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PATENT ACQUISITIONS AND RESTRICTED LICENSES UNDER THE ANTITRUST LAWS

*James A. Curley**

"The greatest invention," Alfred North Whitehead once remarked, "was the invention of the method of invention."[1] Armed with this creative knowledge, the great corporate research laboratories spend millions of dollars yearly on the development of new products and the improvement of old ones. To guard inventions or improvements to existing products from being commercially exploited by competitors, inventors will generally seek protection under the federal patent system.[2] Since corporations are not natural persons, these entities cannot be considered inventors or patent ap-

* B.S.M.E. University of Alabama; J.D. Rutgers, the State University; LL.M. (Trade Regulation) New York University; Member, New York Bar. The author is Assistant Chief, Intellectual Property Section, Antitrust Division, United States Department of Justice, Washington, D.C. This Article is based on an address given by the author at a seminar on the Licensing of Industrial Property, held on March 5, 1977, at the Seton Hall University Law Center, Newark, N.J., before the New Jersey State Bar Association, Section on Patent, Trademark and Copyright Law, and the Licensing Executives Society. The views expressed herein do not necessarily represent those of the United States Government.

[1] A. WHITEHEAD, SCIENCE AND THE MODERN WORLD 91 (Mentor ed. 1948).

[2] Briefly, a patent gives an inventor the right "for the term of seventeen years . . . to exclude others from making, using, or selling the invention throughout the United States." 35 U.S.C. § 154 (1970); *see* Bauer & Cie v. O'Donnell, 229 U.S. 1, 9-10 (1913). *See also* U.S. CONST. art. I, § 8, cl. 8 (Congress empowered "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries").

For broad discussions on the substance of patent grants, see 4 A. DELLER, DELLER'S WALKER ON PATENTS §§ 207–213, at 6-23 (2d ed. 1965); I W. ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS §§ 11–44, at 16–67 (1809, reprinted 1971); Comment, *The Nature of a Patent Right*, 17 COLUM. L. REV. 663 (1917).

plicants in their own right under the patent laws of the United States.[3] Corporations may, and often do, acquire patent rights to an invention or improvement from their own employees, or from outsiders.[4] Similarly, corporations may license other parties to use their own patented technology under certain restrictions.[5]

It has been recognized by American courts that the corporate power to restrict the use of an item, pursuant to the patent grant, may be used to restrain free trade in violation of this country's antitrust laws.[6] For example, a corporation may obtain one or more patents on technology necessary to the successful operation of a competitor. By refusing to license the patent, or by licensing it subject to burdensome restrictions, the holding corporation might drive its competitor out of business or otherwise restrict the open market for competing goods. This tension between the exercise of patent rights and the enforcement of antitrust law has been particularly acute in the area of restrictive patent licensing.[7] This Article will review the

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[3] The wording of the patent statute indicates that it is necessary for the patent application to be in the name of the product's human inventor. 35 U.S.C. § 102(f) (1970) (emphasis added) ("[a] *person* shall be entitled to a patent unless . . . he did not himself invent the subject matter sought to be patented"); *id.* § 11 (the "[a]pplication for patent shall be made by the inventor"). *See* Wende v. Horine, 191 F. 620, 622 (Cir. Ct. N.D. Ill. 1911) ("only person authorized . . . to file the application is the inventor"); Misani v. Ortho Pharmaceutical Corp., 83 N.J. Super. 1, 14, 198 A.2d 791, 798 (App. Div. 1964) (citations omitted) ("[i]t is of the essence of the patent law and public policy that a patent must be applied for in the name of the true inventor only, whether issued to him or to his assignee"), *rev'd on other grounds*, 44 N.J. 552, 210 A.2d 609, *appeal dismissed and cert. denied*, 382 U.S. 203 (1965); F. RHODES, ELEMENTS OF PATENT LAW 6–7 (1949).

[4] The patent statute provides that "patents shall have the attributes of personal property," and therefore the patent holder may assign or sell any or all of the rights granted to him thereunder. 35 U.S.C. § 261 (1970).

In the particular case of corporate employees, it is general practice for terms to be inserted into their contracts of employment providing for automatic assignment to the corporation of all patentable discoveries made by the employees within the scope of their employment. *See* 1 A. DELLER, *supra* note 2, § 37, at 176–78; I W. ROBINSON, *supra* note 2, § 414, at 584–86. Even where patent rights are assigned away in a blanket manner, however, the corporation may not execute a patent application in its own name. *See* 35 U.S.C. § 111 (1970) (the "[a]pplication for patent shall be made by the inventor"); *id.* § 118 (even in hardship situations, corporation holding rights as assignee under employment contract must still apply "on behalf of and as agent for the inventor").

[5] *See* text accompanying notes 37–123 *infra*. For a general discussion of patent licensing arrangements, see I R. NORDHAUS, PATENT-ANTITRUST LAW §§ 23–27, at 23-27B (3d rev'd ed. 1977).

[6] *See* text accompanying notes 30–36 *infra*.

[7] Commentators have consequently devoted much attention to various aspects of the interrelationship between patent licensing and antitrust law. For general reviews of this area of the law, see, for example, 8 A. DELLER, *supra* note 2, §§ 646–666, at 214–87; R. ELLIS, PATENT ASSIGNMENTS AND LICENSES §§ 403–469, at 410–505 (2d ed. 1943); III

major decisions involving patent transfers and antitrust law, and will attempt to define the trend of judicial response to recent cases in this field. Initially, a review of the basic interrelationships between the patent grant and antitrust principles may be useful.

Patent Acquisition and Antitrust Law

A patent grant essentially allows one to exercise limited monopoly rights over the item covered by the patent. Having historical precedent traceable back to the Middle Ages,[8] the various systems of conferring exclusive rights upon inventors apparently always have resulted from governmental interest in promoting industrialization and free trade.[9] Today in the United States, a patent secures for an inventor the right to exclude others from "making, using, or selling [his] invention throughout the United States" over a seventeen-year period.[10] The exclusive rights granted under a patent are deemed to have the legal status "of personal property" and may be sold, assigned, licensed or otherwise transferred.[11] When patents are used in attempts to unreasonably restrain free trade in the United States, however, courts are often faced with the uneasy task of having to reconcile patent and antitrust precepts.

The principal antitrust provisions which relate to patent acquisitions as dealt with in this Article are sections 1 and 2 of the Sherman Act[12] and section 7 of the Clayton Act.[13] Section 1 of the Sherman Act prohibits "[e]very contract, combination . . . or conspiracy, in

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R. NORDHAUS, *supra* note 5, §§ 81–90, 93–96, at 81A to 90-4, 93 to 96-7; H. TOULMIN, HANDBOOK OF PATENTS §§ 666–674, at 569–75 (2d ed. 1954); Buxbaum, *Restrictions Inherent in the Patent Monopoly: A Comparative Critique*, 113 U. PA. L. REV. 633 (1965); Davidow, *Antitrust and International Patent Licensing*, 43 ABA ANTITRUST L.J. 530 (1974); Donnem, *Antitrust Attack on Restrictive Patent License Provisions*, 14 ANTITRUST BULL. 749 (1969); Finnegan, *Antitrust Problems in Licensing*, in CURRENT TRENDS IN DOMESTIC AND INTERNATIONAL LICENSING 157 (PLI 1976); Heyman, *Patents, Licensing and the Antitrust Laws-A Reappraisal at the Close of the Decade*, 14 ANTITRUST BULL. 537 (1969); Murchison, *Patent Acquisitions and the Antitrust Laws*, 45 TEXAS L. REV. 663 (1967); Pravel, *Patent Licensing and Limitations Under the Misuse and Antitrust Laws*, in PATENT ANTITRUST 45 (PLI 1976).

[8] *See* 1 A. DELLER, *supra* note 2, §§ 1–2, at 1-13; I R. NORDHAUS, *supra* note 5, § 2, at 2A-1 to 2B-3. *See also* F. RHODES, *supra* note 3, at 1–5; Prager, *The Early Growth and Influence of Intellectual Property*, 34 J. PAT. OFFICE SOC'Y 106, 106–09 (1952); Rose, *Antitrust Trends*, in CURRENT DEVELOPMENTS IN PATENT LAW 443, 447 (PLI 1976).

[9] 1 A. DELLER, *supra* note 2, § 8, at 57–60; I R. NORDHAUS, *supra* note 5, § 2, at 2A-1, 2B-1.

[10] 35 U.S.C. § 154 (1970); *see* note 2 *supra*.

[11] 35 U.S.C. § 261 (1970); *see* note 4 *supra*.

[12] 15 U.S.C. §§ 1, 2 (1976).

[13] *Id.* § 18 (1976).

restraint of trade or commerce among the several states, or with foreign nations."[14] Directed at general interferences with competition, a distinguishing feature of this provision is that one party, acting alone, cannot violate it by definition—at least two persons must act in concert for a section 1 offense to take place.[15] Section 2 of the Sherman Act, however, specifically prohibits monopolization, even where the proscribed activity is undertaken by only one party.[16] Patent acquisitions have been held subject to both section 1 and section 2 of the Sherman Act by federal courts.[17]

Section 7 of the Clayton Act prohibits one corporation from acquiring the "assets" of another where "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly."[18] It was principally designed to stem the rising tide of economic concentration resulting from corporate mergers, and the provision represented a conscious choice of policy favoring growth by internal expansion over growth by acquisition.[19] There are now a number of district court decisions which, by holding or dictum, have considered a patent,[20] a patent application,[21] and an exclusive license[22] to be "assets" within the scope of section 7.

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[14] *Id.* § 1 (1976).

[15] I R. NORDHAUS, *supra* note 5, § 3A, at 3A-2. *See also* A. NEALE, THE ANTITRUST LAWS OF THE UNITED STATES OF AMERICA 92–96 (2d ed. 1970).

[16] Section 2 of the Sherman Act, 15 U.S.C. § 2 (1970), reads in its entirety:

> 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 felony.

See A. NEALE, *supra* note 15, at 92–96; I R. NORDHAUS, *supra* note 5, § 3A, at 3A-2.

[17] *See* Standard Sanitary Mfg. Co. v. United States, 226 U.S. 20, 49 (1912) ("[r]ights conferred by patents are" limited by "[t]he Sherman law"); United States v. Parker-Rust Proof Co., 61 F. Supp. 805, 811 (E.D. Mich. 1945) ("fact that patents are involved cannot justify a contract which has the object or effect of restraining trade or stifling competition"); United States v. Vehicular Parking, Ltd., 54 F. Supp. 828, 835 (D. Del. 1944) (citation omitted) ("[patent] grant contain[s] no implied license to violate the anti-trust laws"); 8 A. DELLER, *supra* note 2, § 637, at 164–69.

[18] 15 U.S.C. § 18 (1976).

[19] *See* A. NEALE, *supra* note 15, at 180–83. *See also* 8 A. DELLER, *supra* note 2, § 636, at 153–56.

[20] *See* Dole Valve Co. v. Perfection Bar Equipment, Inc., 311 F. Supp. 459, 463 (N.D. Ill. 1970) (citation omitted) ("patent may be 'any part of the assets of another corporation' within the meaning of Section 7"); United States v. Lever Bros. Co., 216 F. Supp. 887, 889 (S.D.N.Y. 1963) (trademarks and patents are assets under section 7). *See also* 8 A. DELLER, *supra* note 2, § 638, at 169–73.

[21] *See* Automated Building Components, Inc. v. Trueline Truss Co., Inc., 318 F. Supp. 1252, 1260–61 (D. Oregon 1970) ("acquisition of" one company's patent application by another "violated section 7 of the Clayton Act").

[22] *See* Western Geophysical Co. of America, Inc. v. Bolt Associates, Inc., 305 F.

The United States Department of Justice has initiated several cases challenging patent acquisitions as violative of the antitrust laws.[23] One case that may be considered representative of such actions is that of *United States v. Scott Paper Co.*[24] In *Scott Paper*, the Antitrust Division initiated suit on behalf of the United States to enjoin the continuation of an exclusive license given to Scott by another defendant, Chemtronics, Inc.[25] The license permitted Scott to make reticulated polyurethane foam, the production of which was covered by a process patent held by Chemtronics.[26] It was alleged that this exclusive arrangement "restricted use and development of the process by others, in violation of Sec. 1 of the Sherman Act and Sec. 7 of the Clayton Act."[27] The parties entered into a consent judgment which provided that the patented process be subject to compulsory licensing, *i.e.*, be made available to any other company requesting a license and able to pay reasonable royalty fees in return.[28] In addition, Scott was enjoined for ten years from purchasing any patent or exclusive license relating to the production method in question.[29]

Traditionally, the permissible scope of patent licensing agreements in light of the antitrust laws was not easy to determine. Even though restrictive licensing per se was allowable under the patent grant, it remained for decision what particular types of restrictions could be practiced. What follows is a survey of the leading decisions in this area with particular emphasis on cases involving the patent licensing devices known as "grant-backs" and "tie-ins."

Supp. 1251, 1254–56 (D. Conn. 1969) (acquisition of exclusive license considered acquisition of an asset under section 7, but evidence failed to establish a violation); United States v. Columbia Pictures Corp., 189 F. Supp. 153, 182–83 & 182 n.4 (S.D.N.Y. 1960) (exclusive copyright license and other "intangibles or choses in action" are assets for section 7 purposes).

[23] The Antitrust Division of the Department of Justice is the sole federal agency that enforces the Sherman Act, 15 U.S.C. § 4 (1976), while proceedings under the Clayton Act may be initiated by either the Department or the Federal Trade Commission, 15 U.S.C. § 21(a) & (b) (1976); *see* Dieterich, *Patents and Antitrust: An Overview*, in PATENT ANTITRUST 7, 9, 17–18 (PLI 1976).

[24] [1969] Trade Cas. (CCH) ¶ 72,919, at 87,531 (E.D. Mich. 1969).

[25] *Id.* at 87,531.

[26] *See id.* at 87,531–32.

[27] *See id.*

[28] *Id.* at 87,532–33.

[29] *Id.* at 87,534. In addition to compulsory licensing and injunctive relief, available antitrust sanctions include treble damages, 15 U.S.C. §§ 15, 15a (1976), invalidation of a patent, *see* United States v. Glaxo Group, Ltd., 410 U.S. 52, 57–64 (1973) and temporary suspension of patent rights, *see* Hartford-Empire Co. v. United States, 323 U.S. 386, *modified*, 324 U.S. 570 (1945).

Patent Licensing

As a consequence of the many conflicting social and economic policies that operate in a free enterprise economy, there is a need to insure that the operational scope of a given policy is kept within bounds to prevent its incursion upon the operation of countervailing policies.[30] Such a dichotomy is presented by the conflicting policies which underlie patent and antitrust laws.[31] As such, the scope of the patent owner's right to exclude others from the use of a patented object should remain subject to the general rules of the marketplace including the antitrust laws,[32] and the common law of ancillary restraint,[33] to prevent incursion upon the policy considerations intrinsic in their operation. Despite the "broad freedom in licensing" accorded patent owners there is nothing that specifically supports the "unswerving supremacy of patent law over antitrust law nor establishing . . . an absolute immunity from antitrust law."[34]

Even apart from the effect of the antitrust laws upon the patent system, patent law itself reflects a balancing of interests which include those policies engendered by the antitrust laws.[35] Commenting upon this balancing of interests, the Supreme Court has noted the congressional intent in weighing "the need to encourage innova-

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[30] *See* L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST, § 176, at 502–04 (1977). The use of any patent system operates to encourage investment in research and development beyond the level that would ordinarily be fostered by market influences. *Id.* § 176, at 502; *see* Gibbons, *Price Fixing in Patent Licenses and the Antitrust Laws*, 51 VA. L. REV. 273, 276 (1965). Since, at its essence, an idea "is the product of research investment the patent system affords some protection [for] an otherwise easily copied result." L. SULLIVAN, *supra* § 17B, at 502. The incorporation of a given patent structure alone, however, while assuring some increase in research and development, does not operate to ensure a socially optimum level either of current production, or of investment in innovation. *Id.* at 503–04.

[31] *Compare* the stated public policy reasons for extending limited monopoly rights through the patent grant in U.S. CONST. art. I, § 8, cl. 8 and 35 U.S.C. § 31 (1970) and Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 492 (1942) *with* 15 U.S.C. § 1 (1970) and 15 U.S.C. § 14 (1970).

[32] Moraine Prods. v. ICI America, Inc., 538 F.2d 134, 139, 143 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976); L. SULLIVAN, *supra* note 30, § 183, at 527; Gibbons, *supra* note 30, at 279.

[33] *See* Bork, *Ancillary Restraints and the Sherman Act*, 15 ABA ANTITRUST J. 211, 211 (1960).

[34] Moraine Prods. v. ICI America, Inc., 538 F.2d 134, 143 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976); *see* L. SULLIVAN, *supra* note 30, § 183, at 525–27. *But cf.* Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, 816 (1945) ("a patent is an exception to the general rule against monopolies and to the right to access to a free and open market").

[35] *See* Goldstein v. California, 412 U.S. 546, 569 (1973).

tion . . . against the need to secure competition in the sale of identical . . . products."[36]

In this context it is useful to note that a patent owner may choose to include a broad range of possible restrictions in his licensing agreements. As a general proposition, the test of the legality of such licensing restrictions under the antitrust laws is that of the overall reasonableness of the impact on competition of such provisions.[37] As with other types of contracts, the antitrust laws are neutral toward patent licenses which lack a significant impact on competition.[38] Because of the high potential for undesirable restraints of trade intrinsic in certain licensing practices, however, such arrangements are either prohibited by the antitrust laws, or constitute a patent misuse, or both.[39] While the scope of the patent misuse doctrine, which equitably precludes enforcement of the patent when the patentee has expanded his activities under the patent grant beyond the scope contemplated by the Constitution and patent laws,[40] is not necessarily coextensive with the prohibitions of antitrust law, the underlying policies of each "are 'deeply suffused.' "[41] Thus, most of the licensing

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[36] 412 U.S. at 569.

[37] *See* Moraine Prods. v. ICI America, Inc., 538 F.2d 134, 144–45 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976).

[38] Moraine Prods. v. ICI America, Inc., 538 F.2d 134, 144–45 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976).

[39] The courts have been careful to note, however, that patent misuse need not rise to the level of an antitrust violation in order to be actionable, nor is patent misuse a prerequisite for an antitrust action. *See, e.g.*, Morton Salt v. G. S. Suppiger Co., 314 U.S. 488, 490 (1942) ("[t]he question . . . is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition"); Berlenbach v. Anderson & Thompson Ski Co., 329 F.2d 782, 784 (9th Cir. 1964) (citations omitted) ("we find no merit in [the] contentio[n] that the proof of substantial lessening of competition is a prerequisite to finding patent misuse"); Ethyl Corp. v. Hercules Powder Co., 232 F. Supp. 453, 458 (D. Del. 1964) (citation omitted) ("[t]here is a legal distinction between misuse and antitrust violation, but the misuse decisions are 'deeply suffused' with the antitrust philosophy"). *See also* McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir. 1948); National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); Sonobond Corp. v. UTHE Technology, Inc., 314 F. Supp. 878 (N.D. Cal. 1970); Baldwin-Lima-Hamilton Corp. v. Tatnall, 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd per curiam*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959); Park-In Theatres, Inc. v. Paramount-Richards Theatres, 90 F. Supp. 730 (D. Del.), *aff'd*, 185 F.2d 407 (3d Cir. 1950); P. AREEDA, ANTITRUST ANALYSIS 449 nn.84–86 (2d ed. 1974).

[40] *See* B. B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); Performed Line Products Co. v. Fanner Mfg. Co., 328 F.2d 265 (6th Cir. 1964).

[41] Ethyl Corp. v. Hercules Powder Co., 232 F. Supp. 453, 458 (1964); *see* United States v. Lowe's, Inc., 371 U.S. 38, 45–46 (1962); L. SULLIVAN, *supra* note 30, § 154, at 442; 8 A. DELLER, *supra* note 2, § 667, at 292–93.

practices which impinge upon antitrust policy involve the use of patent licenses to artificially expand the legal monopoly that is the essence of a patent.

Tie-ins and Other Forms of Leverage

An effort to use a patent as a lever to tie-in or control other products, services, patents or subject matter not included within the patent grant is both a patent misuse[42] and, given the necessary elements, an antitrust violation. Under general antitrust principles a tying arrangement constitutes a per se violation of section 1 of the Sherman Act if it is shown that a seller has "sufficient market power" in a given product and that the arrangement effects interstate commerce to some appreciable degree.[43] The necessary market power is, however, presumptively present when the tying product is patented[44] and is itself "sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences."[45] The standard for measuring the market effect on commerce of a particular restriction requires an inquiry into the substantiality of competition precluded by the tie.[46] Based on these principles, it is useful to examine some of the principal forms that these arrangements take and the antitrust implications of these licensing practices.

A patentee may not require a licensee to purchase additional unpatented materials from it for use in practicing the patent.[47] Such provisions were, in a series of Supreme Court cases, initially held to be violative of the patent misuse doctrine.[48] These decisions were

[42] *See, e.g.*, Morton Salt v. G. S. Suppiger Co., 314 U.S. 488 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); Carbice Corp. v. AM Patents Corp., 283 U.S. 27 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). *See also* Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50 (1958).

[43] Northern Pacific Ry. v. United States, 356 U.S. 1 (1958).

[44] *See* United States v. Loew's, Inc., 371 U.S. 38 (1962); International Salt Co. v. United States, 332 U.S. 392 (1947); Frost, *Tying Clauses and Package Licensing*, 28 U. PITT. L. REV. 207 (1966).

[45] United States v. Loew's, Inc., 371 U.S. 38, 46 (1962). *But see* Susser v. Carvel Corp., 332 F.2d 505, 519–21 (2d Cir. 1964) (Friendly, J., concurring).

[46] One commentator has suggested that a comparison between the "relation of the commerce in the tied product" and "the total commerce in such product" is an appropriate mode of inquiry, or that the test of "quantitive substantiality" be used in this determination. Frost, *supra* note 44, at 209–10.

[47] *See, e.g.*, Morton Salt v. G. S. Suppiger Co., 314 U.S. 488 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); Carbice Corp. v. AM Patents Corp., 283 U.S. 27 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

[48] *See* Morton Salt v. G. S. Suppiger Co., 314 U.S. 488 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); Carbice Corp. v. AM Patents Corp., 283 U.S. 27 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

based on both an interpretation of the patent statute which limited the patent to the specified object of the grant and the public policy against unwarranted extensions of the legally granted monopoly.[49] Other courts went as far as to suggest that antitrust standards were to be completely substituted for patent policy in dealing with this type of restriction.[50]

Subsequently, the latter rationale was found to be sufficient justification for applying per se standards to tie-in situations in *United States v. Loew's, Inc.*[51] Combined with the presumption of requisite market power also established in *Loew's*,[52] this analysis has been adopted in several subsequent decisions to measure the validity of a patent licensing tie-in.[53]

Another type of prohibited restriction involves a restraint on a licensee's freedom to deal in products outside the scope of the patent. Specifically, this proscription is directed at provisions which prohibit a licensee from dealing in or utilizing competing products or processes.[54] Restrictions of this type have been recognized as another category of restraint subject to the patent misuse doctrine, and to the extent that the policies underlying this doctrine coincide with antitrust policy, such restrictions should be considered as violative of those proscriptions.[55]

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[49] *See* Morton Salt v. G. S. Suppiger Co., 314 U.S. 488, 491–92 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 461–63 (1938); Carbice Corp. v. AM Patents Corp., 283 U.S. 27, 31–32, 34 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 509–14 (1917).

[50] *See, e.g.*, Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, 666 (1944) (otherwise "the patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts . . . define the public policy"); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 684 (1944) ("[t]he legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law").

[51] 371 U.S. 38, 51 (1962) ("[a]ccommodation between the statutorily dispensed monopoly in . . . the patented . . . product and the statutory principles of free competition demands that extension of the patent . . . monopoly by the use of tying agreements be strictly confined").

[52] *Id.* at 45 (footnote omitted) ("[e]ven absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes").

[53] *See, e.g.*, Rex Chainbelt, Inc. v. Harco, 512 F.2d 993 (9th Cir. 1975); Switzer Bros., Inc. v. Locklin, 297 F.2d 39 (7th Cir. 1961); Jack Winter, Inc. v. Koratron Co., 375 F. Supp. 1 (N.D. Cal. 1974).

[54] *See* McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir. 1948); National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co., 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd per curiam*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959).

[55] *See* Eastern Venetian Blind Co. v. Acme Steel Co., 188 F.2d 247 (4th Cir. 1951); National Aluminate Corp. v. Permutit Co., 145 F.2d 175 (8th Cir. 1944); Krampe v. Ideal

Additionally, a provision which conditions the granting of a license upon the licensee's also taking a license for other, possibly unwanted patents, is prohibited.[56] Compulsory package licensing is considered to be both a patent misuse and an antitrust violation.[57] Exceptions to this principle exist for certain business justifications[58] and in the context of the licensing of "blocking patents," *i.e.*, patents which are not independently viable or, as a practical matter, constitute a single product.[59]

Finally, although not strictly a tying situation, the grant of a license must not be conditioned upon the payment of royalties not reasonably related to the licensee's manufacture, use, sale of products or use of the process covered by the patent.[60] In the tying context the royalty question is most relevant in the situation where a multiplicity of patents is licensed under the same agreement, not all of which expire concurrently.[61] The exaction of royalties beyond the expiration date of the patent in this situation has been found to be an attempt to extend the statutory monopoly, rendering the patent unenforceable.[62] A computation of royalties based on a percentage of total sales is permissible, however, if negotiated for the convenience of the parties, as are minimum and lump sum royalties.[63]

Although the form of the attempted restriction varies widely, a common result obtains from use of patent tying arrangements. These practices involve efforts by patent owners to utilize contractual arrangements to secure control over more than the subject matter of their patent grants. Such arrangements are reflective of an effort to

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Indus., Inc., 347 F. Supp. 1384 (N.D. Ill. 1972); Park-In Theatres v. Paramount-Richards Theatres, 90 F. Supp. 727 (D. Del. 1950), *aff'd*, 185 F.2d 407 (3d Cir. 1950); Gibbons, *supra* note 30.

[56] *See* Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966); American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959).

[57] *See* Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966); American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959).

[58] *See, e.g.*, Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir. 1961); United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

[59] International Mfg. Co. v. Landon, Inc., 336 F.2d 723, 729 (9th Cir. 1964); *see* L. SULLIVAN, *supra* note 30, § 160, at 463–66.

[60] Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969).

[61] *See* Brulotte v. Thys Co., 379 U.S. 29 (1964); Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966).

[62] *See* L. SULLIVAN, *supra* note 30, § 160, at 463–66.

[63] *See* Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); Plastic Contact Lens Co. v. H. Butterfield, 366 F.2d 338 (9th Cir. 1966).

proliferate monopolies, or to extend the scope of the lawful patent monopoly into the public domain. It can be argued that these practices are "inherently so anticompetitive in nature and in tendency that no specific proof of their economic effect is needed to assure their condemnation," and thus are per se violative of antitrust proscriptions.[64]

Acquisition by Grant-Back

A patent licensor will generally seek to protect its competitive position by arranging to control further technological improvements to its original invention which may be made or suggested by licensees. In the absence of such a protective condition, the licensee could limit or undermine the patent rights of the inventor by developing an offshoot of the basic product. The commonly used device by which the licensor effects the desired control is the grant-back clause.[65] Essentially, this provision is inserted into the original licensing contract between licensor and licensee, and provides that the licensee will convey to the licensor, by assignment or license, any improvement patents on the invention.[66]

Grant-back agreements may vary both in terms of scope and exclusivity. Such agreements may be limited to only those improvements made on the original invention, or may embrace all of a licensee's inventions in a particular field of technology.[67] Further, a

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[64] Northern Pacific Ry. Co. v. United States, 356 U.S. 1, 5 (1958).

[65] *See* Linowitz & Simmons, *Antitrust Aspects of Grant Back Clauses in License Agreements*, 43 CORNELL L. Q. 217 (1958). Unless a grant-back provision is negotiated, a new development made by the licensee could render the original invention "obsolete and useless." Comment, *The Validity of Grant-Back Clauses in Patent Licensing Agreements*, 42 U. CHI. L. REV. 733, 735 (1975). Grant-back clauses are also included in patent licensing agreements to protect the licensor's interest in an "entire process." *See id.* Moreover, where the licensor regularly does business with the licensee, the "overall efficiency of their relationship" is preserved by the clarification of their respective rights, which is inherent in a grant-back clause arrangement. *Id.* at 735 & n.9. *See also* Chevigny, *The Validity of Grant-Back Agreements Under the Antitrust Laws*, 34 FORDHAM L. REV. 569 (1966).

[66] *See* THE ATTORNEY GENERAL'S COMMITTEE ANTITRUST REPORT 227 (1955) [hereinafter cited as 1955 ANTITRUST REPORT].

The licensee assigns his rights to the licensor "[w]here the original patentee acquires full patent rights to the improvement patents." Comment, *supra* note 65, at 734. A " 'license-back' " arrangement exists "when the licensee of the original patent retains the patent rights to the improvement patents and the original patentee is given only the right to use rather than to control the improvement patents." *Id.*

[67] *Id.* at 734–35. The language of a grant-back clause may be so narrow as to include only those "improvements that relate so closely to the original patent that their use would constitute an infringement of the original patent." *Id.* at 735. On the other hand,

grant-back agreement may stipulate whether the licensee is to convey to the original licensor an exclusive license, a non-exclusive license or an assignment of all rights in any new developments.[68]

Traditionally, grant-back clauses in patent licensing contracts were sustained by most American courts.[69] The Second Circuit, in *Stokes & Smith Co. v. Transparent-Wrap Machine Corp.*,[70] however, altered this firm course, finding the grant-back arrangement between the parties invalid. In that 1946 decision, commonly referred to as the *Transwrap* case, the Second Circuit dealt with an exclusive patent license which was granted to Stokes & Smith, the licensee, attendant to the sale of a business.[71] Under the agreement, Transparent-Wrap Machine Corp., the licensor, received a grant-back of any and all improvement patents relating to the licensed machine.[72] During the seventh year of this ten-year agreement, the licensor discovered that the licensee had not assigned back some fourteen improvement pat-

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the wording of a grant-back provision may be so broad as to require the granting back of " '*any* invention or improvement relating to the licensed inventions.' " *Id.* at 734 n.6. (emphasis added) (quoting from Zajicek v. Koolvent Metal Awning Corp. of America, 283 F.2d 127, 131 n.3 (9th Cir. 1960), *cert. denied*, 365 U.S. 859 (1961)).

[68] Comment, *supra* note 65, at 734; *see* note 2 *supra*.

[69] *E.g.*, Allbright-Nell Co. v. Stanley Hiller Co., 72 F.2d 392 (7th Cir. 1934) (alleged breach of licensing covenant litigated with it being assumed that as long as agreement met the requisites of valid contract, fact that agreement involved grant-back would not have effect on that validity); Bunker v. Stevens, 26 F. 245 (C.C.N.J. 1885) (improvements upon original invention become property of patentee pursuant to license agreement of parties); American Refining Co. v. Gasoline Products Co., 294 S.W. 967 (Tex. Civ. App. 1927) (grant-back clause not illegal under Sherman Act).

[70] 156 F.2d 198 (2d Cir. 1946), *rev'd*, 329 U.S. 637 (1947). *See generally* Comment, Transparent-Wrap—*The Continuing Case for Grant-Back Agreements*, 17 CATHOLIC U.L. REV. 228 (1967).

[71] Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, 638 (1947). Transparent-Wrap patented an invention of Walter R. Zwoyer, which was later to become known as the "Transwrap Packing Machine." 156 F.2d at 198, 201. The license entitled the vendee, Stokes & Smith Co., to make and sell machines used in manufacturing, filling and resealing transparent packaging material. *Id.* at 198.

[72] 156 F.2d at 199, 200 & n.*. Articles 11, 12 and 14 of the agreement were reproduced in their entirety in the margin of the opinion. *See id.* at 199–200 & n.*. Article 12 included the following:

> If the Licensee shall discover or invent an improvement which is applicable to the Transwrap Packing Machine and suitable for use in connection there with and applicable to the making and closing of the package, but not to the filling nor to the contents of the package, it shall submit the same to the Licensor . . . . In the event that . . . additional Letters Patent are applied for and are granted to the Licensor, they shall be deemed covered by the terms of this License Agreement and may be used by the Licensee hereunder without any further consideration, license fee or royalty as above provided.

Id. at 199 n.*.

ents. As a result, the underlying license was terminated.[73] The licensee thereupon sought a declaratory judgment holding the grant-back clause illegal.[74] The licensor counterclaimed for assignment of the patents. The trial court held for the licensor and dismissed the complaint.[75]

In reversing the trial court's decree, the Second Circuit held the clause to be illegal.[76] Writing for the majority, Judge Learned Hand analogized the assignment-back agreement to a patent tie-in arrangement,[77] which had previously been condemned as patent misuse.[78] Judge Hand did not squarely confront the antitrust issues raised by the grant-back covenant regarding exclusivity,[79] but instead relied upon the Supreme Court's practice to restrict "the power of patentees to use their patents for bargaining purposes."[80] In dicta, however, Judge Hand indicated that a non-exclusive form of grant-back would have been acceptable since it could not be viewed as a coercive use of the patent to obtain contract concessions.[81]

The Supreme Court did not accept Judge Hand's analogy to the tie-in cases[82] and reversed the Second Circuit.[83] Writing for the majority, Justice Douglas found that no restrictions could be imposed on the type of consideration to be given for the assignment of a pat-

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[73] *Id.* at 198–99, 201. The demand for assignment of three of the patents was withdrawn upon trial. *Id.* at 201.

[74] Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, 640 (1947).

[75] 156 F.2d at 201.

[76] *Id.* at 203.

[77] *Id.* at 201; Comment, *supra* note 65, at 736. Generally, "[i]n a tie-in arrangement, the patentee requires the potential licensee to purchase an unpatented product in order to acquire the desired license to the patented product." *Id.*

[78] 156 F.2d at 201. A tie-in arrangement had been invalidated as violative of both federal public policy and the patent laws in Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 492, 494 (1942), insofar as it "enabl[ed] the patentee to extend its lawful monopoly beyond its original scope." Comment, *supra* note 65, at 736; *see* Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, 666–67 (1944); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 684 (1944).

[79] 156 F.2d at 202..

[80] *See id.*; 47 COLUM. L. REV. 321, 322 (1977).

[81] 156 F.2d at 203; Comment, *supra* note 65, at 737. Judge Hand stated that "[n]o one could have objected [to the agreement], had the defendant merely provided that . . . it should have a license for any improvements which the plaintiff had made." 156 F.2d at 203.

[82] Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, 641 (1947). The opinion noted that certiorari had been granted because of the conflict between the lower *Transwrap* decision and the holding in Allbright-Nell Co. v. Stanley Heller Co., 72 F.2d 392 (7th Cir. 1934). 329 U.S. at 638.

[83] *Id.* at 648.

ent because the assignability of patents had not been limited by legislative enactment.[84] Although the Second Circuit had limited its considerations to a balancing of the contracting parties' interests,[85] the Supreme Court analyzed the situation in light of the public policy aspects of antitrust law involved in the case.[86] Conceding the possibility that an assignment-back clause may affect the licensee's incentive to invent,[87] the Court nevertheless found that "using one legalized monopoly to acquire another legalized monopoly" could not be construed as detrimental to public policy in view of congressional intent expressed in the patent statutes.[88]

The majority opinion, however, recognized that grant-backs afforded the potential for abuse in restricting competition and expressly withheld a general sanction on the use of such clauses.[89] The case was remanded to the circuit court for a factual determination of whether there had been a violation of the antitrust laws.[90] On remand, the Second Circuit held that no such violation had taken place.[91]

General Talking Pictures & *"Field-of-Use" Licensing*

The decision usually regarded as supportive of the validity of the practice of field of use licensing is *General Talking Pictures Corp. v. Western Electric Co.*[92] In that case, the owners of several patents,

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[84] *Id.* at 643–44; *see* Comment, *supra* note 65, at 737.

[85] 156 F.2d at 199–203.

[86] *See id.* at 645–46.

[87] *Id.* at 646.

[88] *Id.* at 643–44. The opinion noted that "[a]n improvement patent, like the basic patent to which it relates, is a legalized monopoly for a limited period. The law permits both to be bought and sold." *Id.* at 644.

[89] *Id.* at 646–48.

[90] *Id.* at 648.

[91] Stokes & Smith Co. v. Transparent-Wrap Machine Co., 161 F.2d 565 (2d Cir.), *cert. denied*, 331 U.S. 837 (1947). The reach of the *Transwrap* case would appear to be limited to instances in which the licensor is not a dominant firm in the industry, there is only one licensee, and the scope of improvements to be granted back does not extend beyond the confines of the original patent. If there is only one licensee, the licensor will receive only the improvements of the licensee and, when the original patent expires, the licensor will merely have the market power represented by the patents of the licensee. But where there is more than one licensee, the grant-back will act as a funnel to enable the licensor to amass the collective market power of the licensees. *But see* Santa Fe-Pomeroy, Inc. v. P&Z Co., [1978-1] Trade Cas. (CCH) ¶ 61,918, at 73,881, 73,885–86 (9th Cir. 1978).

[92] 304 U.S. 175, *aff'd on rehearing*, 305 U.S. 124 (1938); *see* Adelman & Juenger, *Patent-Antitrust: Patent Dynamics and Field-of-Use Licensing*, 50 N.Y.U.L. REV. 273, 278–80 (1975); Gibbons, *Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition*, 66 COLUM. L. REV. 423, 444–45 (1966).

useful in the production of amplifiers, licensed a number of firms to manufacture amplifiers containing these patented items.[93] Under the terms of the agreement, the licensees generally were restricted to the manufacture of equipment useful in "the private field," while one of the patentees reserved the right to manufacture and sell the products for commercial use.[94] A private-field licensee, American Transformer, nevertheless sold equipment to Talking Pictures with the knowledge that the amplifier would be used commercially.[95] Consequently, the plaintiffs filed an action against both American Transformer and Talking Pictures to enjoin the use of the equipment in the commercial field.[96] In its defense, Talking Pictures contended that the sale of the equipment to a bona fide purchaser for value terminated the right of the patent owners to control the manner of use of the product.[97]

Writing for the Court on rehearing, Justice Brandeis found it unnecessary to decide whether a patentee could validly restrict the use of an object manufactured pursuant to the license after that object had passed into the hands of a purchaser "in the ordinary channels of

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[93] 304 U.S. at 179–80.

[94] *Id.* Rights to the patented components were held by three corporations which pooled their interests and jointly negotiated the commercial and private use licenses. *Id.* at 187 (Black, J., dissenting). Despite the Court's failure to address the propriety of the underlying pooling arrangement, commentators have questioned its validity on several grounds. *See* Adelman & Juenger, *supra* note 92, at 280 n.24; Gibbons, *supra* note 92, at 448. First, it has been suggested that this arrangement was similar to the price-fixing pool, later condemned as violative of the Sherman Act in United States v. Line Material Co., 333 U.S. 287, 312–14 (1948). *See* Adelman & Juenger, *supra* at 280 n.24. For a discussion of the *Line Material* case, see notes 131–41 *infra* and accompanying text.

Furthermore, Professor Gibbons contends that, since the sales of the patented objects also involved the transfer of unpatented products, the result of the field restriction was to restrict competition with regard to the unpatented products. This restriction could arguably constitute a tying arrangement of questionable validity under the antitrust laws. Gibbons, *supra* at 448; *see* Adelman & Juenger, *supra* at 280 n.24.

[95] 304 U.S. at 180.

[96] *See id.*; 304 U.S. at 180.

[97] Western Electric Co. v. General Talking Pictures Corp., 16 F. Supp. 293, 294 (S.D.N.Y. 1936), *aff'd*, 91 F.2d 922 (2d Cir. 1937), *aff'd*, 304 U.S. 175, *aff'd on rehearing*, 305 U.S. 124 (1938). In its initial opinion, the Supreme Court responded to this contention by noting that the devices had been sold to Talking Pictures by a party other than a member of the patent pool, and that the licensee had not been authorized to sell them for commercial use. 304 U.S. at 180–81. Since the sales were beyond the scope of the license and the purchases were made with knowledge of the restrictions, *id.* at 181–82, the Court refused to concede that Talking Pictures was " 'a purchaser in the ordinary channels of trade,' " *id.* at 181. It was further stated that a patent owner is generally entitled to grant licenses of limited scope based upon conditions "not inconsistent with the scope of the monopoly." *Id.* Therefore, by the terms of the license, the owner had not impermissibly "extend[ed] the scope of the monopoly beyond that contemplated by the patent statute." *Id.* Nor was there any basis for the assumption that the sales to Talking Pictures were made under the authority of the patentees. *Id.*

trade."[98] Recognizing the legality of the practice of restrictive licensing in general, the validity of the particular restriction was tested by inquiring whether it was " 'reasonably within the reward which the patentee . . . is entitled to secure.' "[99] Finding the limitation in question to be of similar character, the Court relied upon the widespread use of these restraints in affirming the validity of the restriction.[100] Therefore, based on the conclusion that "the practice of granting licenses for restricted use" was permissible, it was held that the licensee had infringed the agreement by selling the devices to Talking Pictures.[101]

The Court reasoned that knowledge of the license restriction removed the manufactured product in this case from the "ordinary channels of trade" category.[102] Additionally, the purchaser's knowledge of the restriction made it equally liable and allowed the Court to avoid consideration of a bona fide purchaser's rights in these circumstances.[103]

The Supreme Court holdings in *Talking Pictures* relied primarily on an earlier opinion[104] in which it had held that a patentee, who had retained the right to manufacture, could fix the resale price charged by its competing licensee-manufacturer.[105] That case, *United States v. General Electric Co.*,[106] arose when an injunction was sought against continuation of a license agreement between General Electric and Westinghouse. The agreement in question required Westinghouse to conform its pricing of light bulbs manufactured under the license to the licensor's scale.[107]

Chief Justice Taft recognized the right of the patentee to profit from his innovation. Therefore, reasonable restrictions upon "the method of sale and the price" of products manufactured under the patent would be permissible to guarantee the patentee's reward.[108] The Court considered the ramifications of antitrust law but, relying upon prior case law, dismissed its applicability to the patentee's price-fixing arrangement.[109]

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[98] 305 U.S. at 125.
[99] *Id.* at 127.
[100] *Id.*
[101] *Id.*
[102] *Id.* at 125.
[103] *Id.* at 127.
[104] *Id.*; 304 U.S. at 181–82.
[105] United States v. General Electric Co., 272 U.S. 476, 488, 494 (1926).
[106] 272 U.S. 476 (1926).
[107] *Id.* at 478–79.
[108] *Id.* at 489–91.
[109] *Id.* at 490–94.

However, the reasoning in an earlier Supreme Court decision[110] evidences a policy which conflicts with that expounded in the *Talking Pictures* and *General Electric* cases.[111] In contrast to the broad interpretation afforded patent law in these later cases,[112] the Court in *Motion Picture Patents v. Universal Film Co.*[113] proscribed restrictive use covenants.[114]

The *Motion Picture Patents* Court addressed the issues arising[115] from tie-in arrangements in a patent licensing agreement. In justification of its narrowing the scope of a patentee's rights, the Court relied upon several factors. First, the Court noted a distinction between a patentee's rights which are enforceable in an infringement proceeding and those created by contract which are subject to antitrust laws.[116] The Court also found no statutory authority providing for protection of a product comprised of patented items by means of restrictive conditions as the product enters "into the channels of trade."[117] Third, the "primary purpose" of patent protection was not considered to be monetary enrichment of the patentee, but rather preservation of scientific innovation.[118]

Limitations on patent use have traditionally been recognized by the Supreme Court, but generally have not been applied to restrict the legal monopoly held by the patentee.[119] In the later cases, the limitation set forth in the *General Electric* holding[120] has been practically applied in the area of tie-in arrangements to restrict the patentee's activities.[121] In these later cases, the Court has relied exclusively on the patent misuse doctrine,[122] but analogized this precept to the practice of utilizing "a patent as an instrument for restraining commerce" in violation of antitrust law.[123]

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[110] Motion Picture Patents v. Universal Film Co., 243 U.S. 502, 511–16 (1917).

[111] *See* notes 115–23 *infra* and accompanying text.

[112] *See* text accompanying notes 92–109 *supra*.

[113] 243 U.S. 502 (1917).

[114] *Id.* at 511–16.

[115] *Id.* at 506–07.

[116] *Id.* at 514–15.

[117] *Id.* at 516.

[118] *Id.*

[119] *See generally* notes 30–40 *supra* and accompanying text.

[120] 272 U.S. at 485.

[121] *See* Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); Carbice Corp. v. American Patents Corp., 283 U.S. 27 (1931).

[122] Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 463 (1938); Carbice Corp. v. American Patents Corp., 283 U.S. 27, 31–32 (1931).

[123] Carbice Corp. v. American Patents Corp., 283 U.S. 27, 34 (1931). The Court went beyond this analogy in Mercoid Corp. v. Honeywell Co., 320 U.S. 680, 684 (1944), where it was explicitly stated that "any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws." *Id.*

The legal validity of the *G.E.* doctrine[124] has been seriously eroded by subsequent decisions of the Supreme Court which have limited the types of restrictions that may legally be imposed on licensees. In *Morton Salt Co. v. G. S. Suppiger Co.*,[125] for example, the Court refused to enforce a patent against an alleged third-party infringer where the patentee required its licensees to purchase additional unpatented products from a subsidiary as a condition for using their licenses.[126] It is important to note, however, that the *Morton Salt* case did not involve price fixing, and that the case was decided on grounds of public policy, not on antitrust principles.[127] The first major inroad on the *General Electric* decision, based on an antitrust analysis, did not come until later in 1942 when the Court handed down its opinion in *United States v. Masonite Corp.*[128] Although resale price restrictions were not condemned outright, the Court indicated that it would thereafter examine the facts in such cases to determine the real purpose of the resale price arrangement.[129] If it were found that such an arrangement had been set up to restrain competition, and not to reasonably reward the patent hol-

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[124] *See* text accompanying notes 106–09, 120–23 *supra*.

[125] 314 U.S. 488 (1942).

[126] *Id.* at 491. Briefly, G. S. Suppiger Co. licensed patented machines used to inject salt tablets into canned foods. *Id.* at 490–91. In order to obtain such a license, independent canners had to agree to favor Suppiger in the purchase of salt tablets. *Id.* at 491. When the Morton Salt Co. made a similar salt injecting machine available to commercial users, Suppiger sued alleging infringement of its patent. *Id.* at 490–91.

[127] *Id.* at 492–94. The Court concluded that the arrangement between Suppiger and its licensees constituted patent misuse and thus subverted the public interest in granting limited monopoly rights to Suppiger under the patent it held. *See id.* A decision on whether Suppiger had also violated the Clayton Act was deemed "unnecessary." *Id.* at 494.

One commentator has cited the *Morton Salt* decision as "perhaps the best legal authority on" the distinction between patent misuse and antitrust offenses. A. NEALE, *supra* note 15, at 333. *See also* notes 42–50 *supra* and accompanying text. For further discussions of patent misuse, see I R. NORDHAUS, *supra* note 5, § 29, at 29-1 to -3.

[128] 316 U.S. 265 (1942).

[129] *Id.* at 277–82. Masonite was a leading manufacturer of industrial hardboard and had successfully sued the Celotex Corp. for patent infringement after the latter firm began to manufacture and distribute its own line of the product. *Id.* at 267–68. In an apparent attempt to avoid further litigation, Masonite then entered into negotiations with Celotex. *Id.* at 268. These discussions resulted in an agreement whereby Celotex, along with other companies in the field, became licensed distribution agents for Masonite. *See id.* at 269–71. According to the terms of the standard agency agreement, Masonite was empowered to set both the minimum selling price for the hardboard, and the "maximum terms of a sale." *Id.* at 271. In addition, each agent was given an optional license to manufacture hardboard under the Masonite patents. *Id.* at 272–73. The government's suit was based on the contention that this arrangement was in reality a combination to fix prices in the industry. *Id.* at 274.

der, then the "patent [would] affor[d] no immunity for" the defendant.[130] Thus, the presumptive legality of resale price restrictions as contained in patent licensing agreements became subject to judicial scrutiny and could be rebutted on a court's finding that such devices were in fact being used to restrain trade.

Six years later, in *United States v. Line Material Co.*,[131] the Court restricted the scope of permissible licensing arrangements even further. It held that a cross-licensing agreement, covering separately owned but complementary patents, that fixed the price at which the patented product could be sold was a per se violation of the Sherman Act, *i.e.*, the offense is conclusively established as a matter of law.[132] The agreement allowed a single patentee to set the price of the product which embraced not only its own patent but also the patent of another. The patentee was thus acting outside the scope of its own patent. A large portion of the opinion[133] was devoted to a review of *General Electric* and how that decision had given rise to "a 'host of difficult and unsettled questions' " in subsequent litigation.[134] Writing for the majority, Justice Reed stated that he could accept a limited reading of the *G.E.* doctrine.[135] While joining in the main opinion, Justices Douglas, Black, Murphy and Rutledge also joined in a concurrence advocating that *General Electric* be expressly overruled.[136] The Justices essentially believed that *General Electric* impermissibly expanded the patentee's legal monopoly beyond the scope of the constitutional patent grant.[137] This impermissible expansion in turn

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[130] *Id.* at 277. The *General Electric* case was distinguished insofar as Justice Douglas, writing for the majority in *Masonite*, believed that the Court in *G.E.* had similarly reviewed the facts before it, but had concluded that the licensing agreement there did not have an illegal purpose. *Id.* at 280.

[131] 333 U.S. 287 (1948).

[132] *Id.* at 311, 314. Both the Line Material Co. and Southern States Equipment Co. held complementary patents relating to devices used in electrical circuitry. *Id.* at 290–91. In order to manufacture a product that was commercially acceptable, both companies needed access to the patented technology of the other. *Id.* at 291. As a result, Line Material and Southern States entered into a cross-licensing agreement allowing them both to manufacture the product, and providing that neither they nor their licensees would undercut one another in price. *Id.* at 293–95. The government subsequently brought suit alleging that this arrangement violated the Sherman Act. *Id.* at 288.

[133] *See id.* at 299–305.

[134] *Id.* at 302.

[135] *Id.* at 304. Justice Reed would have apparently confined the *General Electric* holding to its facts and construed it to mean that a patentee could license a single party to manufacture and sell a product at a price reasonably calculated to secure the economic benefits of the patent grant. *See id.* at 311–12.

[136] *Id.* at 315–21.

[137] *Id.* at 316–17. They contended that the " 'right to make, use, and vend the inven-

allowed the patentee to subvert the public policy behind the patent laws,[138] and to violate antitrust proscriptions.[139] Since these Justices failed to muster a five-man majority[140] on this point, however, the *G.E.* doctrine remained, but on unsteady ground.[141]

The government's last attempt to overturn *General Electric* took place in 1965 during the litigation of *United States* v. *Huck Mfg. Co.*[142] In that case, the government brought a civil suit against the Huck Co., the owner of a patent on a lockbolt, and its single licensee after both companies had entered into a patent licensing agreement which required the licensee to adhere to the prices and other terms of sale established by Huck.[143] Relying primarily on *General Electric*,[144] the district court dismissed the action.[145] The lower court's judgment was affirmed on appeal by an equally divided Supreme Court.[146]

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tion,' " *id.* at 316, did not allow the patent holder "to license the patent on such conditions as the patentee might choose," *id.* at 317.

[138] *Id.* at 317.

[139] *Id.* at 318–20.

[140] Justice Jackson took no part in the decision, *id.* at 315, while Justice Burton, joined by Chief Justice Vinson and Justice Frankfurter, dissented, *id.* at 321.

[141] In United States v. New Wrinkle, Inc., 342 U.S. 371 (1952), the defendants, who were also competitors desirous of using each other's patented technology, attempted to get around the *Line Material* decision which prevented them from setting minimum resale prices through a direct cross-licensing agreement. They set up a holding company, New Wrinkle, Inc., to which both competitors assigned their patents. 342 U.S. at 374. New Wrinkle then licensed the patents to each competitor. *Id.* The licenses contained provisions "which fixed the minimum prices at which all licensed manufacturers might sell." *Id.* Again writing for the majority as he had in *Line Material*, Justice Reed found this arrangement to be substantively the same as the one condemned in that earlier case and held it violative of the Sherman Act. *Id.* at 379–80. *See also* United States v. United States Gypsum Co., 333 U.S. 364 (1948); United States v. Associated Patents, Inc., 134 F. Supp. 74 (E.D. Mich. 1955), *aff'd sub nom.* Mac Inv. Co. v. United States, 350 U.S. 960 (1956).

[142] 227 F. Supp. 791 (E.D. Mich. 1964), *aff'd by an equally divided court*, 382 U.S. 197 (1965).

[143] 227 F. Supp. at 793, 797–98.

[144] *See id.* at 803, 805.

[145] *Id.* at 805–06.

[146] United States v. Huck Mfg. Co., 382 U.S. 197 (1965). Although it is not entirely clear why the Justices could not reconcile themselves into a majority, the late Justice Tom C. Clark indicated that the problem involved a shift in the government's position on appeal:

> In the district court the Department of Justice had specifically denied that its target was the General Electric case. A change of its mind did not set well with some of the Justices on the Court and the Government lost what may have been its last chance to overrule that case.

Clark, *To Promote the Progress of . . . Useful Arts*, 43 N.Y.U.L. REV. 88, 99 (1968). As noted by one commentator, it is the stated policy of the Justice Department that it will continue its efforts to have the *General Electric* case overruled. A. NEALE, *supra* note 15, at 303 n.2.

"What remains of the *G.E.* doctrine," a distinguished antitrust commentator has remarked, "can be comfortably engraved on the head of a pin."[147] If and when the *General Electric* case is overturned on the price-fixing ground, residual precedent with regard to other aspects of restrictive licensing could be reduced, and the authority of *Talking Pictures*[148] may very well lessen with it.[149] Indeed, a reasonable argument can even now be made that patent licenses containing exclusive field-of-use or grant-back provisions violate the spirit, if not the letter, of antitrust law.[150] Exclusive licensing of this sort, for example, is likely to discourage the licensee's incentive to challenge a patent's validity, since each licensee will have exclusive benefits under that patent on which competitors cannot encroach. By adopting a trademark and a promotional campaign that emphasizes the unique features of the patented product, the licensee will probably be able to differentiate the product sufficiently so that it can command a premium on the market.[151] Little incentive will remain to turn against the patent since a successful challenge would also benefit unlicensed competitors.[152]

In addition, where there are royalty reporting requirements or frequent transfers of technical information under the license, the licensor and licensee are likely to be in direct and frequent contact with one another. Frequent contacts of a cooperative nature between firms which might be competitors in other product lines are likely to lessen competition generally,[153] increase the opportunity for collusion, and lead to cartel-like behavior.[154] These and other considera-

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[147] Austern, *Umbras and Penumbras: The Patent Grant and Antitrust Policy*, 33 GEO. WASH. L. REV. 1015, 1017 (1965).

[148] *See* notes 92–103 *supra* and accompanying text.

[149] For further discussion on this point, see Gibbons, *supra* note 30, at 275.

[150] This may be so even absent a conspiracy to restrain trade. *See* Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Systems Co., 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd per curiam*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959). *But cf.* United States v. Ciba Geigy Corp., [1976-1] TRADE CAS. (CCH) ¶ 60,908, at 68,933, 68,961–62 (D.N.J. 1976).

[151] *See* R. CAVES, AMERICAN INDUSTRY: STRUCTURE, CONDUCT, PERFORMANCE 19–22 (3d ed. 1972).

[152] For all practical purposes, a patent becomes unenforceable after a judicial finding of invalidity, so long as the patent owner had a full and fair opportunity to litigate the issue in accordance with the standards established in Blonder-Tongue Laboratories, Inc. v. Univ. of Illinois Foundation, 402 U.S. 313 (1971). Any accused infringer might thus raise the defense of collateral estoppel after a patent has been found invalid.

[153] *See* United States v. Masonite Corp., 316 U.S. at 281 (industry-wide patent license is capable of releasing "subtle and incalculable" forces that operate to restrain competition).

[154] *See* Northern Natural Gas Co. v. Federal Power Comm'n, 339 F.2d 953, 972–73 (D.C. Cir. 1968); United States v. Minnesota Mining & Mfg. Co., 92 F. Supp. 947, 963

tions have prompted several commentators to conclude that such licenses should be unlawful per se.[155]

Whether or not these aspects of patent practice become antitrust violations as a matter of law, it is important to note for present purposes that determinations of the legality of patent acquisitions are made with a view to the entire context in which such acquisitions are made.[156] Primary considerations have been:

First, the nature, number and value of the patents acquired in relation to the market for competing items, whether patented or not;

Second, whether the inventor is using the patent, or plans to use it and has the ability to do so, as against evidence of the purchaser's actual or intended use; and

Third, whether the purpose or effect of the transfer is likely to increase or decrease competition in the relevant geographic and product markets.

Although the trend has been to make patent transfers increasingly subject to antitrust regulation, practitioners in this field should still be mindful of these variables when drafting licensing agreements under the present law.

(D. Mass. 1950); C. KAYSEN & D. TURNER, ANTITRUST POLICY 138 (1959); Brodley, *Oligopoly Power Under the Sherman and Clayton Acts—From Economic Theory to Legal Policy*, 19 STAN. L. REV. 285, 333–34 (1967).

[155] *See* L. SULLIVAN, *supra* note 30, § 186, at 561–62 (1977); Adelman & Juenger, *supra* note 92, at 307; Gibbons, *Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition*, 66 COLUM. L. REV. 423, 463 (1966).

[156] *See* 1955 ANTITRUST REPORT, *supra* note 66, at 227.