. Chamberlain Co.*<sup>54</sup> controlling, it reversed and remanded, instructing the district court to dismiss Troxel's complaint and claim for royalties. *Drackett* was held unaffected by *Lear*, except to the extent it expressed the doctrine of licensee estoppel.<sup>55</sup>

However, it is submitted that by utilizing *Drackett*, the circuit court ignored the holding of *Lear* that royalties accruing before a final finding of patent invalidity (and the corresponding eviction of the license agreement) were not due the patentee.<sup>56</sup> Under the eviction rule, the licensee remains liable for royalties which accrued before the effective destruction of the bargained for patent monopoly.<sup>57</sup> Therefore, if the *Lear* Court had utilized the theory of eviction, the patentee in *Lear* would have been entitled to all royalties accruing prior to the finding of patent invalidity. Instead, *Lear* clearly bypassed the eviction doctrine — at least where the royalties are contested and unpaid — by holding that public policy requires royalties once due need not be paid upon a subsequent finding of invalidity. Thus, the arguments made by the circuit court<sup>58</sup> should be viewed with the understanding that the only open question remaining after *Lear* was whether a licensee who has paid royalties should be treated differently than one who has not paid. *Lear* already had precluded the applicability of the eviction doctrine where the royalties are contested and unpaid.

It is submitted that in light of the public interest in free markets and the short service *Lear* and *Blonder-Tongue* gave to the technical requirements of contract doctrine when in conflict with that interest, the distinction maintained by the circuit court between the defensive retention and offensive recovery of royalties is both anomalous and arbitrary.

The rationale of *Lear*, albeit articulated in a case involving unpaid royalties, is no less compelling in the situation where royalties have been paid. On policy grounds, the inhibition of competition occasioned by the existence of an invalid patent is hardly lessened by the fact that royalties

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53. 465 F.2d at 1255, citing *Drackett Chem. Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933). The eviction rule is a contract defense arising from the complete failure of consideration occasioned by a judicial finding of patent invalidity. See 6 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS, §§ 814, 815 (3d ed. W. Jaeger 1962). In some jurisdictions, even a lower court finding of invalidity evicts a license agreement. See, e.g., *Automatic Radio Mfg. Co. v. Hazeltine Research*, 176 F.2d 799 (1st Cir. 1949). Other jurisdictions, including the Sixth Circuit, require the decision to be final and no longer appealable before an eviction occurs, apparently to avoid the unauthorized use which is likely in the event of the subsequent finding of validity on appeal. See, e.g., *Appleton Toy & Furniture Co. v. Lehman Co.*, 165 F.2d 801 (7th Cir. 1948); *Drackett Chem. Co. v. Chamberlain Co.*, 63 F.2d 853 (6th Cir. 1933).

54. 63 F.2d 853 (6th Cir. 1933). See note 53 *supra*.

55. 465 F.2d at 1260.

56. See text accompanying note 23 *supra*.

57. See note 53 *supra*.

58. See notes 31-36, 40, 42, 46-47 and accompanying text *supra*.

were paid rather than contested; regarding equitable principles, the act of payment does not bestow on the patentee any right to receive royalties for an invalid patent nor does it render such royalties any less an unwarranted burden on the licensee. Indeed, the logic of the eviction doctrine itself is inconsistent with such a differentiation.<sup>59</sup>

In conclusion, *Troxel* can perhaps best be characterized as an unfortunate deviation from the spirit of *Lear*. Disallowing a recovery for royalties paid upon an invalid patent appears inconsistent with both the federal policy favoring competitive markets and the federal strategy of encouraging private litigation as a means of enforcing this public preference. The reasoning of *Troxel*, however, has been mirrored on at least one other occasion,<sup>60</sup> and it seems likely that until the Supreme Court considers the issue specifically, the courts may hesitate to order recoveries for licensees in such situations.

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59. The crux of the eviction doctrine is not that royalties are unrecoverable per se, but rather that no right to recover exists as to royalties accruing before the "eviction," i.e., while the contract was still valid. A licensee under the eviction theory has an undisputed right to recover paid royalties which accrued after the eviction of the patent. See, e.g., *Wynne v. Aluminum Awning Prods. Co.*, 148 F. Supp. 212 (M.D.N.C. 1952). Thus, the eviction rule rests not upon an offensive-defensive distinction, but rather upon the point in time at which the liability of the licensor is terminated.

60. See *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 340 F. Supp. 1385 (N.D. Ill. 1972), wherein the court stated:

I find no expression in either *Lear* or *Blonder-Tongue* which would create an independent cause of action in a licensee permitting the recovery of royalties paid on a patent which is subsequently held invalid.

*Id.* 1392.