

Michigan Law Review

Volume 62 | Issue 3

1964

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Recommended Citation

David R. Macdonald, *Know-How Licensing and the Antitrust Laws*, 62 MICH. L. REV. 351 (1964).

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MICHIGAN LAW REVIEW

Vol. 62

JANUARY 1964

No. 3

KNOW-HOW LICENSING AND THE ANTITRUST LAWS

*David R. Macdonald**

SIXTY-NINE years ago, a German inventor named Christensen walked into the offices of the American Aristotype Company and successfully demonstrated a secret process for manufacturing photographic printing-out paper. Thereupon, American Aristotype purchased exclusive rights to use the process and sell products made therefrom throughout the world, except in Europe and England. Christensen, in turn, agreed to limit his utilization of the process and sales to Europe and England. In commenting upon the validity of this agreement under the antitrust laws,¹ a court of appeals in 1931 noted that it constituted "a typical sale of property with a restrictive covenant against competition by the vendor, valid in law. The validity of the contract was heightened, if possible, by the character of the property—a grant of rights in a secret process."²

Eighteen years after this decision, another federal court invalidated a territorial division contained in licenses of know-how pertaining to the manufacture of tapered roller bearings, stating:

"One who possesses greater knowledge or superior skill in the manufacture of a product is entitled to be fairly and adequately compensated if he furnishes his knowledge or skill to others. He is not entitled, however, to exact as a price for such contribution, complete freedom from competition. The *quid pro quo* for furnishing of know-how cannot be an absolute license to avoid the provisions of the Sherman Act. The harm caused thereby would be too great a tribute to knowledge and skill when viewed in the light of public policy."³

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¹ Sherman Act, 26 Stat. 209 (1890), as amended, 15 U.S.C. §§ 1-7 (1958).

² *Thoms v. Sutherland*, 52 F.2d 592, 595 (3d Cir. 1931).

³ *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951).

Although these conflicting statements can find accommodation in the factual background from which they arose, the antitrust history of know-how licensing has been anything but enlightening to the businessman who seeks to exploit his company's superior technology by licensing others to utilize it. This is indeed unfortunate because know-how licensing is of considerable importance to United States industry and fiscal policy, especially with respect to foreign trade. Although exact figures are not available, the total gross royalty income received by United States firms from foreign licensing arrangements was estimated at 500,000,000 dollars in 1957,⁴ of which know-how licensing undoubtedly constituted a substantial portion.⁵ The detrimental effect of this legal opacity on the promotion of overseas licensing arrangements may be easily exaggerated. The companies which have contributed to the balance of payments inflow, however, deserve better forewarning than they have received.⁶ The purpose of this article, therefore, is to re-analyze the present antitrust status of know-how licensing for the purpose of clarifying the extent of the protection which the exploiter of know-how may accord himself without abusing the public interest in unfettered competition.⁷

I. THE NATURE OF KNOW-HOW

Know-how has been defined to include "inventions, processes, formulae, or designs which are either unpatented or unpatentable;

⁴ NATIONAL INDUSTRIAL CONFERENCE BOARD, *FOREIGN LICENSING AGREEMENTS* 11 (1958), quoting a study made by the American Enterprise Association for the Senate Special Committee To Study the Foreign Aid Program. The figure may well be double that amount today. The importance of know-how, as compared with patents and trademarks, is greater than might appear from an examination of license agreements because of the continued, although unsuccessful, refusal of the Internal Revenue Service to concede that know-how is "property," eligible for non-recognition as a contribution to capital under § 351 of the 1954 Internal Revenue Code, or for capital gains treatment as a "capital asset" under § 1221.

⁵ See Behrmann & Schmidt, *New Data on Foreign Licensing*, 3 *PATENT, TRADEMARK AND COPYRIGHT J. OF RESEARCH AND EDUCATION* 370 (1959).

⁶ See BREWSTER, *ANTITRUST AND AMERICAN BUSINESS ABROAD* 267-68 (1958), in which the author suggests that the antitrust laws have had a deleterious effect on foreign know-how licensing arrangements.

⁷ On the subject of know-how or trade-secret licensing, see *id.* at 158-70; FUGATE, *FOREIGN COMMERCE AND THE ANTITRUST LAWS* 207-11 (1958); OPPENHEIM, *FEDERAL ANTITRUST LAWS* 1001-08 (2d ed. 1959); Note, 33 *ST. JOHN'S L. REV.* 298 (1959). On the subject of forced disclosure of know-how in connection with government contracts, see Beach, *A Question of Property Rights: The Government and Industrial Know-How*, 41 *A.B.A.J.* 1024 (1955). For a general survey of licensing by foreign companies, see Behrmann, *A Brief Look at Foreign Licensing by European Companies*, 5 *PATENT, TRADEMARK AND COPYRIGHT J. OF RESEARCH AND EDUCATION* 130 (1961).

it may be evidenced by some form of physical matter, such as blue-prints, specifications, or drawings; . . . and it may involve accumulated technical experience and skills which can best, or perhaps only, be communicated through the medium of personal services."⁸

More than a blue-print or data sheet, however, is necessary before the knowledge embodied in these media of communication can support competitive restrictions placed upon its recipient. The know-how must rise to the stature of a trade secret.⁹ This is true both when its owner attempts to protect himself against unlawful use by one who has misappropriated it, and when he attempts to grant the know-how to others under what otherwise would be unlawfully restrictive contractual conditions.¹⁰ The term "know-how" as used herein, therefore, is limited to technical information fulfilling this requirement, that is, information which (1) is secret and (2) affords to its owner an opportunity to obtain a competitive advantage over those who do not possess it.¹¹ The requirement of secrecy should not mean, however, that only one person has discovered it;¹² moreover, the status of know-how as a trade secret should not suffer even if it is commonly known in some

⁸ Creed & Bangs, *Know-How Licensing and Capital Gains*, 4 PATENT, TRADEMARK AND COPYRIGHT J. OF RESEARCH AND EDUCATION 93 (1960).

⁹ *Mycalex Corp. of America v. Pemco Corp.*, 64 F. Supp. 420, 424, 425 (D. Md. 1946), *aff'd*, 159 F.2d 907 (4th Cir. 1947). This is not to imply that any distinction between secret and non-secret know-how is recognized in the taxation of gains resulting from the sale or licensing of know-how. See Creed & Bangs, *supra* note 8.

¹⁰ The degree of proof required to establish this threshold requisite seems to be less when the issue is misappropriation of the technical information (see, e.g., *Franke v. Wiltseck*, 209 F.2d 493 (2d Cir. 1953); *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953); *Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889)) than when the owner is attempting to utilize the information to justify restraints upon his licensee which otherwise would violate the antitrust laws. See *Foundry Servs., Inc. v. Beneflux Corp.*, 206 F.2d 214 (2d Cir. 1953); *Thoms v. Sutherland*, 52 F.2d 592 (3d Cir. 1931); *United States v. E.I. du Pont de Nemours & Co.*, 118 F. Supp. 41 (D. Del. 1953), *aff'd*, 351 U.S. 377 (1956).

¹¹ *Mycalex Corp. of America v. Pemco Corp.*, 64 F. Supp. 420, 425 (D. Md. 1946), *aff'd*, 159 F.2d 907 (4th Cir. 1947); BREWSTER, ANTITRUST AND AMERICAN BUSINESS ABROAD 160 (1958); RESTATEMENT, TORTS § 757 (1939). Some factors to be considered in determining the existence of a trade secret; according to § 757 of the *Restatement of Torts* are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

¹² RESTATEMENT, TORTS § 757, comment b (1939). This is particularly true when all owners are actively attempting to protect the know-how from others in the industry.

parts of the world, as long as the grant of know-how is made in a foreign country where such knowledge is unavailable.¹³

Whether know-how is a form of property has been the subject of repeated discussion. The proponents of the property theory attempt to further their position by rather tautological analyses,¹⁴ or by enumerating those legal attributes of property which are embodied in know-how or trade secrets.¹⁵ Opponents of the theory argue that know-how, unlike a patent, confers no universal power upon its owner to exclude others, and is defeasible as soon as the technology is acquired through honest industry.¹⁶ The protection, so the argument goes, is not protection afforded to an owner of property, but protection against unfair competition.¹⁷ Refuge is usually taken in Mr. Justice Holmes' statement that "the word 'property' as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith."¹⁸

From an antitrust standpoint, the question is irrelevant. In the first place, whatever know-how is called, it confers upon its possessor the exclusive, although perhaps temporary, right to utilize it. The partial (or total) release of this right, exacted in return for limitations upon the utilization of the know-how itself, therefore, should raise no antitrust question.¹⁹

In the second place, whether considered property or not, know-

¹³ See BREWSTER, *op. cit. supra* note 6, at 164-65; FUGATE, *op. cit. supra* note 7, at 192-93.

¹⁴ See, e.g., Nash, *The Concept of "Property" in Know-How as a Growing Area of Industrial Property: Its Sale and Licensing*, 6 PATENT, TRADEMARK AND COPYRIGHT J. OF RESEARCH AND EDUCATION 289 (1962).

¹⁵ "It [a trade secret] can be the res of a trust; it is assignable, taxable, and will pass to a trustee in bankruptcy. It is, if reduced to writing, subject also to levy and sale under a common law writ of execution. It may be transferred for valuable consideration or by gift; such transfer, however, need not be in writing, and may be founded upon an implied as well as an express promise. A trade secret may also be transferred by mortgage." CALLMAN, UNFAIR COMPETITION AND TRADEMARKS 857 (2d ed. 1950). See also Creed & Bangs, *supra* note 8.

¹⁶ See the reasoning employed in *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 402 (1911).

¹⁷ The framers of the Regulations governing enforcement of the Rome Treaty (Common Market) antitrust provisions have carefully avoided referring to secret technology as industrial property. See, e.g., Article 4(2)(ii)(b) of Regulation 17, implementing Articles 85, 86 of the Treaty.

¹⁸ *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917). This truism, however, does not avoid the fact that as soon as any term or label is interposed between a factual situation and the legal results which flow therefrom, an "unanalyzed expression" of "secondary consequences" arises. This is, indeed, the nature of law.

¹⁹ The legality of such limitations is discussed in Part II(B) *infra*.

how immanently contains a quantum of competitive value which is measurable by the time and cost necessary to accumulate it. This value, although contingently defeasible by outside discovery and publication, often far exceeds that embodied in a patent. In its highest form, know-how is everything that is necessary to create a going business other than capital and labor.²⁰ Enterprises have paid and will continue to pay dearly for it. The validity of traditional restraints ancillary to the sale of a business or property depends upon the competitive value of the property sold rather than the fact that what is sold is "property"; similarly, competitive restraints pertaining to the products made by the use of the know-how, and ancillary to the know-how grant or license, should not be rendered unenforceable on the basis of "property" distinctions. Moreover, so long as restraints are imposed solely upon those know-how licensees who have not discovered and cannot easily obtain the technology by themselves, the restraints should be valid, if reasonable. To the uninitiated licensee, at least, the know-how which is granted is figuratively a type of "property,"²¹ and the restraints exacted from him are less burdensome than the competitive disability posed by his unfamiliarity with the secret technology.²²

II. KNOW-HOW AND ANTITRUST IN THE COURTS

A. *Acquisition and Accumulation of Know-How*

The sale or transfer of know-how does not, of itself, violate the antitrust laws even though the seller covenants not to utilize it after the sale, since "the process must be kept secret in order to be of any value, and the public has no interest in the question by whom it is used."²³ In addition, absent monopoly power or a specific intent to monopolize, the continued accumulation of exclusive rights to know-how by an enterprise should not run afoul of the Sherman Act.²⁴ Even with the existence of monopoly power,

²⁰ In its lowest form, know-how is the dribble of manufacturing or marketing minutiae necessarily produced in the course of running a business. It is the licensing of this latter information which may be and has been used as a sham to divide territories between competitors.

²¹ In the sense in which Mr. Justice Holmes used the word when he defined a patent to be "property carried to the highest degree of abstraction—a right in rem to exclude without a physical object or content." HOLMES-POLLOCK LETTERS 53 (Howe ed. 1944).

²² The legality of ancillary restraints upon products manufactured by use of know-how is discussed in Part II(C) *infra*.

²³ *Central Transp. Co. v. Pullman's Palace Car Co.*, 139 U.S. 24, 53 (1891).

²⁴ With respect to patent accumulation, compare *Automatic Radio Mfg. Co. v.*

certain purchases of know-how for legitimate business reasons would not be illegal.²⁵ Without monopoly power the necessary unlawful intent in connection with the acquisition of know-how (violating section 2 of the Sherman Act) should not easily be imputed since, unlike patent acquisitions, know-how cannot be used as an offensive weapon to interfere with the business operations of others.²⁶ Know-how, however, might well be deemed an "asset" within the meaning of the anti-merger provisions of the Clayton Act,²⁷ and its exclusive acquisition from a competitor might be sufficient to result in the requisite anti-competitive effect.²⁸

Similarly, cross licensing of existing know-how, without more, should not violate the antitrust laws even though the licensee is prohibited from disclosing or sublicensing the know-how. The reciprocal accumulation of future know-how between competitors

Hazeltine Research, Inc., 339 U.S. 827, 834 (1950), with *United States v. Vehicular Parking, Ltd.*, 54 F. Supp. 828 (D. Del. 1944). There is, of course, always the possibility that Judge Hand's famous statement in *United States v. Aluminum Co. of America*, 148 F.2d 416, 431 (2d Cir. 1945), may be applied to the acquisition of know-how: "It [Alcoa] insists that it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every new comer with new capacity already geared into a great organization having the advantage of experience, trade connections and the elite of personnel." See also *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 307-12 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954), in which the court found occasional patent acquisitions to evidence the requisite market power in a § 2 proceeding, as well as to show some exclusion of competition.

²⁵ Compare *United States v. United Shoe Mach. Corp.*, *supra* note 24, at 310-11, in which the court discusses the Beacon and Blake patent acquisitions of the defendant.

²⁶ Patents, however, can be so used. See *United States v. Singer Mfg. Co.*, 1963 CCH TRADE REG. REP. (Trade Cas.) ¶ 70813 (Sup. Ct., June 17, 1963). The acquisition of non-exclusive rights could hardly violate the antitrust laws at all, since the only competitive advantage obtained in this situation is that resulting from the manufacture of a superior or less expensive product, to the advantage of the ultimate consumer. *But see*, *United States v. National Lead Co.*, 63 F. Supp. 513, 531-32 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

²⁷ Clayton Act § 7, 38 Stat. 730 (1914), as amended, 15 U.S.C. § 18 (1958). "That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where, in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly."

²⁸ The House Report on the Celler-Kefauver Bill, amending the Clayton Act, stated: "The bill retains language of the present statute which is broad enough to prevent evasion of the central purpose. It covers not only the purchase of assets or stock but also any other method of acquisition, such as, for example, lease of assets. It forbids not only direct acquisitions but also indirect acquisitions, whether through a subsidiary or affiliate or otherwise." H.R. REP. NO. 1191, 81st Cong., 1st Sess. 8-9 (1949); see *United States v. Columbia Pictures Corp.*, 189 F. Supp. 153 (S.D.N.Y. 1960); *Farm Journal, Inc.*, 53 F.T.C. 26, 48-49 (1956). See also *United States v. Lever Bros. Co.*, 216 F. Supp. 887 (S.D.N.Y. 1963), holding the acquisition of a trademark and patents to be within the scope of the act.

through cross licensing arrangements, however, may be dangerous if monopoly power exists or is achieved thereby. Most of the cases which discuss the problem also involved express or implied restrictions on further sublicensing without mutual consent.²⁹ This type of arrangement could be said to fall within the orbit of the patent pool cases.³⁰ In the *National Lead* case, however, the exchange of future know-how by competitors occupying one hundred percent of the relevant market was condemned. Although each competitor had the right to sublicense, the Supreme Court held the agreement to be one involving market power of such magnitude that, under the anomalous *Associated Press* doctrine,³¹ the failure of either party to offer the technical information to all applicants without use restrictions was violative of the Sherman Act.³²

Finally, the power of the know-how licensor to require that his licensee grant back title or exclusive license to unpatented (or patented) improvements in technology should not be restricted to any greater extent than is the case with patent grant-back agreements. Provided the grant-back agreement is limited in scope to improvements or modifications in the know-how granted and is not a means of perpetuating control over the industry, grant-back clauses should not be proscribed.³³

²⁹ See *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 309 (N.D. Ohio 1949), in which the Court held that exclusive interchanges of know-how and inventions "to the exclusion of others" were "integral parts of the general scheme to suppress trade," although not a "direct instrument to eliminate competition." It seems apparent that neither party could sublicense the know-how without the consent of the other in this case. See also *United States v. Imperial Chem. Indus., Ltd.*, 100 F. Supp. 504, 540 (S.D.N.Y. 1951), in which an exclusive licensee could not sublicense in his territory without the consent of his licensor. Since the licensor could not sublicense in the territory either, the consent of both had to be obtained. This undoubtedly contributed to the court's finding of unreasonable restraint, despite the refusal of the court to determine the *per se* illegality of the agreement. *Id.* at 592.

³⁰ See, e.g., *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1944).

³¹ *United States v. Associated Press*, 326 U.S. 1 (1945). The *Associated Press* ruling cannot easily be categorized into traditional antitrust concepts. The case might best be described as holding that where two or more firms in the same industry join to establish any facility for their mutual benefit, and the facility affords at least one of them a substantial competitive advantage over others, they must make the facility available on reasonable terms to all who request it.

³² *United States v. National Lead Co.*, 63 F. Supp. 513, 531-32 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

³³ *Stokes & Smith Co. v. Transparent-Wrap Mach. Corp.*, 329 U.S. 637 (1947), *on remand*, 161 F.2d 565 (2d Cir. 1947); *United States v. E.I. du Pont de Nemours & Co.*, 118 F. Supp. 41, 224-25 (D. Del. 1953), *aff'd*, 351 U.S. 377 (1956); *United States v. General Elec. Co.*, 80 F. Supp. 989 (S.D.N.Y. 1948).

B. *Limitations Within the Scope of the Know-How "Grant"*

The owner of a patent can, with impunity from the antitrust laws, place certain restrictions on his licensee so long as these restrictions fairly fall within the "ambit of his [patent] grant,"⁸⁴ which implicitly contains the right to exclude others "from making, using or selling" his invention.⁸⁵ Since a patent license is the "mere waiver of the right to sue" for patent infringement,⁸⁶ the licensor can limit his waiver to something less than his full right to exclude. While the permissible scope of restrictions on a patent grant is not entirely clear, the grant is generally considered broad enough to enable the licensor to limit the licensee with respect to the number of products produced under the patent,⁸⁷ the time in which the products can be produced (if less than the term of the patent), the manner of use of the products to be produced,⁸⁸ and the area in which the patent will be utilized (within the area of exclusivity granted by the sovereign which issues the patent).⁸⁹

The owner of know-how also has the right to exclusive use of his secret technology, and may exercise that right in such time, place and manner as he may choose. This exclusive right, of course, is defeasible upon discovery and publication of the technology. Nevertheless, until the occurrence of this "condition subsequent," the know-how owner may license the use of know-how to others and condition this grant by placing restrictions upon the time, place, or manner of such use (as opposed to restraints upon the products made from the know-how) without fear that the restrictions imposed might violate the antitrust laws. This is so because the license itself, like a patent license, is a partial release of his monopoly position rather than the imposition of an additional restraint upon trade and commerce in the products made by the use of the know-how.⁴⁰ Otherwise stated, there is no violation of

⁸⁴ ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 231 (1955).

⁸⁵ 35 U.S.C. § 154 (1958).

⁸⁶ DeForest Co. v. United States, 273 U.S. 236 (1927).

⁸⁷ Rubber Tire Wheel Co. v. Milwaukee Rubber Wheel Co., 154 Fed. 358 (7th Cir. 1907), *appeal dismissed per stipulation*, 210 U.S. 439 (1908); Q-Tips, Inc. v. Johnson & Johnson, 109 F. Supp. 657, 660-61 (D.N.J. 1951).

⁸⁸ General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124 (1938); Westinghouse Elec. Corp. v. Bulldog Elec. Prods. Co., 106 F. Supp. 819 (N.D.W. Va. 1952), *aff'd*, 206 F.2d 574 (4th Cir.), *cert. denied*, 346 U.S. 909 (1953).

⁸⁹ 35 U.S.C. § 261 (1958).

⁴⁰ See *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24, 30 (6th Cir. 1907), in which the court stated: "So long as the owner of such a secret can preserve its secrecy he has necessarily a monopoly in its use, and there is no illegal restraint because he refuses to make it public. Neither is the public interest affected whether the process or formula

the antitrust laws in limiting the communication of what the licensor might have refrained from communicating to anyone.⁴¹ Thus, in *Aktiebolaget Bofors v. United States*, the court held that a licensor could validly limit its licensee in the use of a secret process, stating: "But one who has lawfully acquired a trade secret may use it in any manner without liability unless he acquired it subject to a contractual limitation or restriction as to its use."⁴² Similarly, licenses containing time limitations on the use of know-how have been held valid,⁴³ and, analogizing from patent licensing, there is little doubt that the know-how licensor may restrict his licensee with respect to the number, size, or description of the item to be produced.⁴⁴ Another restraint which may be imposed upon the licensee—one which clearly falls within the scope of the know-how "grant"—is the obligation not to disclose the licensed know-how.⁴⁵

Unlike actions for patent infringement, no statutory action for know-how infringement can be maintained if the licensee exceeds the scope of his license; the action must sound in contract.⁴⁶

is used by A. or B. or by both, for there can be no restraint of trade in respect of a method or formula which is known only to the discoverer and those to whom he chooses to communicate it under restrictions. Having no right to compel a publication, the public lose no right by respecting a restricted disclosure, for no freedom of traffic has been stifled." In fact, legal actions against an employee for wrongful appropriation of trade secrets could be said to stem from the fact that the employer has disclosed his secret to him with an implied license restricting the use by the employee-licensee of the secret to that use which is beneficial to the employer *as licensor*.

⁴¹ *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236, 245 (1905) (opinion of Holmes, J.); *cf. International News Serv. v. Associated Press*, 248 U.S. 215 (1918). Holmes's statement might well apply to limits placed upon the products made from the know-how also, but it has not been unqualifiedly accepted in that regard. See *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24 (6th Cir. 1907).

⁴² 194 F.2d 145, 148 (D.C. Cir. 1951). There was no specific contention in this case that antitrust laws had been violated. Moreover, the quoted statement is, in part, dictum, since the restraints in question were placed upon the goods made by use of the secret process, and not upon this use itself.

⁴³ *CALLMAN, op. cit. supra* note 15, at 858. *But see* the consent decree in *United States v. Hughes Tool Co.*, 1958 Trade Cas. 73968 (S.D.N.Y. 1958).

⁴⁴ Restraints upon the number of units which could be produced under patent and know-how licenses have been held to be evidence of unlawful intent when combined with other antitrust violations. See *United States v. General Elec. Co.*, 82 F. Supp. 753, 814 (D.N.J. 1949); *United States v. National Lead Co.*, 63 F. Supp. 513, 531-32 (S.D.N.Y. 1945). The questionable reasoning behind these findings is discussed in Part II(C)(4)(b) *infra*.

⁴⁵ *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24 (6th Cir. 1907); *Spiselman v. Rabinowitz*, 270 App. Div. 548, 61 N.Y.S.2d 138 (1946).

⁴⁶ *Aktiebolaget Bofors v. United States*, 194 F.2d 145 (D.C. Cir. 1951).

C. *Limitations Ancillary to the Know-How "Grant"*

In addition to the license restrictions upon the method, time, or place in which the know-how itself may be utilized, restraints upon the sale or use of the products made from the know-how have been upheld as *ancillary* to the know-how grant. The theory behind these restraints is deeply rooted in our law, and is succinctly outlined in *United States v. Addyston Pipe and Steel Co.*:⁴⁷

"[A]gain, when one in business sold property with which the buyer might set up a rival business, it was certainly reasonable that the seller should be able to restrain the buyer from doing him an injury which, but for the sale, the buyer would be unable to inflict. This was not reducing competition but was only securing the seller against an increase of competition of his own creating. Such an exception was necessary to promote the free purchase and sale of property."⁴⁸

Restraints which litigants, arguing an ancillarity theory, have sought to justify upon products made through the use of know-how have been (1) restraints placed upon the purchaser of products made from the know-how; (2) restraints tying the sale of unrelated products to the license of know-how, or prohibiting the licensee from dealing in competitive products; (3) restraints upon the price of the products charged by the licensee; and (4) limitations with respect to the territory in which or customers to which the licensee may sell the products.

1. *Restraints Upon the Purchaser of Products Made by Use of the Know-How*

Despite early decisions to the contrary,⁴⁹ it is now clear that the know-how licensor can place no greater restraints upon those who purchase goods made from his know-how than can the manufacturer of any other product. In *Dr. Miles Medical Co. v. John D. Park & Sons Co.*,⁵⁰ the Supreme Court invalidated under the Sherman Act a resale price maintenance program adopted by the owner of a secret process and held that he had lost his control over

⁴⁷ 85 Fed. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).

⁴⁸ See also *Central Transp. Co. v. Pullman Palace Car Co.*, 139 U.S. 24, 53 (1891).

⁴⁹ See, e.g., *Wells & Richardson Co. v. Abraham*, 146 Fed. 190 (E.D.N.Y. 1906), citing *Park & Sons Co. v. National Wholesale Druggists' Ass'n*, 175 N.Y. 1, 67 N.E. 136 (1905).

⁵⁰ 220 U.S. 373, 402 (1911).

the product once it had been sold. Subsequent cases have uniformly reaffirmed *Dr. Miles* on this point.⁵¹

2. *Tying Agreements and Restraints Against Dealing in Competitive Products*

There is little question that an agreement whereby the know-how licensor requires his licensee to purchase unpatented products in order to obtain the license is illegal under section 1 of the Sherman Act if the requirements of the *Times-Picayune*⁵² and *Northern Pacific*⁵³ cases are met. In *Times-Picayune*, the Supreme Court held that if a seller (or licensor) enjoyed a monopolistic position in the "tying product" (*i.e.*, the know-how) and if a substantial volume of commerce in the "tied" product is restrained, the tying arrangement violates section 1 of the Sherman Act.⁵⁴ In *Northern Pacific* the Court watered down *Times-Picayune* by requiring proof only that the defendant had "sufficient economic power" over the tying product, and that a "not insubstantial" amount of commerce was affected.⁵⁵ Although these cases involved the sale or lease of tangible property used as the tying product, the same rule would apply if a patent or know-how itself were used to tie in sales of other goods.⁵⁶ Moreover, when a know-how license is used as a tying device a presumption of illegality would undoubtedly arise by reason of the imputed power stemming from the know-how itself.⁵⁷ In addition to these landmark tying cases the wording of opinions in certain know-how license cases indicates

⁵¹ *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944); *United States v. A. Schrader's Sons*, 252 U.S. 85, 99 (1920).

⁵² *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953).

⁵³ *Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958).

⁵⁴ 345 U.S. 608-09 (1953). Section 3 of the Clayton Act prohibits leases or sales of "goods, wares, merchandise, machinery, supplies, or other commodities . . . on the condition . . . that the lessee or purchaser shall not . . . deal in the goods . . . of a competitor." 38 Stat. 730 (1914), as amended, 15 U.S.C. § 18 (1958). Whether know-how is a "commodity" within the meaning of this section remains to be seen. The intangible nature of know-how, in addition to the fact that it often involves extensive services, would lead to the conclusion that it is not. See *United States v. Jerrold Electronics Corp.*, 187 F. Supp. 545, 554 (E.D. Pa. 1960), *aff'd*, 365 U.S. 567 (1961).

⁵⁵ 356 U.S. 1, 6 (1957).

⁵⁶ "The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." *United States v. Loew's, Inc.*, 371 U.S. 38 (1962). But see *Steiner Sales Co. v. Schwartz Sales Co.*, 98 F.2d 999 (10th Cir. 1938), *cert. denied*, 305 U.S. 622 (1939).

⁵⁷ The requisite economic power, for example, "is presumed when the tying product is patented or copyrighted. . . ." *United States v. Loew's, Inc.*, 371 U.S. 38 (1962).

that any restraint extending to products not embodying the know-how is illegal.⁵⁸

Nevertheless, the situation often arises in which know-how, patents and trademarks, all pertaining to one product, are licensed in a package, with the requirement that the licensee take all or none. Absent additional restraints, this would not seem to be illegal tying at all, since the "product" licensed is the bundle of industrial technology and property, all pertaining to the manufacture of designated goods.⁵⁹ Indeed, when trademark licenses are granted, the concomitant license of know-how may be required to effectuate the transfer of the mark.⁶⁰

Seemingly analogous to the tying requirement is the licensor's prohibition against manufacture by the licensee of products similar to those made by the use of the granted technology. Such a restraint has been held unlawful in the case of patent licenses.⁶¹ A similar result might well obtain with respect to know-how. The know-how licensor, however, can sometimes contend that the restraint against dealing in competitive products is no more than a restraint against the licensee's utilizing the know-how in an unauthorized way. So long as the licensee cannot but wrongfully utilize the know-how if he manufactures competing products, the argument goes, no additional restraint has been exacted beyond that which is lawful. If this fact is true, the argument would seem sound. The contract in such a case is framed to prohibit the manufacture of competing products rather than the wrongful utilization of know-how, because breach of the former obligation necessarily indicates breach of the latter.⁶²

In addition, there is nothing wrong with requiring the licensee

⁵⁸ See, e.g., *United States v. General Elec. Co.*, 82 F. Supp. 753, 846 (D.N.J. 1949).

⁵⁹ See *Susser v. Carvel Corp.*, 206 F. Supp. 636 (S.D.N.Y. 1952); *Engebricht v. Dairy Queen Co.*, 203 F. Supp. 741 (D. Kan. 1962) (holding ice cream retail franchises valid which, in order to protect the trademarks involved, required the purchase of equipment and products from the franchisor and restricted the method of operation of the franchisees). The court's dictum in *Technograph Printed Circuits Ltd. v. Bendix Corp.*, 101 ANTITRUST TRADE REG. REP. A-6 (D. Md., May 27, 1963), that know-how tied to a patent license might be illegal, appears aberrational, so long as the know-how and patents pertain to the same product.

⁶⁰ This is because a trademark is not assignable except in connection with the good will of the business which it symbolizes (Lanham Act § 10, 33 Stat. 727 (1905), 15 U.S.C. § 1060 (1958)), and this good will is often dependent, in whole or in part, on the know-how used in operating the business.

⁶¹ *McCulloch v. Kammerer Corp.*, 166 F.2d 759 (9th Cir. 1948), cert. denied, 335 U.S. 813 (1948). See also *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 236-37 (1892).

⁶² See BREWSTER, ANTITRUST AND AMERICAN BUSINESS ABROAD 165-66 (1958), where the author notes the dangers of incorporating a contractual provision of this type.

to use his best efforts to promote the sale of the licensed products, with the simultaneous obligation not to sell competing products when such sales would injure the sales of the licensed products. In fact, the Second Circuit implied such a promise in one case involving the licensing of a secret process although it was not expressly provided for in the contract.⁶³

3. *Restraints Upon the Price of the Goods Manufactured and Sold by the Licensee*

In the *Dr. Miles* case,⁶⁴ the Supreme Court, while outlawing resale price maintenance, suggested that a "secret process may be the subject of . . . sale or license to use with restrictions as to . . . price." This dictum has probably not survived as good law. The 1926 *General Electric* case,⁶⁵ sanctioning price control by a product patent owner over his licensee, has been so narrowed by subsequent cases, principally *Line Material*⁶⁶ and *United States Gypsum*,⁶⁷ that reliance upon *Dr. Miles* or *General Electric* seems ill-advised, even with respect to patent licenses.⁶⁸

The know-how licensor faces an additional obstacle. Most know-how is analogous to a process patent, since the secret technology usually pertains to the method of manufacture rather than the product manufactured. There has never been uniform acceptance of the *General Electric* rule in the case of price fixing under process patents, since the price control there governs not a patented product, but an unpatented product made from a patented process.⁶⁹ The nexus between the process patent grant and the

⁶³ *Parev Prods. Co. v. I. Rokeach & Sons, Inc.*, 124 F.2d 147 (3d Cir. 1941). The licensor, however, was denied injunctive relief against breach of this implied obligation.

⁶⁴ *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 402 (1911).

⁶⁵ *United States v. General Elec. Co.*, 272 U.S. 476 (1926).

⁶⁶ *United States v. Line Material Co.*, 333 U.S. 287 (1948).

⁶⁷ *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948).

⁶⁸ In *Line Material*, a majority of the Court was unable either to affirm or overrule *General Electric*. A majority, however, held that the *General Electric* rule did not apply to price fixing under a cross-licensing arrangement, with control over the prices of other manufacturers by one cross-licensee. In *United States Gypsum*, the Court held that a single patentee cannot control the prices of all the licensee-manufacturers in an industry, at least if concert of action may be inferred. Subsequent cases have further narrowed the scope of permissible price fixing. See *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 380 (1952); *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283, 293 (3d Cir. 1956).

⁶⁹ Compare *Straight Side Basket Corp. v. Webster Elec. Co.*, 82 F.2d 245 (2d Cir. 1936), with *Barber-Colman Co. v. National Lead Co.*, 136 F.2d 339 (6th Cir. 1943); *Cummer-Graham Co. v. Straight Side Basket Corp.*, 142 F.2d 646 (5th Cir. 1944); *American Equip. Co. v. Tuthill Bldg. Material Co.*, 69 F.2d 406 (7th Cir. 1934). See the commentary on this subject in *Susser v. Carvel Corp.*, 206 F. Supp. 636, 649 (S.D.N.Y.

unpatented product made by the licensee has appeared too remote for some courts to apply the *General Electric* rule, even when the licensor can skirt the limitations of *Line Material* and *United States Gypsum*. The analogy to the process patent cases, therefore, would indicate that price control exercised over a know-how licensee is unlawful.

4. *Territorial Restraints*

By far the greatest controversy with respect to the know-how ancillarity doctrine has raged over agreements between a licensor and licensee providing for territorial limitations upon sales of the goods made pursuant to the know-how.⁷⁰ Enforcement of this type of restriction is more important to the licensor than enforcement of those previously considered. It is, therefore, worthy of historical analysis.

a. *The Early Cases*

One year before the passage of the Sherman Act, the Supreme Court was faced with an agreement between the owner and his licensee under a secret formula for "Wistar's Balsam of Wild Cherry" in which each agreed to stay out of the other's designated territory.⁷¹ The licensee challenged the agreement as an invalid common-law restraint on trade in the product. In rejecting this contention and enforcing the agreement, the Supreme Court held the territorial restraint upon the sale of the products made from the process to be valid and ancillary to the grant of the process itself, even though the restraint was unlimited as to time.⁷²

1962). See also *United States v. General Elec. Co. (Carboloy)*, 80 F. Supp. 989 (S.D.N.Y. 1948).

⁷⁰ Similar considerations to those outlined in this section would apply to restraints upon the type of customers to which the licensee can sell. One limitation of this sort seems to involve no difficulty, however, and that is a requirement that the licensee manufacture solely for the licensor. In *United States v. Bausch & Lomb Optical Co.*, 45 F. Supp. 387, 399 (S.D.N.Y. 1942), *aff'd*, 321 U.S. 707 (1944), the court assumed that such an agreement would be proper, stating: "It is not necessary to find, and I do not find that Soft-Lite's specifications for the glass constituted a secret formula for the protection of which a restraining covenant [prohibiting the licensee from selling to others than Soft-Lite, the licensor] would be proper."

⁷¹ *Fowle v. Park*, 131 U.S. 88 (1889).

⁷² *Id.* at 97. The court undoubtedly recognized that, although the contract contained no time limitation, under accepted common-law contract doctrine it would terminate when the secret process was disclosed. See note 129 *infra*; *cf.* *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284 (N.D. Ohio, 1949), *aff'd*, 351 U.S. 593 (1951).

In 1911, the Supreme Court took occasion in the *Dr. Miles* case⁷³ to reaffirm its prior holding, despite the intervening enactment of the Sherman Act. Although it struck down restraints placed upon the purchaser of the product, the court distinguished restraints upon a purchaser from those restricting a licensee, stating: "The secret process may be the subject of confidential communication and of sale or license to use with restrictions as to territory and price."⁷⁴ The broad criterion of ancillarity in know-how licensing thus was directly applied vis-à-vis the Sherman Act. The territorial limitation was upheld, as in a sale of a business, because it was reasonable "to restrain the buyer [of the know-how] from doing him [the seller] an injury which, but for the sale, the buyer would be unable to inflict."⁷⁵ As late as 1931, one court of appeals still considered the law to be "not open to question" that territorial restrictions were valid when accompanied by a grant of know-how.⁷⁶

b. *The Attack Upon the Territorial Ancillarity Doctrine*

With the *National Lead*⁷⁷ decision in 1947, however, new criteria began to creep into determinations of the legality of ancillary territorial restraints, eventually resulting in judicial skepticism toward the know-how ancillarity doctrine itself. Although the *National Lead* case was primarily concerned with patent licensing, it is instructive because of the departure in reasoning from prior decisions both in the patent and know-how fields. Moreover, the theme of the opinion has been adopted, with variations, in subsequent decisions involving know-how licensing.

In 1920, National Lead, through its subsidiary Titanium Pigments Company, Inc., entered into an agreement with a European company, Titan, A.S., pursuant to which each party granted licen-

⁷³ *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911).

⁷⁴ *Id.* at 402.

⁷⁵ *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271, 280 (6th Cir. 1898), *aff'd*, 175 U.S. 221 (1899).

⁷⁶ *Thoms v. Sutherland*, 52 F.2d 592, 595 (3d Cir. 1931). The matter at issue in *Thoms* was the validity under the antitrust laws of the sale of the business in four countries by a German company to Eastman Kodak, in exchange for Eastman's stock. Eastman subsequently claimed that the stock was issued for an unlawful consideration. The court, however, held that the contract was a valid sale of a going business and the territorial restraints were reasonably ancillary thereto, even though the business went beyond the use of the secret process. The statements quoted in the text refer to the court's construction of a prior contract referring solely to the sale of a secret process, accompanied by a division of territories.

⁷⁷ *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

ses to the other for every "invention, improvement or subject matter under existing and future letters patent" held by the parties pertaining to the "licensed field," which was defined to include certain titanium pigments.⁷⁸ Under the licenses Titan obtained exclusive rights in the licensed field to the patents and know-how in all areas outside of North and South America, and Titanium Pigments obtained similar rights in North and Central America. The parties granted each other non-exclusive rights in South America. Competition was completely precluded since each party appointed the other its exclusive agent in the respective exclusive areas for distribution of those products falling within the licensed field, and could sell only upon order of its agent. In addition, each party agreed to make available to the other all present and future patent applications and other technological information relating to the licensed field, and further agreed not to attack the validity of the other's patents. Products containing titanium pigments could be exported into the other party's territory so long as this did not interfere with the other's sales of titanium pigments. Sub-licenses were allowed, provided that the sublicensees would abide by the territorial limitations of the 1920 agreement and would contribute to the other party to the 1920 agreement exclusive rights in such patents that they might have outside the territory of their licensor.

Subsequent sublicense arrangements entered into by the parties to the 1920 agreement subjected the sublicensees to the same restraints found in the agreement, either expressly, or, as the court found in the case of the du Pont Company, impliedly. In addition, the European licenses often provided for price fixing and limits on production of the products.

In holding the principal cross-license and the subsequent sublicensing arrangements to be contracts in violation of section 1 of the Sherman Act, the district court based its opinion on solid ground by pointing out that the contracts not only prevented competition in patented products but also divided territories in unpatented products, and therefore constituted naked restraints of trade;⁷⁹ that the contracts restrained the disposition of products

⁷⁸ *Id.* at 517.

⁷⁹ Apparently no contention was made that the exchange of unpatented confidential technical information could also support a territorial restraint, nor is there any indication that all the unpatented products subject to the restraints were manufactured through the use of such information.

after sale by the licensees; and that the contracts by their terms extended to production of titanium pigments beyond the term of any patents then existing.⁸⁰ The court also pointed to the illegality of that portion of the agreements acknowledging the validity of future patents which might be issued for inventions not then conceived, and for which no patent application had been filed.⁸¹ The court further noted that the restraints extended to countries which did not recognize or protect patents.⁸² Concluded the court: "[I]t is now well settled that a license may not be used to extend the patent monopoly beyond its terms."⁸³

The court thus fully answered the contention that the contractual restraints were ancillary to a patent grant by finding simply that they were not ancillary restraints at all. At this point, however, the opinion delved into a discussion of the ancillarity doctrine itself. Noting that the *Addyston Pipe* case⁸⁴ approved territorial restraints as ancillary to the sale of a business, the court attempted to distinguish that case upon two grounds. In the first place, the court stated, there was no business to sell. "At best, each [party] had an opportunity and a hope."⁸⁵ Second, the primary "intent" of the parties here was "to restrain trade in order to avoid competition . . ." and, therefore, no question of ancillarity could arise.⁸⁶

⁸⁰ *United States v. National Lead Co.*, 63 F. Supp. 513, 534 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

⁸¹ See also *United States v. Hartford-Empire Co.*, 323 U.S. 386 (1945); *Pope Mfg. Co. v. Gormully*, 144 U.S. 224 (1892).

⁸² A persuasive argument might be made here that as long as the United States exports its antitrust laws and imposes them on contracts which are valid in countries in which they are made or performed (see, e.g., *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 704 (1962); *United States v. Imperial Chem. Indus., Ltd.*, 105 F. Supp. 215 (S.D.N.Y. 1952); *British Nylon Spinners, Ltd. v. Imperial Chem. Indus., Ltd.*, [1954] 1 Ch. 19 (C.A.)), it should also export its own concepts of industrial property and its protection. The rationale for applying American antitrust laws to contracts enforceable in the country where made is that the restraints are injurious to our foreign commerce even though the acts are valid under foreign law. The reverse, however, is also true. From the standpoint of this country, a restraint upon United States exports is no different when the export is going to a country in which there is no patent protection to justify the restriction than when the export is going to a country in which the restraint would be justified by foreign patent grants.

⁸³ *United States v. National Lead Co.*, 63 F. Supp. 513, 524 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

⁸⁴ *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271 (6th Cir. 1898).

⁸⁵ *United States v. National Lead Co.*, 63 F. Supp. 513, 524 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

⁸⁶ *Ibid.* On appeal, National Lead and Titan accepted the cancellation of the license agreements. The Supreme Court's opinion, affirming that of the district court, is directed primarily at the scope of relief to be ordered and includes an interesting discussion on the necessity for and terms of an order requiring the compulsory disclosure of know-how and technical information. See 332 U.S. 353-59 (1947).

Following on the heels of *National Lead* was the *General Electric Carbology* case.⁸⁷ *Carbology*, like *National Lead*, involved a division of territories in the hard metal composition industry pursuant to patent license arrangements between General Electric and its subsidiaries, on the one hand, and the German manufacturer, Krupp, A.G., on the other hand. General Electric received exclusive rights in the United States and Canada and agreed to refrain from exporting elsewhere. Once again, the patent rights of the parties were found to have been "pushed to evil consequences," thus subjecting the defendants to the prohibitions of the Sherman Act.⁸⁸ Price agreements on the products manufactured were found to be an integral part of the agreement and thereby illegal under the *Line Material* doctrine.⁸⁹ Moreover, certain naked price-fixing arrangements, outside the scope of any patent justification, were discerned. Sublicensees were required to grant back patent licenses (usually exclusive) covering the products, in violation of the rule-of-reason limitations of *Transparent-Wrap*.⁹⁰ Resale price maintenance in the form of sham agency agreements was found,⁹¹ and non-signers were held to have been boycotted by the defendants.⁹² The purchase of competitors was determined to have been consummated with intent to exclude competition, *i.e.*, to monopolize.⁹³ Most important from the standpoint of this discussion, the territorial restrictions were construed by the court to apply to all exports of products in this industry by Krupp and General Electric, not merely to those products made from patented processes.⁹⁴ Once again the court assumed, without deciding, that a patent cross-licensing arrangement might contain territorial restrictions. The agreements in question failed, however, because of the unlawful "intent" of the parties.⁹⁵

This, then, was the legacy of rulings facing the court in the *General Electric Lamp* case,⁹⁶ in which the legality of know-how

⁸⁷ *United States v. General Elec. Co.*, 80 F. Supp. 989 (S.D.N.Y. 1948).

⁸⁸ *Id.* at 1004.

⁸⁹ *United States v. Line Material Co.*, 333 U.S. 287 (1948). In fact, this price control extended to the sale by sublicensees of unpatented products made from the patented process, a practice which the Court also found illegal.

⁹⁰ *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947).

⁹¹ *United States v. General Elec. Co.*, 80 F. Supp. 989, 1006-09 (S.D.N.Y. 1948).

⁹² *Id.* at 1009.

⁹³ *Id.* at 1009-10.

⁹⁴ *Id.* at 1009.

⁹⁵ *Ibid.*

⁹⁶ *United States v. General Elec. Co.*, 82 F. Supp. 753 (D.N.J. 1949). For the weary reader of this 153-page opinion, an excellent capsule factual summary and excerpt of

licenses accompanied by territorial restraints was directly in issue. General Electric was charged with restraining trade and monopolizing the incandescent lamp industry, in part through foreign agreements designed "(1) to prevent the sale in the United States of lamps made by foreign companies; (2) to prevent domestic lamp manufacturers from obtaining lamp parts and lamp making machinery from foreign concerns; and (3) to acquire for itself inventions and patents developed by foreign companies, principally to increase its pool of patents and prevent other domestic lamp manufacturers from obtaining rights under such patents."⁹⁷

These objectives were allegedly furthered by the execution in 1924 of the so-called "Phoebus" agreement, in which various subsidiaries of General Electric and other foreign manufacturers agreed to exchange technical information in return for promises to limit their participation in foreign lamp markets to a fixed percentage of each other's sales.⁹⁸ The Phoebus agreement was reinforced by license contracts of patents and technical information granted by International General Electric to foreign licensees which restricted the licensees to defined territories "with the United States and Canada recognized as being excluded."⁹⁹ According to the court's interpretation of these contracts, domestic licensees of General Electric were similarly prohibited from selling abroad.

General Electric, in defense, argued that the territorial restraints in its licenses were valid as ancillary to an exchange of manufacturing information.¹⁰⁰ In analyzing this defense, the court,

that part of the opinion concerning foreign know-how licensing is found in OPPENHEIM, FEDERAL ANTITRUST LAWS 973-80 (2d ed. 1959).

⁹⁷ United States v. General Elec. Co., *supra* note 96, at 827.

⁹⁸ *Id.* at 835. Trade between the United States and foreign countries was not prohibited on the face of the Phoebus agreement.

⁹⁹ *Id.* at 837.

¹⁰⁰ *Id.* at 845. The court summarized the argument as follows: "General Electric argued that territorial restraints in its licenses were reasonable and therefore valid as ancillary to an exchange of manufacturing information. In support of its argument it contended that the exchange of technical and manufacturing information and 'know-how' was a primary purpose of the license agreements, and was clearly evidenced by its substance and importance. It referred to the mass of accumulated industrial information which it had compiled and argued that the 'protection of one's labor is afforded even though the subject matter may not be strictly a "trade secret." It may stand "like a trade secret."' It claimed that the parties to the license agreements sought technical and manufacturing information and 'know-how' and sought access to each other's research laboratories and that the material involved was of the utmost importance. It insisted that the 'ancillary restraints were not to eliminate or even reduce potential or actual competition, but were simply to protect the parties against competition which would only have been of their own creating.' In concluding it insisted that the proofs

as in *National Lead*, made several observations which, in and of themselves, refuted General Electric's contentions. The court pointed out that the know-how had not been shown to be a trade secret. Although voluminous technical material had been exchanged, "the secret and confidential nature of the material had not been exhibited."¹⁰¹ Moreover, the court correctly ascertained that: "The restraints exercised under a patent grant are circumscribed within narrow limits and measured by the precise terms of the grant, but restraints exercised under authority of 'know-how' are measured by the use made of it."¹⁰² The defendants had not shown that all products which were the subject of contractual restraints either embodied or were built by use of the granted technical data. Thus, the court impliedly found that whatever know-how had existed had been "misused" by conditioning its grant upon naked territorial restraints placed upon other products in the manufacture of which know-how was not utilized. By analogizing from the patent misuse doctrine, the court could have justified the finding and the relief granted on this basis alone.¹⁰³

Nevertheless, the court once again paid obeisance to the slippery doctrine of unlawful intent as the criterion of illegality of the license agreements:

"It has been all too evident that the primary purpose of the foreign licenses was to restrict competition in the United States by dividing markets in the foreign countries, all geared to the Phoebus agreement and domestic licenses to reduce interest of potential foreign competition in United States trade. There is in the foreign licenses a striking similarity to the situation interdicted in *United States v. National Lead Co.*"¹⁰⁴

Unlike the *National Lead* case, however, the court went on to

established that patented inventions and a vast body of 'ever-changing manufacturing information and "know-how" has been exchanged between International General Electric and its foreign licensees.'" *Ibid.*

¹⁰¹ *Id.* at 846.

¹⁰² *Ibid.*

¹⁰³ The court also observed that General Electric's witnesses could give no clear definition of the know-how which was granted. *Ibid.*

¹⁰⁴ *Id.* at 847. Strangely, the court looked to and quoted that portion of the *Dr. Miles* case, which struck down *restraints upon a distributor* by the owners of a secret process, to support its conclusion that the *restraints upon licensees* were illegal. *Id.* at 846. That portion of the *Dr. Miles* case sanctioning restraints upon licensees was ignored.

place in question the legal capacity of the know-how licensor to restrain his licensee territorially in *any case*:

"Reflecting these expressions upon the circumstances of this case *without conceding that the exchange of 'know-how' could be the basis for territorial restrictions*, the parties to the contracts herein are found to have received their *quid pro quo* in the mutual exchange of valuable information each to the other. The interest of the public in the world wide divisions of territory set up and the far flung effects upon competition and trade encompassed in them is very great. No matter how reasonable the restraints have been considered as between the contracting parties they were entirely unreasonable in so far as the interest of the public is concerned."¹⁰⁵

Later in the same year as *General Electric Lamp* came the similar case of *United States v. Timken Roller Bearing Co.*¹⁰⁶ Here the defendant, Timken, a manufacturer of tapered anti-friction roller bearings, entered into contracts with British and French subsidiaries, licensing these subsidiaries first under patents and, upon the expiration of the patents, under so-called know-how grants. The licenses divided the world into sales territories and fixed prices on the licensed products. The parties also agreed exclusively to exchange and pool know-how, the antitrust effect of which has previously been discussed.¹⁰⁷

Once again the district court found the requisite unlawful "intent" to restrain competition, noting that even the defendants admitted that there was no competition between the United States, British and French companies. The court further rejected a number of defenses proffered by Timken, including the defense that the territorial restraint was ancillary to an agreement to furnish know-how to its affiliates.¹⁰⁸ To this last contention, the court replied that the so-called "know-how" furnished by Timken was not secret,¹⁰⁹ a fact which, as in *National Lead, Carboloy*, and

¹⁰⁵ *Id.* at 847. (Emphasis added.)

¹⁰⁶ 83 F. Supp. 284 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951).

¹⁰⁷ See Part II(A) *supra*. In addition, Timken and its subsidiaries were found to have joined at one time with their European competitors in a division of markets which restrained American exports, and, at other times, to have combined among themselves to combat this competition.

¹⁰⁸ One of the principal defenses, not relevant here, was that a corporation is not capable of conspiring with its subsidiaries.

¹⁰⁹ *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951). The court pointed out that other manufacturers were given free access to the plants of British and French Timken.

Lamp, turns the territorial restraints into per se violations of the Sherman Act.¹¹⁰ The court continued by noting that the know-how merely involved certain manufacturing skills pertaining to a process, the patents upon which had expired. Although recognizing the right to compensation for know-how, the court rejected the notion that such compensation might legitimately include, through contract, complete freedom from competition, and concluded with an attack on know-how based upon a previously unmentioned attribute—its indefinite duration: "If lawful restraints and monopolies could be predicated on the ownership of know-how they could last *ad infinitum*. This Court cannot subscribe to such unharnessed privilege."¹¹¹ The judgment was affirmed by the Supreme Court, without specific reference to the "know-how" defense.¹¹²

The nadir of the fortunes of restraints based upon know-how was reached in the *Imperial Chem. Indus. (I.C.I.)* case.¹¹³ Once again the defendants, this time in the chemical industry, had woven a network of cross license agreements with major manufacturers throughout the world, territorially restricting sales of a multitude of products made, according to their contracts, under patents and secret processes. Once again, evidence abounded that the know-how and/or patents covered by the agreements simply did not have value sufficient to sustain territorial restraints. For example, the court noted that:

"The decisive inquiry would appear to be whether or not the bulk of inventions licensed had, or were expected to have, any appreciable royalty value. The proof demonstrates that many of the inventions licensed did not have such value, but were nevertheless made the basis for a territorial allocation. The inference necessarily follows that the territorial division was the real purpose of the arrangement."¹¹⁴

¹¹⁰ *United States v. American Tobacco Co.*, 221 U.S. 106 (1911).

¹¹¹ *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 313-14 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951). The court's attack on know-how also found expression in the following statement: "During the existence of the tapered bearing patents defendant could not legally allocate markets on processes which were not within the ambit of its patent monopoly. Therefore, it defies all sense of logic to say that upon the expiration of the patents defendant could lawfully engage in like conduct and practices upon the theory of supplying know-how on unpatented processes." *Id.* at 313.

¹¹² *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1957). The Court did observe that its "prior decisions plainly establish that agreements providing for an aggregation of trade restraints such as those existing in this case are illegal under the act." *Id.* at 598.

¹¹³ *United States v. Imperial Chem. Indus., Ltd.*, 100 F. Supp. 504 (S.D.N.Y. 1951).

¹¹⁴ *Id.* at 528. In addition, the court found that "of the great mass of inventions

Nevertheless, the court once more lunged into a detailed analysis of the record to ascertain the real "intent" of the defendants. Nothing escaped its critical eye. Any letters or memoranda referring to the division of sales of products by territory, unqualified by a reference to the technology exchanged, were looked upon as evidence of guilt. The statement in one letter that an agreement "must take the form of an agreement to purchase and sell exclusive and non-exclusive licenses to patents and secret processes" was construed as evidence that the real understanding was otherwise.¹¹⁵

In sharp contrast to *National Lead*, in which the court found illegality because the licensing of products was unaccompanied by the sale of a business, the court in *I.C.I.* found that compensation based upon the sale of a business and withdrawal from the territory was a "subterfuge for a territorial understanding."¹¹⁶ The court concluded without deciding upon the per se illegality of licensing agreements containing territorial restraints,¹¹⁷ finding that in any case the agreements "were instruments designed and intended to accomplish the world-wide allocation of markets."¹¹⁸

The essential holdings of the *National Lead*, *General Electric Lamp*, *Timken*, and *I.C.I.* cases may be stated as follows: if a system of territorial restraints is exacted by licensing agreements and the accompanying grant of industrial technology (patented or secret) does not cover *all the products which are the subject of the restraints*, the entire system of agreements is unenforceable and illegal, although the grant of technology may be sufficient to support *some* territorial restraints with respect to *some* products. Precedent for this rule is abundant in the patent misuse field¹¹⁹ and in the broader antitrust doctrine that lawful acts, when inter-

exchanged, each one of which could contribute to a territorial withdrawal, only a small proportion were considered by the parties to have sufficient economic value to be the subject of specific monetary assessment." *Id.* at 548.

¹¹⁵ There is no question that the parties to the *I.C.I.* agreements sometimes seemed to be more concerned with the United States antitrust laws than with licensing of technology. Nevertheless, this is not conclusive proof that the parties intended to evade these laws, as opposed to avoiding them. Certainly, a licensor of know-how need not pretend that the antitrust laws do not exist.

¹¹⁶ *Id.* at 537.

¹¹⁷ *Id.* at 592.

¹¹⁸ *Ibid.*

¹¹⁹ See, e.g., *Morton Salt Co. v. Suppiger*, 314 U.S. 488, 494 (1942): "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy."

twined with unlawful conduct, may be enjoined if this is necessary to prevent frustration of "the broad public policy of the antitrust laws."¹²⁰ To imply, as these cases do, however, that the ultimate validity of *any* territorial restraint accompanying a patent or know-how license turns upon the "intent" of the parties does not stand analysis. The ascertainment of the true "intent" of the parties in this situation is chimerical, since both in the case of a valid license of substantial know-how with an accompanying ancillary restraint, and that of a naked division of territories between competitors, the parties blatantly intend not to compete with each other with respect to the products involved. In both cases, moreover, payment is made from one party to the other in return for the other's promise not to compete.¹²¹ Finally, the agreement in both cases is intended to maximize the profits of each party in its respective territory. The only objectively ascertainable difference between an ancillary territorial restraint and a naked division of territories, therefore, is that in one case the agreement is accompanied by a substantial grant of valuable and confidential technology enabling the grantee to operate in a manner in which he could not otherwise have operated without lengthy, tedious and expensive research, whereas in the other case this element is absent. The sole touchstone of legality, thus, is an analysis of the technical data granted and used. If this technology is substantial, valuable and secret, the restraint should be upheld as ancillary to it; if not, the restraint falls for lack of ancillarity. In evaluating the exchange of know-how, a quantitative assessment of the time and money required to produce it is, of course, extremely relevant. Such an evaluation may also properly include an assessment of the efforts required of the licensee to make the same product as efficiently without the granted know-how. In this context the fact that the parties, as competitors, cross-license each other with respect to know-how pertaining to the same products is some indication, aside from any question of intent, that neither of the parties really granted the other sufficient "value" to support a territorial restraint. Lack of any payment under the license tends also to show lack of value in the granted know-how. Moreover, as there is an increase in the number of products for which the territorial re-

¹²⁰ OPPENHEIM, *op. cit. supra* note 96, at 22.

¹²¹ Although in the case of a know-how grant, the payment is also made for the valuable know-how itself, the actual segregation of the payment of money from a licensee to his licensor can be accomplished only in the unlikely case that the parties segregate it themselves.

straints are sought to be sustained, there is a decreasing probability that the know-how is sufficient to sustain restraints as to *all* products. Perhaps, as the Supreme Court stated in *Timken*, "an aggregation of trade restraints such as those existing in this case [involving an entire industry] are illegal under the act."¹²² Certainly, the more products involved, the more difficult it is to believe that the know-how granted is sufficiently valuable to restrain the sales of each product. These and other considerations are relevant in determining whether the know-how granted has sufficient value to justify the licensor in representing to a court that, but for the grant of technology, there would be no competition in the foreseeable future from the licensee. When the granted and utilized know-how attains this stature, it should not matter that representatives of the parties talk in terms of restraining a given product without noting each time that the restraint is exacted only because of the know-how through which the product is made; that the parties attempt to frame their agreements to avoid the antitrust laws; or even that some corporate officer attempts to create the impression with his superiors that he has organized an economic empire. The ancillarity of the restraint should depend solely upon the extent of the transfer of property or value, and not upon the intent of the parties. That intent is always admittedly and openly to restrain.¹²³

The argument that know-how is not a business, but is at best "an opportunity and a hope,"¹²⁴ is also unrealistic. As has been pointed out, know-how in its most valuable form can constitute the backbone or structure of a business. The competitive importance of know-how is vividly attested to by the Supreme Court in *National Lead*. Rejecting the Government's contention that the

¹²² See note 112 *supra*.

¹²³ In most cases in which restraints are tested by the Rule of Reason, a lawful "business purpose" is one of the relevant factors tending to prove the reasonableness of the restraint. See, e.g., *United States v. Columbia Steel Co.*, 334 U.S. 495, 527 (1948). Purpose or intent ordinarily is relevant, however, because "the existence of a predatory intent bears upon the likelihood of injury to competition . . ." *FTC v. Anheuser-Busch, Inc.*, 363 U.S. 536, 552 (1960). If the know-how licensor proves that his grant was necessary to enable the licensee to compete in the manufacture of the products involved, however, he will have disproved the likelihood of injury to competition, and thus rendered irrelevant an inquiry into his intent. For this reason, and because of the inherent ambiguity found in the licensor's expressions of "intent," the intent issue should not be determinative of the legality of competitive restraints in know-how licenses, despite its importance in the usual application of the Rule of Reason.

¹²⁴ *United States v. National Lead Co.*, 63 F. Supp. 513, 524 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

defendants should be required to disclose future know-how, the Court stated:

"The attempt of the Government to throw the field of technical knowledge in the titanium pigment industry wide-open would reduce the competitive value of the independent research of the parties. It would discourage rather than encourage competitive research. It would be contrary to, rather than in conformity with, the policy of the patent laws now in force."¹²⁵

Similarly, in the *I.C.I.* remedy case the court evaluated know-how, even when it only supplemented existing patents, as "necessary to the efficient use of the licensed patents and to the production by the licensee of products comparable in quality and cost of production to that of the licensor."¹²⁶

Further recognition of the real value of know-how is found in the cases holding know-how pooling agreements to be illegal.¹²⁷ Certainly, if an agreement between competitors to pool their know-how to the exclusion of others is considered to be in violation of the antitrust laws because of its competitive importance, the know-how involved is more than "an opportunity and a hope." The fact that the courts have held that the unlawful accumulation of know-how may result in the unlawful prevention or restraint upon competition is implicit recognition that lawfully accumulated know-how affords its owner the power lawfully to prevent competition. This being the case, there should be no antitrust difficulty when the owner grants another the right to utilize the know-how under the condition that the grantee limit the sale of goods made from the know-how to a given area. Such an arrangement serves to encourage competitive research without lessening competition in the products made from the know-how.¹²⁸ The

¹²⁵ *United States v. National Lead Co.*, 332 U.S. 319, 359 (1947).

¹²⁶ *United States v. Imperial Chem. Indus., Ltd.*, 105 F. Supp. 215, 227 (S.D.N.Y. 1952). The court ordered compulsory licensing of both existing patents and know-how. With respect to future technology, the court concluded, as in *National Lead*, that compulsory licensing would discourage, not encourage, future research. *Id.* at 222.

¹²⁷ See Part II(A) *supra*.

¹²⁸ As the Attorney General's Committee stated, "Private American investment abroad may often be dependent upon opportunities for capitalizing on patent rights and 'know-how' through sale, exchange or licensing of such rights in transactions with foreign companies. . . . This reciprocal interest would normally involve the safeguarding of the investment of each of the participants in the markets at home and abroad where their resources are used to develop such markets. . . . We also believe that unpatented inventions, know-how, or other trade secret information may give rise to a lawful pur-

rationale of ancillary restraints expounded in *Addyston Pipe*, therefore, is directly applicable to grants of know-how.

Finally, the criticism expressed by the district court in *I.C.I.*, that restraints placed upon the parties by a know-how license agreement last indefinitely into the future, should not be disabling to those restraints. If the know-how later becomes publicly known (at least without the fault of the licensee), the continued enforcement of the contract, under accepted antitrust principles, would then be in restraint of trade, but the contract need not be held illegal from the start.¹²⁹ Moreover, under contract law the subsequent destruction of the know-how as a trade secret would cause the agreement, and thus the restraints, to terminate at that time.¹³⁰ Parties to a licensing agreement, of course, might provide for termination in such an event.¹³¹

c. *Subsequent Support for Ancillary Territorial Restraints*

As if to punctuate the conclusions reached above, two cases following the *I.C.I.* decision have supported ancillary territorial restraints appended to know-how licensing agreements. In *Foundry*

pose to which some restrictions on competition may be reasonably ancillary." ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 86-88 (1955).

¹²⁹ See, e.g., *United States v. Jerrold Electronics Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd*, 365 U.S. 567 (1961), in which the court held that a series of tying arrangements, valid at their inception, could, by reason of changes in the factual background of the arrangements, later become unreasonable restraints in violation of § 1 of the Sherman Act.

¹³⁰ Thus, in *Universal Rim Co. v. Scott*, 21 F.2d 346 (N.D. Ohio 1922), the court held that a patent licensee was justified in repudiating the license "whenever he ascertains that the patents covered by the license agreement are invalid . . ." *Id.* at 348. This is nothing more than an application of the doctrine that the destruction of a thing necessary to continued performance of a contract excuses the promisor from further performance. See 6 WILLISTON, CONTRACTS §§ 1946, 1948 (Rev. ed. 1958). Brewster nevertheless suggests that a specific time limit should be inserted in know-how licenses. BREWSTER, ANTITRUST AND AMERICAN BUSINESS ABROAD 450 (1958). Besides ignoring the authorities cited in this footnote, such a provision is disadvantageous from a tax standpoint. See *United States v. Carruthers*, 219 F.2d 21 (9th Cir. 1955), holding that capital gains treatment will be denied to the transferor of know-how who retains a right of "provable substantial value." Compare *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960), in which the intent of the parties as found by the court under the peculiar facts of the case was to continue license payments after the formula became public knowledge.

¹³¹ The German Federal Cartel Agency, with which certain patent and know-how licenses operable in Germany must be registered, requires a contractual provision enabling the licensee to terminate in case the know-how becomes public through no fault of the licensee. See the German Act Against Restraints of Competition of 27 July 1957, § 20(2), and the Decision of February 1962, 4th Division, Bundeskartellamt; 12 WIRTSCHAFT UND WETTBEWERB 555 (WuW-E 465, July-August 1962).

*Services, Inc. v. Beneflux Corp.*¹³² a territorial restraint accompanying a license of a secret process for manufacturing fluxes was upheld when it was shown that the parties were not competitors prior to the license, and that the license did not encompass an entire industry or control the products made from the flux to which the process pertained. The court concluded that the "exclusive license agreement of the type here attacked is probably as old, as 'normal,' as 'usual' and indeed as necessary as any type of contract" to further trade "in use among civilized men."¹³³

In the *du Pont Cellophane* case¹³⁴ the court sustained an exclusive license for moisture-proof cellophane granted by LaCellophane to a joint venture company owned by du Pont and LaCellophane in return for the promise by the jointly owned company to limit its sales of this type of cellophane to North and Central America. The valuation placed upon the secret process and technical assistance by the parties in forming the joint venture company was approximately 700,000 dollars,¹³⁵ and the estimated time needed for du Pont to manufacture moisture-proof cellophane was at least five years.¹³⁶ Finding that the process was "secret, novel and of commercial value,"¹³⁷ the court concluded:

"It is not the purpose of the Sherman Act or the common law of restraints of trade to discourage establishment of a new business in a new territory. Trade secrets have always been considered in the nature of a property right. . . . Among the ancillary restraints which are considered reasonable, both under common law and the Sherman Act, are those which limit territory in which the contracting parties may use the trade secret."¹³⁸

¹³² 110 F. Supp. 857 (S.D.N.Y. 1953), *rev'd*, 206 F.2d 214 (2d Cir. 1953).

¹³³ *Id.* at 861. Apparently there was no dispute that the process was secret and valuable. The judgment granting a preliminary injunction was reversed on appeal on the ground that the plaintiff had not shown irreparable injury. 206 F.2d 214 (2d Cir. 1953). The appellate court refused to pass on the antitrust issue, although commenting that the district court's opinion was "well reasoned," since it felt that the issue could be better decided after trial. Judge Hand, citing *Parev Prods. Co. v. I. Rokeach & Sons, Inc.*, 124 F.2d 147 (2d Cir. 1941), concurred because of doubts that the plaintiff could obtain an injunction in any case, even though the contract was enforceable.

¹³⁴ *United States v. E. I. du Pont de Nemours & Co.*, 118 F. Supp. 41 (D. Del. 1952), *aff'd*, 351 U.S. 377 (1956).

¹³⁵ *Id.* at 58.

¹³⁶ *Id.* at 59.

¹³⁷ *Id.* at 218.

¹³⁸ *Id.* at 219. The Supreme Court affirmed without reaching the question of the legality of the licenses involved. Chief Justice Warren and Justices Black and Douglas, dissenting, concluded that "the agreement . . . in which the parties agreed to divide

Thus, the territorial restraint is and should be valid and enforceable when incorporated in a license of substantial, valuable, secret know-how, so long as the restraint is limited in time (expressly or impliedly) to the "life" of the know-how, and to those products made by use of the know-how.

III. CONCLUSION

Despite the deprecatory comments which have been levelled at the value and nature of know-how in several recent opinions, its position with respect to the antitrust laws has remained approximately comparable to that of patents. This is both sensible and just. The economic value of know-how can be, and often is, equal to or greater than that embodied in patents.

With respect to foreign licensing in particular, the know-how licensor should be entitled to protect himself from the competition of his licensee. In addition to the fact that this restraint does not decrease competition in the case of a license of valuable technology, the use of know-how may be forced upon the licensor by reason of foreign patent laws. The breadth of patent protection afforded by foreign jurisdictions often does not equal that available in this country. Nevertheless, the *foreign* patent protection which the United States firm can obtain often determines its *domestic* antitrust liability for territorial restrictions which it places on its patent licensees. The United States firm, moreover, often has difficulty enforcing its rights under foreign patents against local concerns. These concerns may even flee to a jurisdiction which offers no patent protection in order to take advantage of information disclosed in patents issued elsewhere. Because of this undesirable state of affairs, the United States firm often chooses to keep its technology secret, and disclose this technology as know-how only to licensees in whose integrity it has confidence. There is certainly no reason why it should be forced to fall back on tenuous foreign patent protection to shield itself from our antitrust laws.

Perhaps the judicial doubts expressed with respect to restraints in connection with know-how licenses result from a suspicion that

the world cellophane market, is illegal *per se* under *Timken Roller Bearing Co. v. United States* The supplementary agreement providing for the interchange of technological information tightened the cellophane monopoly" 351 U.S. 377, 419 n.7 (1956).

these licenses may easily serve as a convenient dodge for the cartel-minded firm. Whether there is substance or subterfuge in know-how license restraints, however, can be ascertained by testing the value of the know-how granted. The businessman, therefore, who has built through his research a saleable competitive "asset" should not suffer because others inaccurately label naked territorial agreements in restraint of trade as know-how licenses.