Unreduced Royalty Arrangements and Packaged Patents: An Improper Extension of the Patent Monopoly?
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I. INTRODUCTION

The patent laws confer upon a patentee the right "to exclude others from making, using, or selling" his invention for a period of seventeen years. However, legal problems may arise if a patentee seeks to extend the scope of his legitimate seventeen-year monopoly by a licensing arrangement. Patentees may do this either by "package licensing"—that is, granting more than one patent under the same license—or by providing for the collection of royalties after the expiration of a patent. These licensing practices raise different problems. Package licensing arrangements have historically been held to be improper extensions of the patent grant only when the packaging can be proven to be "coercive" or "mandatory"—that is, when the patentee has conditioned the licensing of a desired patent on acceptance of one or more undesirable patents. On the other hand, the Supreme Court has recently ruled in Brulotte v. Thys Co. that the collection of royalties after the last patent incorporated into a licensed machine has expired subverts the policy of the patent system—which seeks to limit monopoly profits resulting from a patented invention to those earned during the seventeen-year period—and thus constitutes an illegal extension of the patent monopoly.

Package licensing arrangements typically provide for a constant royalty rate which is not adjusted when patents expire prior to the expiration of the last patent. Therefore, after Brulotte, most package licenses are susceptible to attack on the theory that they improperly extend the patent monopoly by providing for unreduced royalty rates despite the fact that some of the patents included in the package have come into the public domain. In Rocform Corp. v. Actieili-Standard Concrete Wall, Inc., the Court of Appeals for the Sixth Circuit adopted this theory, holding that Brulotte requires a ruling that a patentee is guilty of patent misuse if he licenses patents in a package without providing for reductions in the royalty rate as

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2. The Supreme Court indicated that it would not tolerate this trend of abuse of the patent grant in Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945).
5. 367 F.2d 678 (6th Cir. 1966).
6. See notes 34-40 infra and accompanying text.
patents expire. For this reason the patentee in *Rocform* was not permitted to protect his patent against infringement by a non-licensee.

This Comment will examine the merits of *Brulotte* and the propriety of extending its rule to the package licensing context. In order to do this it is necessary to consider the *Brulotte* and *Rocform* decisions in somewhat greater detail.

II. THE BRULOTTE AND ROCFORM DECISIONS

In *Brulotte*, the patentee owned seven patents which were incorporated into a hops-picking device. The patentee sold this machine to hop farmers for a flat sum, and the farmers were required to sign license agreements which provided that they pay the higher of a minimum royalty per season or an amount based upon the use of the machine. The license agreements further provided that payments were to be made after the expiration date of the last patent. A licensee refused to pay royalties after the last patent had expired, and the patentee brought suit to collect them. The Supreme Court, with Justice Harlan dissenting, stated that the patentee could not make use of any arrangement which extended the patent monopoly past its seventeen-year legal limit; 7 thus, the patentee’s efforts to collect royalties for the post-expiration period were held to be “unlawful per se.” 8 The Court found it significant that there was no provision for diminution of royalties or termination of the license after the last patent had expired, and it rejected the suggestion that the patentee offered this licensing arrangement because it was a convenient and reasonable way of making the patents available to a greater number of potential licensees by spreading the costs of licensing over a longer period of time.

In *Rocform*, the patentee plaintiff marketed a license for a process to build concrete walls. The license agreement provided that the licensee could use a number of patents belonging to the patentee, and that the patentee would supply service, know-how, and certain materials to the licensee. The Court of Appeals for the Sixth Circuit found that the royalties were primarily for the use of the patents and were not consideration for the service aspects of the arrangement. 9 Citing *Brulotte*, the court held, with one dissent, that since there was no termination clause, and since royalties were not diminished after the “most important” 10 patent in the package had expired, the plaintiff had *misused* his patent and should be denied relief against infringement by a nonlicensee.

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8. 379 U.S. at 31.
9. 367 F.2d at 679-80.
10. 367 F.2d at 681.
The court apparently felt that its holding was required by *Brulotte*, and that a contrary result would have rendered the *Brulotte* ruling ineffective. The court evidently feared that a patentee could satisfy *Brulotte*'s "last patent" test simply by tacking an unimportant patent onto the "most important" patent in a package, thereby postponing the expiration date of the "last patent" in the package and in effect allowing royalties to be collected on the "most important" patent after its expiration. The court's action does appear to promote effective implementation of the *Brulotte* rule. However, it is submitted that *Brulotte* was a questionable decision and therefore does not merit extension or protection. Moreover, it is suggested that the *Rocform* ruling raises serious doubts about the future viability of package licensing, which has traditionally been regarded as a proper way to market a group of patents.

III. ECONOMIC ANALYSIS OF THE IMPACT OF BRULOTTE

It is necessary to resolve as a preliminary matter exactly what kinds of licensing arrangements are proscribed by *Brulotte*. For the purpose of analysis, royalty arrangements can be categorized as fixed or variable, and as deferred or nondeferred. Fixed royalty payments are paid at a predetermined rate which is unaffected by subsequent use; variable royalty payments are paid at a rate which depends upon the licensee's use of the patent, with use generally measured by productivity or sales. A license providing for deferred payments usually calls for payment of royalties both during and after the life of the patent; a license providing for nondeferred payments requires payment within the lifetime of the patent. The *Brulotte* decision appears to proscribe not only deferred variable arrangements, but also fixed royalty arrangements providing for deferred payments.

The Court stated that any attempt to reserve or continue the patent monopoly after the patent expires runs counter to the purpose of the patent laws. The Court made no attempt to distinguish between

11. 367 F.2d at 681. The Sixth Circuit thought that the argument that *Brulotte* should be limited to a "last patent" test was "too broad a contention."

12. As it appears in the text the noun "use" is generic. "Use" of a patent may occur, for example, when a licensee produces the patented item as an end product, or, as in *Rocform*, when he employs the patented item in the process of producing some other product. It has been held that a patentee may charge royalties for the use of his patent based upon some percentage of a licensee's total sales—including sales of items produced without any "use," in the strict sense of the word, of the patentee's patent—if the licensee has the right to use the patent and is engaged in selling items related to the patented item. Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 834 (1950).

13. Cf. Recent Case, Charging Royalties for Use After Expiration of Patent Unlawful Per Se, 79 Harv. L. Rev. 199 (1965) which suggests that all royalties may now have to be collected in the seventeen-year period regardless of the period to which they apply.

the alternative royalty payment schemes offered by the patentee—a deferred fixed minimum royalty rate and a variable rate based on use. Apparently both were found illegal.

Despite the fact that the Court lumped all deferred payments together, fixed and variable deferrals are governed by different considerations, and a rule which prohibits deferred fixed payments is particularly susceptible to criticism. As was pointed out by the dissent in *Brulotte*, the deferred fixed royalty arrangement should be deemed lawful, at least if the license makes it clear that deferred payments are merely "long-term installment payments of a flat sum purchase price." To understand why this is so, consider an agreement providing that the licensee will pay one hundred dollars per year for seventeen years—either as installments of the purchase price for a patented item or for the use of a patent. Disregarding the interest factor inherent in deferred payments, this agreement might have been drafted to provide that the same total sum be paid over a thirty-four-year period at fifty dollars per installment. The latter arrangement is no different in effect from a loan. Still disregarding the interest factor, a patentee cannot extract a greater profit from such an extended agreement than from an agreement providing for payment in full before the expiration of the patent, for if he tried to do so the licensee would simply go elsewhere for credit and pay the patentee in full before the patent expired. Thus, if the loan character of the arrangement is made clear in the contract, deferred payments of fixed royalties can hardly be objectionable under patent law. But, since any fixed royalty arrangement which is designed to spread payment over more than seventeen years could be drafted as a credit arrangement, it seems senseless to outlaw an arrangement providing for deferred fixed payments simply because the loan element is not made explicit in the contract. All deferred fixed royalty arrangements should thus be treated as a legitimate use of the patent monopoly.

Variable deferrals, however, involve more than a clearly legitimate use of the patent grant coupled with an ordinary credit arrangement. They permit the patentee to reap profits based on the patent's performance after the expiration of the statutory period. The Court in *Brulotte* prohibited deferred variable payments without a careful analysis of the economic implications of doing so. How-

15. 379 U.S. at 36.
17. Most commentators feel that the decision would be easily circumvented by drafting long-term payment provisions in such a way that they could reasonably be construed as deferred installments. See, e.g., Recent Decision, *Patents—Licensing Agreements—Agreement Requiring Payment of Post-Expiration Royalties Invalid*, 38 TEMPLE L.Q. 497 (1965).
ever, if such payments are to be disallowed, it should be shown that they are economically unjustifiable, and it is not at all clear that this is the case.

The antitrust laws assume that the public benefits from competition, and competition will be promoted by laws which encourage people to seek licenses from a patentee. Since the financial requirements of potential licensees vary, more people will be able to seek licenses if there is a variety of permissible licensing arrangements.\textsuperscript{18} Brulotte limits the kinds of licensing arrangements which a patentee may offer and thus eliminates as competitors all potential licensees who could operate only under a deferred variable royalty plan.\textsuperscript{19} In this way Brulotte may have an anticompetitive effect.

It may be argued that if a patent should prove to be highly successful, deferred variable payments permit the patentee to realize greater income than he could have obtained from royalties based solely on the seventeen-year performance of the patent. While it is true that the patentee may earn more, arguably this extra profit does not represent an abuse of the patent grant but may be treated simply as compensation to the patentee for assuming the risk that the patent will prove unsuccessful.

Thus, if deferred variable royalty arrangements are to be condemned as economically unsound, it must be shown that they have an adverse effect on consumer prices. Two situations must be examined: (1) the situation in which there are enough licensees to afford effective interlicensee competition; (2) the situation in which there is no such competition. Assuming that licensee firms use marginal-cost pricing, the following discussion will indicate that there can be no overall economic detriment to consumers if variable deferred royalties are permitted. Moreover, it will show that in some circumstances the use of deferred royalty arrangements may be economically advantageous.\textsuperscript{20}

Turning first to the situation, in which competition exists among licensees, it will be assumed that, excluding the expense of royalty payments, both “deferred licensees” and “nondeferred licensees” have the same costs. During the seventeen-year patent period, nondeferred licensees will charge higher prices than deferred licensees because they must pay higher royalty rates during this initial period than the deferred licensees, whose royalty payments are spread over a longer period of time.

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\textsuperscript{19} Since deferred variable royalty arrangements allow licensees to enter the market without having to bear the burden of royalty payments as a fixed cost, if such arrangements are permitted they should serve to increase the number of licensees and hence the amount of competition in the market.

\textsuperscript{20} The chart on the facing page provides examples of the various situations which are discussed in the text.
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Assuming no cost reduction in the post-expiration period due to efficiency gained from experience during the patent period (whether or not there is competition among licensees).

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Assuming that costs decrease from experience in working with the patent, and that there is competition among licensees of the same class (deferred or nondeferred).

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Assuming that costs decrease, that there is no competition among licensees, and that the licensees' profit maximization point dictates a price in excess of 100, the cost point at which outsiders can enter the market in the post-expiration period.

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Assuming that costs decrease, that there is no competition among licensees, and that the licensees' profit maximization point dictates a price less than 100, the cost point at which outsiders can enter the market in the post-expiration period.

a. The figure 94 is arbitrary and represents a profit maximization point.

b. The figure 94+ is arbitrary and represents the fact that, due to the deferred royalty, the deferred licensee will have a profit maximization point somewhat higher than that of the nondeferred licensee (but not necessarily by the amount of the deferred royalty).
After the patent period has terminated, the economic consequences of deferred licensing arrangements will depend upon whether the deferred licensees have been able to achieve significant cost reductions as a result of their experience in working with the patent. If they have not achieved such cost reductions, their total costs, because they must continue to make royalty payments, will be greater than those of new firms who can at that time enter the market without obtaining licenses. However, the deferred licensees will be driven out of the market unless they meet the price set by the new entrants. Thus, the availability of deferred variable licensing arrangements would benefit the consumer in this situation: during the life of the patent such arrangements offer consumers lower prices than those which nondeferred licensees would charge, and in the post-expiration period they have no effect on normal competitive price levels. Admittedly, this situation is an unlikely one. Licensees do not accept deferred royalty arrangements unless they are reasonably certain of achieving significant cost advantages over potential outside competitors.

When licensees do reduce production costs through experience in working with the patent, it remains true that, for the patent period, deferred licensees' prices will be lower than those charged by nondeferred licensees. However, in the post-expiration period, still assuming that there is competition among the licensees, deferred licensing will result in higher prices. Outsiders have greater costs than deferred licensees and therefore cannot force prices down to the levels which would obtain if the deferred licensees had no royalty expenses. Admittedly, deferred licensees would probably charge something less than outsiders, but they would presumably charge more than competing nondeferred licensees, who at this point in time would be free of royalty obligations.

In the declining cost situation where there is also interlicensee competition, it would of course be desirable from the consumers' point of view to have both deferred and nondeferred licensing arrangements coexisting. In such a situation, consumers would benefit during the patent period from the lower prices which deferred licenses make possible, and they would benefit after the patent period from the lower prices which nondeferred licenses allow. However, such ideal conditions are improbable. Under any given patent all licenses will probably be of the same type—either all deferred or all nondeferred. Few licensees would take a deferred license if they knew that they would be driven out of business by nondeferred licensees after seventeen years; few licensees would take nondeferred licenses if they knew that deferred licensees could undersell them for


22. See chart, situation I-B, note 20 supra.
the first seventeen years. Thus, whenever deferred licenses are used and cost reductions are achieved, consumers will probably pay higher prices in the post-expiration period. However, the total impact of deferred royalty arrangements upon consumers should not be adverse, for it must be remembered that consumers will pay lower prices during the patent period if deferred licenses are used, and this should offset the higher prices after seventeen years.

Turning now to the situation in which there is no effective interlicensee competition, if costs do not decrease due to experience with the patent, then, just as in the case of interlicensee competition, the use of deferred royalty arrangements can result only in a benefit to consumers. However, if licensees can reduce production costs, deferred licensees will still charge lower prices during the patent period than would nondeferred licensees because they have lower royalty costs. In the post-expiration period, on the other hand, the prices charged to consumers will depend upon the licensees' profit maximization point. If the price at which licensees would maximize profits in the absence of outsiders is above that at which outsiders may enter the market, both deferred and nondeferred licensees in an effort to limit competition will price just below the price at which outsiders could enter. In this situation, consumers benefit from the availability of deferred licenses. Such licenses make lower prices possible during the seventeen-year life of the patent and yet do not result in higher prices in the post-expiration period during which deferred and nondeferred licensees would charge the same price—one just below the point at which outsiders could enter the market. If the licensees' profit maximization point is below that at which outsiders could effectively enter the market, deferred licensees will charge higher prices in the post-expiration period than would nondeferred licensees, since they still have royalty expenses in this period. Thus, the economic benefit which consumers enjoy during the patent period because of deferred royalty arrangements will be nullified by higher prices in the post-expiration period.

It is apparent that there is no over-all economic detriment to consumers in any of these situations if deferred variable royalty arrangements are used. The worst that can be said of deferred royalties is that there is no economic benefit in some situations if such royalties are permitted. Moreover, in some circumstances it is possible that consumers will benefit if deferred variable royalty arrangements are used. For this reason Brulotte, which appears to prohibit deferred variable royalty payments, is an economically unjustifiable decision.
IV. IMPACT OF EXTENDING BRULOTTE TO PACKAGE LICENSING CONTEXT

Application of the Brulotte rule in the package licensing situation magnifies the problems raised in the single-patent context. The Rocform decision would require a patentee to collect the bulk of his royalties before the most important patent in the package expires. Instead of being able to spread the cost of the package evenly over the lives of all the patents, the licensee must meet the cost of a particular patent within the lifetime of that patent. When the most important, and therefore probably the most expensive, patent in a package expires before the other patents, the licensee may not be able to meet payments on that patent before its expiration, and thus the effect of Rocform may be to prevent him from licensing at all. Rocform, then, goes a step beyond Brulotte, which simply outlawed royalty payments after the expiration of the "last patent." The effect of the Rocform decision is to extend a bad rule which instead should have been strictly limited.

This result was not required by the body of package licensing law that had developed prior to Brulotte. As noted earlier, the primary basis for attacking package licenses has historically been on the ground that they are coercive.26 It was early recognized that even patented items should compete in the market on their independent merits,27 and that a patent grant does not entitle patentees to condition the license of desirable patents on the licensee's acceptance of unwanted patents. Thus, only "voluntary" package licenses, accepted by a licensee in the free exercise of his discretion,28 have been

26. Coercion may be proved by showing that the patentee refused to offer less than the package, or by showing that although fewer patents were offered, the royalties were not reduced proportionately to account for this lesser offering. See, e.g., American Securit v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir. 1959).


28. A licensee might want to take a package because a package makes available a number of related patents, and the licensee might not know in advance which of the group he will use. See, e.g., Automatic Radio Co. v. Hazeltine, 339 U.S. 827 (1950).
considered valid. These voluntary licenses have rarely provided for any reduction of royalties upon the expiration of some of the patents in the package. It is submitted that to read *Brulotte* to overturn such voluntary arrangements leads to undesirable results. Instead, *Brulotte* should be interpreted only to prohibit the collection of royalties after the last patent has expired; until that patent expires, traditional package licensing doctrine should remain in effect.

The cases which had considered the validity of undiminished royalty schemes in the package licensing context prior to *Rocform* were inconsistent in result. In 1965, the Court of Appeals for the Tenth Circuit concluded in *McCullough Tool Co. v. Well Surveys, Inc.* that the collection of unreduced royalty payments in a voluntary package arrangement was legal. This decision is of particular interest because the Tenth Circuit withheld its decision pending the Supreme Court's decision in *Brulotte* and then declared that *Brulotte* did not require it to outlaw the traditional practice of collecting undiminished royalties on a package license. However, even prior to *Brulotte* some authority did exist which suggested that an undiminished royalty scheme was illegal. The Court of Appeals for the Third Circuit had held in *American Securit v. Shatterproof Glass Corp.*, a mandatory package licensing case, that it was patent misuse for a patentee to collect undiminished royalties for the life of a patent package. The court apparently confused two separate

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30. See, e.g., Baker-Cammack Hosiery Mills v. Davis Co., 181 F.2d 550 (4th Cir. 1950); E. R. Squibb and Sons v. Chemical Foundation, 93 F.2d 475 (2d Cir. 1937) (upholding a practice of collecting royalties until the last patent expires).
31. 343 F.2d 381, cert. denied, 379 U.S. 826 (1965).
32. 343 F.2d at 409. Subsequently, in *McCullough Tool Co. v. Well Surveys, Inc.*, 1968 TRADE REG. REP. ¶ 72,453 (10th Cir. June 17, 1968), the second *McCullough* case, the Tenth Circuit again considered claims that Well Surveys had misused its patents by improperly extending the patent monopoly. The court rejected claims of misuse and held that there was an insufficient showing to establish a change in the licensing practices approved in the first *McCullough* case.
33. 268 F.2d 769, 777 (1959). The court stated: Securit's Standard Licensing Agreement which provided that that agreement shall continue “in full force and effect to the expiration of the last to expire of any” of Securit's patents . . . constitutes a patent misuse for it extends the payment of royalties of patents under patents which may expire to the expiration date of that patent most recently granted to Securit.
questions: the legality of the royalty scheme and the propriety of mandatory package licensing. Under a mandatory package, the licensee may well pay royalties on patents that he does not desire; here the misuse penalty is appropriate, since the patentee is using coercion to exact the payment of royalties for the undesired patents. But this is true regardless of the existence of an undiminished royalty scheme. The court may not have recognized that by framing its holding in terms of the royalty scheme it was casting doubt on the legitimacy of the normally accepted method of collecting royalties under legitimate voluntary package licenses.

In Rocform, the Sixth Circuit reached a conclusion similar to that of the Securit court; it too found that the collection of undiminished royalties after the expiration of the most important patent constituted patent misuse. However, the Rocform court did not rely on Securit for support. Rather, it disagreed with the McCullough court as to the impact of Brulotte and held that undiminished royalty schemes were prohibited by the Supreme Court's decision in that case.

V. POST-EXPIRATION ROYALTIES AND THE DOCTRINE OF MISUSE

It is submitted that the Rocform court was incorrect in holding that the patentee could not bring an action for infringement because he had misused his patent by charging unreduced royalties for a voluntary package license. The doctrine of patent misuse is designed to advance the constitutional purpose of the patent system—"to promote the progress of science and the useful arts." When a patentee uses his patent to subvert this policy, the doctrine of misuse provides an infringer of that patent with an equitable defense. Most misuse cases, particularly the early ones, have involved

Securit was subsequently cited as controlling in Technograph Printed Circuits, Ltd. v. Bendix Corp., 218 F. Supp. 1 (1963). However, the 4th Circuit affirmed the Technograph case on other grounds, 327 F.2d 497 (1964).

35. Misuse was developed in tie-in cases, involving situations in which a patentee had conditioned the licensing of a patent upon the licensee's agreement to purchase other unpatented items from the patentee. Since unpatented articles are already in the public domain, it is argued that such agreements unjustifiably stifle competition in those articles and should thus be considered antitrust violations. The Supreme Court accepted such reasoning in Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) and overruled Henry v. A. B. Dick Co., 224 U.S. 1 (1912), a case which had sanctioned such tie-ins.
36. An infringement suit is brought in equity, and the misuse doctrine is really a manifestation of the equitable doctrine of unclean hands. A patentee plaintiff cannot obtain relief if he has been abusing the rights obtained under the patent grant, even though the defendant infringer may be at fault because the patentee's hands are "unclean." An excellent article on the history and application of the misuse doctrine is Nicoson, Misuse of the Misuse Doctrine in Infringement Suits, 9 U.C.L.A. L. Rev. 76 (1962).
37. E.g., International Salt Co. v. United States, 332 U.S. 392 (1947); Mercoid Corp. v. Minneapolis-Honeywell Co., 320 U.S. 680 (1944); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); B. B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); Morton
patentees who used their patents in violation of the antitrust laws, and for this reason antitrust considerations have become enmeshed in the misuse doctrine. Unfortunately, this mixing of concepts has often resulted in findings of misuse based solely on violations of the antitrust laws, without consideration of the propriety of the patentee’s conduct in light of patent policy. Thus, it appears that either a violation of the antitrust laws or of patent policy, may give rise to a finding of patent misuse. Because the defense of misuse severely penalizes the patentee, it is unfortunate that the courts have not weighed the appropriateness of the misuse penalty more carefully before applying it to wrongdoing unrelated to patent policy.

It is submitted that charging unreduced royalties for the use of a voluntary package license arrangement does not constitute a violation of either patent policy or the antitrust laws even if the practice does result technically in the payment of post-expiration royalties. In fact, such arrangements may advance both patent and antitrust policies. The net effect of these agreements is to promote the “progress of science and the useful arts” by helping patentees market their patents, and at the same time to increase competition by making more types of licensing arrangements available to prospective licensees. In short, under either a patent or antitrust test of misuse, and assuming that Brulotte can be limited to prohibit only the collection of royalties after the expiration of the last patent in a voluntary package, collecting undiminished royalties as a part of a voluntary package licensing arrangement should not be deemed patent misuse.

Assuming, arguendo, that Brulotte should be interpreted to proscribe under the antitrust laws any post-expiration royalties, it is


39. See Nicoson, supra note 36, at 87.

40. There are two reasons why a defendant may want to invoke the misuse defense. One is that if he proves it, he may have made out an affirmative case for treble damages. In addition, the misuse defense gives certain procedural advantages to the defendant. See Nicoson, supra note 36, at 90-92.

Part of the problem is that the courts have entertained misuse defenses in patent cases without considering whether “the punishment fits the crime.” Since the defendant infringer who invokes the abuse defense is often himself at fault, many commentators have argued that allowing the defense is too harsh a penalty in many cases. See, e.g., Hamilton & Tell, What Is a Patent?, 15 Law & Contemp. Probs. 245 (1948).
interesting to note that in Brulotte the Court did not indicate that the facts of the case warranted a finding of misuse. Thus, the Rocol form court’s reliance on Brulotte in finding the patentee guilty of misuse is at best questionable. In Brulotte, the Court termed the patentee’s conduct “unlawful per se.” While this sounds like an antitrust rule and could be said to indicate that the Court might find sufficient anticompetitive effect to merit application of the misuse doctrine, the opinion may also be read as impliedly rejecting application of the harsh misuse doctrine in this context. The Court did not use the word “misuse” and did not apply the typical misuse penalty. Only those royalties which were to be collected in the post-expiration period were adjudged uncollectible; the ordinary misuse penalty would presumably have prevented the collection of all royalties for the period during which the illegal license was in effect. Thus, it may be reasonable to imply from Brulotte support for the proposition that the policy underlying the patent system provides the conceptual basis for the misuse doctrine, and that absent contravention of that policy a mere antitrust violation does not automatically constitute patent misuse. This interpretation would return the misuse doctrine to its proper role by limiting its application to cases where a patentee uses his patent in a way which subverts the patent policy.

In addition, considering the authority upon which Brulotte rested, it is even more doubtful that the Court intended the case to serve as precedent for a decision that the collection of undiminished royalties under a voluntary package license constitutes misuse. It is significant that the Court cited a case in which there was but one patent, not a package, for the proposition that royalties may not be collected after the last patent expires. The Court did not rely upon Securit, a package licensing case which it might have used to support application of the misuse doctrine. Moreover, the Court distinguished and upheld its earlier decision in Automatic Radio Co. v. Hazeltine. In that case the patentee had offered over five hundred patents in a package, and although some of the patents had expired the Court did not strike down the undiminished royalty arrangement. In proscribing the unreduced royalty provision in Brulotte, the Court held that Brulotte differed from Hazeltine because in the former the last patent had expired, whereas all the patents in Hazeltine had not expired. Thus, it is submitted that the Sixth Circuit was incorrect in relying on Brulotte when it proscribed the

41. For example, if a licensee wants patents A and B, and the patentee refuses to license these patents unless the licensee also accepts C, there is a coercive patent misuse. The patentee loses not only the right to collect royalties for patent C, but the right to collect all royalties for patents A and B as well.


43. 268 F.2d 769 (1959). See note 33 supra and accompanying text.


45. 379 U.S. at 38. It is clear that the Hazeltine court implicitly sanctioned a licensing practice which the Securit Court would find objectionable. The former decision, that of the Supreme Court, would seem entitled to greater weight. See
collection of undiminished royalties under a voluntary package licensing arrangement in Rocform.

However, even assuming that the Rocform court was correct in holding that as a general proposition a patentee can be found guilty of misuse if he charges unreduced royalties for a package license, still it is arguable that at least on the facts of Rocform the defendant should not have been able to take advantage of the defense. Misuse should be available, if at all, only when the defendant infringer can show that the patentee has refused a reasonable request for some other legitimate licensing provision.\(^{46}\) Indeed, in Well Surveys, Inc. v. Perfo-Log, Inc.,\(^{47}\) an infringement action by a patentee against an infringer who asserted misuse as a defense, the Tenth Circuit distinguished Rocform on its facts and held that the presence of an undiminished royalty scheme did not constitute misuse per se.\(^{48}\) In holding that the district court erred in granting summary judgment to the defendant infringer (who relied on Rocform), the court emphasized the fact that the patentee had presented evidence that any of the patents in the licensed package was available individually to any prospective licensee.\(^{49}\) In Rocform the court allowed a non-licensee infringer to invoke the misuse defense without any showing that the patentee would have been unwilling to use another licensing arrangement.\(^{50}\) Thus, the infringer avoided paying damages not because the patentee was forcing unreduced royalties upon his licensees, but simply because the patentee was receiving such royalties from them under a voluntary package licensee. This result is unnecessarily harsh on the patentee and could be avoided under a request and refusal test. By limiting the misuse defense to cases where a defendant can demonstrate that the unreduced arrangement was forced upon licensees, such a test would restrict application of the misuse doctrine to cases in which there is at least an argument that the patentee has violated basic patent policy by forcing licensees to pay post-expiration royalties.

VI. IMPLICATIONS OF ROCFORM

If it becomes settled that charging unreduced royalties under voluntary package licenses amounts to misuse, package licensing as it has heretofore been practiced will no longer be feasible. The parties to a license will not be able simply to settle upon a general


\(^{47}\) McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir.), cert denied, 379 U.S. 826 (1965).

\(^{48}\) 1968 TRADE REG. REP. ¶ 72,482 (10th Cir. June 4, 1968).

\(^{49}\) See notes 31-32 supra and accompanying text.

\(^{50}\) The court stated that "[s]uch a demand for an unpackaged license is not, however, held essential to a defense of misuse when the patent-holder seeks equitable relief from infringement while still pursuing the illegal practice." 367 F.2d at 680.
price for a patent package and will instead have to negotiate a virtual per-patent charge. As noted earlier, this will require higher early payments and will probably eliminate some potential licensees from the market. And, assuming that licensees can be found, Rocform adds other uncertainties. Heretofore, the courts could uphold voluntary package licenses without further questions, but now the courts apparently must ferret out the “most important” patent in a package and ascertain whether the rates were properly reduced when that patent expired. Rocform provides no guidelines for identifying the “most important” patent, or for determining the proper reduction of the royalties. Moreover, it fails to state how a court should react if it finds that there is, in fact, no “most important” patent. Finally, Rocform implies that a process package will still be valid, but again it fails to define standards to distinguish such a package from a patent package. Thus, by basing its conclusion that the royalty provisions in the Rocform license were unlawful on Brulotte rather than on the possible ground that the license was coercive, the Rocform court raised a number of problems which it apparently did not appreciate, and which will give other courts considerable difficulty.

There are arrangements by which patentees could meet the mandate of Rocform. As has previously been suggested, licensing agreements could provide for a per-patent reduction of royalties. Patentees operating under this system would anticipate that some reduction may be required upon the expiration of any patent, and they would thereby eliminate the problem of guessing which patent a court might find to be the “most important.” If this is the way patentees choose to meet the requirements of Rocform, voluntary package licensing will cease to exist, since patents in effect will be marketed singly. Although this scheme would conform to Rocform, several troublesome problems would remain. First, a patentee and licensee would somehow have to negotiate a suitable reduction upon the expiration of each patent. Second, under this plan the licensee would be unable to defer the payment of the royalties and might experience financial difficulties. Finally, this scheme imposes a rather substantial administrative burden on the patentee. In a case

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51. See note 19 supra and text accompanying notes 18 & 19.
52. 367 F.2d at 679, 680. The court found that the payments were too great for defendant to claim that they were for services and know-how. Thus, the court concluded that the payments were for the patents and not the process. This leaves open the possibility that deferred payments may be legal as a “process” if they are proportionate to the services and know-how supplied by the patentee after the expiration of the patent.
53. See note 26 supra.
54. Cf. Hamilton & Tell, supra note 40 at 257.
55. See note 19 supra and accompanying text.
like *Hazeltine*, for example, keeping track of the expiration dates of over 500 patents and altering royalty charges accordingly would presumably involve considerable expense. The patentee would undoubtedly try to pass this expense on to the licensee, and the licensee, in turn, could be expected to account for his higher costs by charging the public more for the patented item.

Another possible way for a patentee to conform to the *Rocform* ruling is to give the licensee an option to cancel the license at the expiration of each patent. Such a provision would certainly eliminate any question as to whether the licensee was coerced into accepting the package. In addition, since the licensee would be free to terminate if he concluded that the remaining patents were less valuable than the undiminished royalties he would have to continue to pay, it is reasonable to conclude that the licensee would not be paying royalties for expired patents.

### VII. Conclusion

It is clear that patentees, licensees, and courts will face a number of practical difficulties if they attempt to meet the demands of *Rocform*. For this reason the best solution to the post-expiration royalty problem posed by package licensing arrangements would be to limit *Brulotte* to a strict last patent test and not to interpret it as general authority for the proposition that the collection of royalties on expired patents constitutes patent misuse. While this will not change the fact that *Brulotte* is economically unsound, it will at least not extend the infirmities of that decision into the package licensing context, and it will allow the settled body of package licensing law to stand.

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*Economic Analysis,* 76 YALE L.J. 267 (1966), where the author argues that the patent grant should be expanded to accommodate administrative needs of the patentee:

A patentee is entitled to extract monopoly income by restricting utilization of his inventions notwithstanding that utilization of other goods and services are consequently restricted provided that in each case he confines the restrictions to his inventions as narrowly and specifically as the technology of the situation and the practicalities of administration permit.