PATENTS - RIGHT OF PATENTEE TO RESTRICT MANUFACTURE, USE, AND SALE OF PATENTED DEVICE

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PATENTS — RIGHT OF PATENTEE TO RESTRICT MANUFACTURE, USE, AND SALE OF PATENTED DEVICE — The patent laws of the United States grant to a patentee the "exclusive right to make, use, and vend the invention or discovery . . . throughout the United States and the Territories thereof. . . ."[1] Much litigation has arisen over the extent of the monopoly thus granted a patentee, but even at this late date it is not too clearly defined. The question came up anew in the case of *General Talking Pictures Corp. v. Western Electric Co.*,[2] where the owner of a patent on a device used in sound reproduction and broadcast reception had licensed its manufacture and sale in two different fields, namely the commercial field of sound recording and

[1] 46 Stat. L. 376 (1930), 35 U. S. C. (1934), § 40.

[2] 305 U. S. 124, 59 S. Ct. 116 (1938). See also the opinion of the Court on first hearing, 304 U. S. 175, 58 S. Ct. 849 (1938).

reproducing—embracing talking picture equipment for theaters; and the private, or home, field—embracing radio broadcast reception, radio amateur reception, and radio experimental reception. The licenses granted restricted the respective licensees to one or the other of these two fields. One of the licensees, who was restricted to the home field, manufactured and sold the device to defendant for use in the commercial field. Defendant knew that the licensee had no authority to make or sell the device for that field, but both he and the licensee deliberately disregarded the restriction. The United States Supreme Court, with two justices dissenting,[3] held that this was a violation of the patent, and that defendant was liable for infringement. The conflict between the majority and the dissenting justices presents squarely the issue of what restrictions may be placed on the manufacture, use, and sale of the device by the patentee, first, where the patentee himself manufactures and sells it, and, second, where he licenses others so to do. It is in an attempt to clarify this issue and the decisions applicable thereto that this comment is submitted.

I.

Where the patentee himself manufactures and sells the device covered by his patent, if ordinary principles of property law are to be applied, the purchaser should have full rights in the article, without restriction as to its use or resale. Having absolute ownership of the article, he should have an absolute right either to use it as he sees fit or to transfer his ownership to another without restriction as to the price or use, and it was so held in the *Paper Bag Cases*.[4] But the patent law in general terms purports to give the patentee the exclusive right to "make, use, and vend" the device. Conceivably, the language of the statute[5] could be construed to mean that the patentee is entitled to absolute control over the device during its entire life. Conceivably, also, he might dictate the terms not only of the first, but of any subsequent, sale; or, he might dictate the methods, territory, or period of use, even after the device had passed from his possession. However, the courts have declined to extend the statutory monopoly that far, apparently feeling that the objectives of the statute are attainable if the patentee has the right to make all the profit he can from its manufacture, or use, or first sale. Once the article has been sold, they have

[3] Justices Black and Reed; Justice Roberts did not sit on the case.

[4] 105 U. S. 766 (1881).

[5] That quoted, supra, in the first sentence of the introduction.

held it to be beyond the scope of the patent monopoly.[6] No longer may the patentee restrict its use or resale to a particular territory,[7] or for any particular time.[8] In *Keeler v. Standard Folding Bed Co.*,[9] for example, the Court said, through Justice Shiras:

> "we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."

The vendor in that case was the assignee of the patent rights for a specified area, and it was held that a purchaser from the assignee of the patent was entitled to exercise full dominion over the articles anywhere in the United States. In *Bloomer v. McQuewan*[10] it was held that the purchaser's right to use the device did not expire with the original patent, and that the patentee, on receiving an extension of the patent, could not prohibit its further use. Nor may a patentee impose price restrictions on the resale of the device after he has sold it and received full consideration.[11]

Though a purchaser of the patented article may repair it to preserve its life, he may not reconstruct it without the permission of the patent owner.[12] Reconstruction is, in reality, a species of manufacture, and the making of the device is within the scope of the patent monopoly. So, in *Cotton-Tie Co. v. Simmons*,[13] where the patent covered a metallic tie for cotton bales, it was held that defendants, who bought up the used ties as scrap iron, were not entitled to piece broken ties back together and in that way salvage the ties for further use. The Court held that was a reconstruction rather than repair, saying:

> "Whatever rights the defendants could acquire to the use of the old buckle, they acquired no right to combine it with a substantially new band to make a cotton-bale tie."[14]

[6] Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U. S. 425, 14 S. Ct. 627 (1893); Bauer & Cie v. O'Donnell, 229 U. S. 1, 33 S. Ct. 616 (1913); Straus v. Victor Talking Machine Co., 243 U. S. 490, 37 S. Ct. 412 (1916).

[7] Adams v. Burke, 17 Wall. (84 U. S.) 453 (1873); Hobbie v. Jennison, 149 U. S. 355, 13 S. Ct. 879 (1892); Keeler v. Standard Folding-Bed Co., 157 U. S. 659, 15 S. Ct. 738 (1894).

[8] Bloomer v. McQuewan, 14 How. (55 U. S.) 539 (1852); Wilson v. Rousseau, 4 How. (45 U. S.) 645 (1846).

[9] 157 U. S. 659, 15 S. Ct. 738 (1894).

[10] 14 How. (55 U. S.) 539 (1852).

[11] Straus v. Victor Talking Machine Co., 243 U. S. 490, 37 S. Ct. 412 (1916); Boston Store of Chicago v. American Graphophone Co., 246 U. S. 8, 38 S. Ct. 257 (1918).

[12] Cotton-Tie Co. v. Simmons, 106 U. S. 89, 1 S. Ct. 52 (1882); Leeds & Catlin Co. v. Victor Talking Machine Co., 213 U. S. 325, 29 S. Ct. 503 (1909); Aiken v. Manchester Print Works, (C. C. N. H. 1865) 2 Cliff. 435.

[13] 106 U. S. 89, 1 S. Ct. 52 (1882).

[14] Ibid., 106 U. S. at 93-94.

And in *Aiken v. Manchester Print Works*,[15] where the patentee of a knitting machine sold it and supplied with it a package of needles, themselves the subject of a patent, it was held that the purchaser, after the original needles wore out, was not at liberty to manufacture its own needles for use with the machine.

But the patent laws are not alone to be considered. Intimately connected with the extent of the patent monopoly are the Sherman[16] and Clayton[17] Anti-Trust Acts. Not only does the patent law not extend the patentee's monopoly beyond the limits above pointed out, but the anti-trust laws actually prohibit that extension. Under the Sherman Act, for example, it is unlawful for the owner of chattels to sell them and by contract to fix a price at which the chattels afterwards should be resold.[18] Likewise, contracts between the manufacturers of competing patented articles to restrict the production of each article, not as an incident to the grant of rights under the patent laws, but to enhance the price by removal of competition, are invalid under the Sherman and Clayton Acts.[19] Nor does a patent give its owner a right to engage in unfair competition to protect his monopoly and force infringers out of business.[20] He has his remedy for infringement, but it is by judicial process, not by self-help contrary to the laws against unfair competition and monopoly. However, when each of several groups are carrying on legal businesses of making patented machines which do not compete with each other, although all machines are used in different stages of production by the manufacturers of the same product, a combination of those groups does not violate the Sherman Act.[21]

The cases, then, seem to hold that progress and invention are to be encouraged by insuring that the inventor of a new device shall have an opportunity to make a profit from his invention. To that end, he is granted a limited monopoly by the patent laws, which extends to the manufacture and first sale, or the use or licensing of the use, of the patented device. So long as the inventor makes his profit out of the monopoly within those limits, he is within his rights as a patentee; but he may not, by seeking to extend his monopoly beyond those

[15] (C. C. N. H. 1865) 2 Cliff. 435.

[16] 26 Stat. L. 209 (1890), 15 U. S. C. (1934), § 1.

[17] 38 Stat. L. 731 (1914), 15 U. S. C. (1934), § 14.

[18] Dr. Miles Medical Co. v. Park & Sons Co., 220 U. S. 373, 31 S. Ct. 376 (1911).

[19] Blount Mfg. Co. v. Yale & Towne Mfg. Co., (C. C. Mass. 1909) 166 F. 555; Butterick Co. v. Federal Trade Commission, (C. C. A. 2d, 1925) 4 F. (2d) 910, cert. den. 267 U. S. 602, 45 S. Ct. 462 (1925).

[20] United States v. Patterson, (D. C. Ohio, 1913) 205 F. 292.

[21] United States v. Winslow, 227 U. S. 202, 33 S. Ct. 253 (1913).

limits, make further profits, either from that device or from other materials or articles connected with its production or use. Once a sale has taken place, he loses his right to restrict the use or resale of the device both under the patent laws and under the anti-trust laws. So far as restrictions or servitudes are concerned, once the device is sold, it stands in the same position as any other chattel.

2.

When the patentee licenses another to make, use, or sell the patented device,[22] the situation is somewhat different, but the principles discussed above remain unchanged. That he may place restrictions in the license which will be binding on the licensee is well settled; [23] but those restrictions must be reasonably within the scope of the patent monopoly as above delimited. In other words, so long as the restrictions imposed by the license agreement are designed to enable the owner of the patent to make what profit he can from the manufacture or use, or first sale, of the patented device, through royalties or in other ways, and are reasonably adapted to the accomplishment of that purpose, they will be upheld. If they go beyond this and seek to place restrictions on its resale, or its use thereafter, or seek to enable the patent owner to make profits he would not otherwise make out of unpatented articles, they will be condemned.

As Chief Justice Taft expressed it, in *United States v. General Electric Co.*,[24]

> "any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure [may be imposed]."

Moreover, he says:

> "But the question is a different one which arises when we consider what a patentee who grants a license to one to make and vend the patented article may do in limiting the licensee in the exercise of the right to sell. The patentee may make and grant a license to another to make and use the patented articles, but withhold his right to sell them. . . . If the patentee goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted

[22] Such licenses are permitted under 42 Stat. L. 391 (1922), 35 U. S. C. (1934), § 47.

[23] United States v. General Electric Co., 272 U. S. 476, 47 S. Ct. 192 (1926); see also, Vulcan Mfg. Co. v. Maytag Co., (C. C. A. 8th, 1934) 73 F. (2d) 136.

[24] 272 U. S. 476 at 489-490, 47 S. Ct. 192 (1926).

> to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. . . . It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making and selling them myself.'"

If this principle is borne in mind, it becomes possible to reconcile cases which superficially may seem to be inconsistent.

However, it should be noted at the outset that two decisions have deviated from this doctrine. These were *Henry v. A. B. Dick Co.*,[25] and the *Button Fastener Case*.[26] Both decisions in effect permitted the patentee to extend his monopoly beyond the limits above set forth, for in each case the patentee was allowed to impose license restrictions forcing the licensees, and purchasers from them with notice, to use with the patented device unpatented materials manufactured by the patentee. These decisions have been overruled, however, by *Motion Picture Patents Co. v. Universal Film Mfg. Co.*[27] In that case the patentee granted a license to manufacture and sell the patented device, requiring that sales by the licensee be conditioned on the agreement of the purchasers to use unpatented materials supplied by the patentee. It was held that while the patentee is entitled to make all the profits he can from his patent, he is not entitled to use the patent law as an excuse to profit from unpatented materials. The restriction was accordingly held to be invalid.

A similar case is that of *Carbice Corp. of America v. American Patents Development Corp.*[28] In declaring like restrictions invalid, the Court said:

> "If the patent is valid the owner can, of course, prohibit entirely the manufacture, sale, or use of such packages. ... Or it can grant licenses upon terms consistent with the limited scope of the patent monopoly. . . . It may charge a royalty or license fee. But it may not exact as the condition of a license that unpatented materials used in connection with the invention shall be purchased only from the licensor; and if it does so, relief against one who supplies such unpatented materials will be denied."

[25] 224 U. S. 1, 32 S. Ct. 364 (1912).

[26] Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co., (C. C. A. 6th, 1896) 77 F. 288.

[27] 243 U. S. 502, 37 S. Ct. 416 (1917).

[28] 283 U. S. 27 at 31, 51 S. Ct. 334 (1931).

Similar results have been reached in numerous decisions under the anti-trust laws, as will appear hereafter; but even apart from those laws, the modern current of decision by the Court has followed unwaveringly the rules set down in the *Motion Pictures Patents* and *Carbice* cases.

It has been argued[29] that the rule of the *Motion Picture Patents* case has been departed from in the principal case. It is submitted, however, that the two cases are entirely consistent. In the former case, the patentee attempted to extend his monopoly to products unpatented, whereas in the principal case the control sought to be exercised through the restrictions imposed by the patentee was over his patented device, and was a control which brought him profits from that device, not from other products which were not protected by patents.

Consistently with the general rule, restrictions as to price have been upheld[30] where the restrictions were intended to make sure that there would be no cut-throat competition between licensees to force down the price and reduce the patentee's profit. Similarly, if a patentee thinks he can make the most profit by a particular method of marketing his device, he may prescribe that method by means of restrictions in the license agreements.[31] Other types of restrictions, such as those limiting the time or duration of the license,[32] the purpose for which the device is to be used,[33] classes of vendees to whom the device may be sold,[34] place of manufacture,[35] quantity to be made,[36] the size,[37] type,[38] and quality of the device,[39] all of which, in one way or another, serve to

[29] Feuer, "The Patent Monopoly and the Anti-Trust Laws," 38 COL. L. REV. 1145 at 1154-1155 (1938), as well as the dissenting opinion in the principal case.

[30] United States v. General Electric Co., 272 U. S. 476, 47 S. Ct. 192 (1926); Bement v. National Harrow Co., 186 U. S. 70, 22 S. Ct. 747 (1902).

[31] United States v. General Electric Co., 272 U. S. 476, 47 S. Ct. 192 (1926); Goshen Rubber Works v. Single Tube Automobile & Bicycle Tire Co., (C. C. A. 7th, 1908) 166 F. 431.

[32] Mitchell v. Hawley, 16 Wall. (83 U. S.) 544 (1872).

[33] Rubber Co. v. Goodyear, 9 Wall. (76 U. S.) 788 (1869).

[34] Radio-Craft Co., Inc. v. Westinghouse Electric & Mfg. Co., (C. C. A. 3d, 1925) 7 F. (2d) 432; United States v. General Electric Co., 272 U. S. 476, 47 S. Ct. 192 (1926).

[35] Radio-Craft Co., Inc. v. Westinghouse Electric & Mfg. Co., (C.C.A. 3d, 1925) 7 F. (2d) 432; Rubber Co. v. Goodyear, 9 Wall. (76 U. S.) 788 (1869).

[36] Goshen Rubber Works v. Single Tube Automobile & Bicycle Tire Co., (C. C. A. 7th, 1908) 166 F. 431; United States v. General Electric Co., 272 U. S. 476, 47 S. Ct. 192 (1926); Bement v. National Harrow Co., 186 U. S. 70, 22 S. Ct. 747 (1902); St. Louis Street Flushing Mach. Co. v. Sanitary Street Flushing Mach. Co., (C. C. A. 8th, 1910) 178 F. 923.

[37] Pope Mfg. Co. v. Owsley, (C. C. Ill. 1886) 27 F. 100.

[38] Bement v. National Harrow Co., 186 U. S. 70, 22 S. Ct. 747 (1902).

[39] Goshen Rubber Works v. Single Tube Automobile & Bicycle Tire Co., (C. C. A. 7th, 1908) 166 F. 431.

protect the patentee's profit, have been recognized and upheld by the courts.[40] Moreover, not only the licensee, but also a purchaser from him with notice of the restrictions, is bound thereby.[41] Thus it would appear that so long as the license restriction is used in a bona fide attempt to secure pecuniary reward to the patentee from the manufacture, first sale, or use of the patented device, it will be upheld. The principle case, far from being a departure from the previously announced doctrines, is but another application thereof, and is entirely consistent with prior decisions of the Court.

The Sherman and Clayton Anti-Trust Acts have had their effect also on this type of transaction. While it is clear that they cannot affect the monopoly properly within the sphere of the patent laws, because that monopoly is provided for by the United States Constitution,[42] they do apply when the device passes beyond those limits and when the patent monopoly is attempted to be used in an effort to authorize combinations of patentees to stifle competition contrary to the intent of those acts. Whereas, under the patent laws alone, the patentee was merely prevented from enforcing license restrictions not within the monopoly granted thereby, under the anti-trust laws such restrictions became affirmative offences, and patentees attempting to impose them are subject to prosecution. Prior to the enactment of the Clayton Act, it was uniformly held that restrictive licenses, in themselves, did not constitute violations of the Sherman Act.[43] It was the feeling of the courts that the act was not intended to apply to any monopoly connected with a patent, so long as there was no combination or conspiracy among patentees to restrict competition between patents or between themselves. Even license restrictions which extended the monopoly to unpatented supplies and machines were held not violative of the Sherman Act.[44] But where a combination or conspiracy was found which restricted competition between patents or between patentees, it was

[40] For a fuller discussion of license restrictions, see McCormack, "Restrictive Patent Licenses and Restraint of Trade," 31 COL. L. REV. 743 (1931).

[41] Skee Ball Co. v. Cohen, (D. C. N. Y. 1922) 286 F. 275; Edison v. Ira M. Smith Mercantile Co., (C. C. Mich. 1911) 188 F. 925; Victor Talking Machine Co. v. The Fair, (C. C. A. 7th, 1903) 123 F. 424.

[42] Art. I, § 8 (8).

[43] Indiana Mfg. Co. v. J. I. Case Threshing Machine Co., (C. C. A. 7th, 1907) 154 F. 365, cert. dismissed 207 U. S. 603, 28 S. Ct. 261 (1907); Bement v. National Harrow Co., 186 U. S. 70, 22 S. Ct. 747 (1902); Rubber Tire Wheel Co. v. Milwaukee Rubber Works, (C. C. A. 7th, 1907) 154 F. 358; National Phonograph Co. v. Schlegel, 64 C. C. A. (8th) 594, 128 F. 733.

[44] United States v. United Shoe Machinery Co., 247 U. S. 32, 38 S. Ct. 473 (1918).

held violative of the act.[45] Thus, in *National Harrow Co. v. Hench*,[46] the court held invalid a combination among manufacturers of spring-tooth harrows, by which each manufacturer assigned to a corporation organized for the purpose the patents under which he was operating and took back an exclusive license to make and sell the same style previously made by him, and no other, all parties being bound to sell at uniform prices. Judge Acheson wrote:[47]

> "It is true that a patentee has the exclusive control of his invention during the life of the patent. He may practice the invention or not, as he sees fit, and he may grant to others licenses upon his own terms. But where, as was the case here, a large number of independent manufacturing concerns are engaged in making and selling, under different patents and in various forms, an extensively used article, competition between them is the natural and inevitable result, and thereby the public interest is promoted. Therefore, a combination between such manufacturers, which imposes a widespread restraint upon the trade, and destroys competition, is as injurious to the community and as obnoxious to sound public policy, as if the confederates were dealing in unpatented articles."

Of similar portent, with regard to a trade agreement involving the use of a single patent, is the leading case of *Standard Sanitary Mfg. Co. v. United States*.[48]

With the enactment of the Clayton Act, however, any doubt about the applicability of the act to patent monopolies was dispelled. The act, in clear terms, was made applicable to dealings in "goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented. . . ."[49] The recent cases have held, therefore, that license restrictions not strictly confined to the legitimate monopoly granted by the patent laws are violations of the Clayton Act.[50] The same restrictions, or tying clauses, which were held not violative of the

[45] National Harrow Co. v. Hench, (C. C. Pa. 1896) 76 F. 667; Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20, 33 S. Ct. 9 (1912). See also Straus v. American Publishers' Assn., 231 U. S. 222, 34 S. Ct. 84 (1913), where the same rule is applied under the copyright laws.

[46] (C. C. Pa. 1896) 76 F. 667.

[47] Ibid., 76 F. at 669-670.

[48] 226 U. S. 20, 33 S. Ct. 9 (1912).

[49] The quotation is from § 3 of the Clayton Act, 38 Stat. L. 731 (1914), 15 U. S. C. (1934), § 14.

[50] International Business Machines Corp. v. United States, 298 U. S. 131, 56 S. Ct. 701 (1936); Radio Corpòration of America v. Lord, (C. C. A. 3d, 1928) 28 F. (2d) 257, cert. den. 278 U. S. 648, 49 S. Ct. 83 (1928); Vulcan Mfg. Co. v. Maytag Co., (C. C. A. 8th, 1934) 73 F. (2d) 136.

Sherman Act in the first *Shoe Machinery Case*[51] were held to violate the Clayton Act in *United Shoe Machinery Co. v. United States.*[52] Agreements of this kind have also been held invalid and violative of state anti-trust laws.[53] But it is axiomatic that license agreements whose effect is not materially to lessen competition or to restrain trade are not within the purview of the Sherman or Clayton Act.[54]

In conclusion, it may be said that the patent laws as construed by the courts grant to a patentee a limited monopoly through which he may take all the profit he can from the manufacture, use, and first sale of the patented device, whether that manufacture, use, and first sale be by him or by others licensed by him, the profit in the latter case being taken through royalties and license restrictions. But when the patentee transcends those limits and seeks to control and restrain those to whom the patented article has been sold in their subsequent disposition of what is theirs, or seeks, through license agreements, to make profit from unpatented materials or supplies, or to suppress competition between the product covered by his patent and other competing products or between the producers or sellers of unpatented products, his conduct will be condemned.

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[51] United States v. United Shoe Machinery Co., 247 U. S. 32, 38 S. Ct. 473 (1918).

[52] 258 U. S. 451, 42 S. Ct. 363 (1922).

[53] Vulcan Powder Co. v. Hercules Powder Co., 96 Cal. 510, 31 P. 581 (1892); State v. Creamery Package Mfg. Co., 110 Minn. 415, 435, 126 N. W. 126, 623 (1910).

[54] Standard Oil Co. v. United States, 283 U. S. 163, 51 S. Ct. 421 (1931); Federal Trade Commission v. Sinclair Refining Co., 261 U. S. 463, 43 S. Ct. 450 (1923).