

Michigan Law Review

Volume 55 | Issue 2

1956

Patents - Misuse Doctrine - Exclusive Distributorship Agreements as Patent Misuse

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Recommended Citation

Howard N. Nemerovski, *Patents - Misuse Doctrine - Exclusive Distributorship Agreements as Patent Misuse*, 55 MICH. L. REV. 303 (1956).

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PATENTS—MISUSE DOCTRINE—EXCLUSIVE DISTRIBUTORSHIP AGREEMENTS AS PATENT MISUSE—In a suit for infringement of a storm window patent, defendant claimed that relief should be denied because plaintiff allegedly misused the suit patent by requiring its wholesale distributors to maintain sales organizations devoted exclusively to the sale of plaintiff's windows, and by restraining the distributors from offering merchandise for sale in competition with any article manufactured or distributed by plaintiff. The patent did not comprise an element of the distributor agree-

ments, but was mentioned therein. The trial court denied relief, sustaining the defense of misuse of the suit patent. On appeal, *held*, affirmed. A patentee's right does not extend to use of his patent to purge the market of competing non-patented goods by means of exclusive distributor agreements. *The F. C. Russell Co. v. Consumers Insulation Co.*, (3d Cir. 1955) 226 F. (2d) 373.

The patent misuse doctrine¹ is based upon the equitable principle of clean hands² and the public policy of limiting the scope of patents to the original grant. From its inception the misuse doctrine has been relied upon virtually automatically by courts of equity to deny relief from infringement to a patentee who has been using the patent as a lever to restrain competition beyond the limits granted by the patent itself.³ In the typical misuse cases the unlawful demands of the patentee are exacted in return for a license privilege, the patents being integral to the unlawful activity. In the principal case the agreements were not licenses, but distributorship agreements, granting no privileges that were based directly upon the patent.⁴ The mention of the patent in the agreements was little more than a statement of fact, bearing no greater practical impact upon the distributor than did the display of the patent number on the patented windows. There was no causal relationship between the patent and the restrictive clauses in the agreements.⁵ This argument, however, failed

¹ See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

² See Rich, "Infringement Under Section 271 of the Patent Act of 1952," 21 *Geo. Wash. L. Rev.* 521 at 525 (1953).

³ The "tying clause" cases established that a patent license may not be conditioned on the licensee's promise to purchase solely from the patentee unpatented goods used in practicing the patent. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, note 1 *supra*; *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938); *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). The doctrine was expanded considerably in *National Lockwasher Co. v. George K. Garrett Co.*, (3d Cir. 1943) 137 F. (2d) 255. The court there condemned as unlawful attempts by the patentee to license his patent only if the licensee promised to refrain from manufacturing competing unpatented goods. See also *McCullough v. Kammerer Corp.*, (9th Cir. 1948) 166 F. (2d) 759, in which a strong dissent to this view was registered; *Park-In Theatres v. Paramount-Richards Theatres*, (D.C. Del. 1950) 90 F. Supp. 730. Cf. *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20 (1912), which involved a prosecution under the Sherman Act. The Court in that case stated that the added element of the patent could not confer immunity from condemnation for restraining competitors and controlling prices.

⁴ The same privileges of selling that were granted to the distributors could also have been granted if the storm windows were not patented.

⁵ *The Report of the Attorney General's National Committee To Study Antitrust Laws* commented upon a previous case in which the Russell Company was plaintiff under similar circumstances, *F. C. Russell Co. v. Comfort Equipment Corp.*, (7th Cir. 1952) 194 F. (2d) 592, remarking that, "While the patent was mentioned in the recitals of the agreements, there was nothing to indicate that it had any practical relationship with the exclusive agreement or bearing on the enforcement of the patent. We believe that the approach of this case confuses the conduct of the patentee in relation to the patent and his conduct with reference to other matters." *REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS* 251 (1955). See also Oppenheim, "Patents and Antitrust: Peaceful Coexistence?" 54 *MICH. L. REV.* 199 at 213 (1955).

to impress the court,⁶ which held that the utilization by a patentee of a common commercial sales device, the exclusive distributorship, is unlawful because the distributed product is patented. This case expands the misuse doctrine unreasonably, and establishes a double standard for the judicial appraisal of commercial activity, viz., the patentee may not use the exclusive distributorship to exploit his product, while the non-patentee may.⁷ This double standard results from a failure of the court to examine the agreement between the parties in its full commercial context.⁸ The expanded doctrine confuses the patentee's lawful exploitation of a superior bargaining position, which is the result of product popularity and commercial success,⁹ with patent misuse. In effect, the patent thus becomes a practical and a legal obstacle to successful exploitation of the invention, for the mere existence of a patent with an exclusive distributorship establishes a virtual presumption of misuse,¹⁰ with the result that the infringing defendant is substantially relieved of the proof of causal relationship between the patent and the clause under attack. It is clear that this expansion of the misuse doctrine will add to the already appreciable burdens and unwarranted limitations¹¹ on the freedom of patentees to exploit their inventions. This discrimination against patentees was probably never intended by the Supreme Court when the misuse doctrine was adopted, for the difficulties which this latest expansion of the misuse doctrine places before the patentee seem more inimical to the public interest than the very practice at which the rule was aimed.

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⁶ Principal case at 376.

⁷ See *Park-In Theatres v. Paramount Theatres*, note 3 *supra*, at 733.

⁸ Cf. REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTI-TRUST LAWS 238 (1955).

⁹ Russell was the largest producer of windows in the highly competitive market. It spent between \$200,000 and \$250,000 in advertising each year to sustain its position of commercial leadership. Principal case at 374.

¹⁰ Principal case at 376.

¹¹ See discussion in H. Hearings before the Subcommittee on Study of Monopoly Power of the Committee on the Judiciary, 81st Cong., 1st sess., Ser. No. 14, Part 1, p. 430 (1949). But see Clapp, "Some Recent Development in Patent-Antitrust Law," 34 J.P.O.S. 945 (1952); Yankwich, "Competition, Real or Soft?" 14 F.R.D. 199 at 209 (1954).