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Regulation of Business - Sherman Act - Patent Pool Agreements Which Restricts Fields of Use

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REGULATION OF BUSINESS—SHERMAN ACT—PATENT POOL AGREEMENTS WHICH RESTRICT FIELDS OF USE—DeVlieg, the owner of three major patents in the machine tool field, licensed his inventions to several machine tool manufacturers. Subsequently, he and the licensees formed a new corporation, Associated Patents, Inc., a patent holding company, to which he assigned his patents. Each party to the agreement owned an equal share of API. The agreement contained provisions for the granting back to API of any improvement patents acquired by the parties and it also restricted the use of the patents by each party to carefully circumscribed fields of use. *Held,* a patent pool agreement restricting fields of use is a combination in restraint of trade in violation of section 1 of the Sherman Act.[1] *United States v. Associated Patents, Inc.,* (D.C. Mich. 1955) 134 F. Supp. 74.

In cases involving patent license restrictions the courts have differentiated between licenses granted by individual patentees and those granted by a group. Individual patent licenses are allowed to contain many restrictions which would be illegal if a patent interchange or cross-licensing arrangement were involved.[2] For example, individual license agreements providing for the fixing of the first sale price,[3] or for restrictions in fields of use,[4] have been upheld. The rationale for these decisions is that a patent grants the owner a limited time monopoly, and any restrictions he imposes within the scope of his monopoly are "reasonably within the reward" for his invention.[5] On the other hand, similar restrictions in cross-licensing agreements and in patent interchanges have been condemned as combinations in restraint of trade,[6] the restraint arising not from the patent itself, but from the fact of combination and agreement.[7] However, the courts have held that if the patent interchange does not result in a restraint of trade, the existence of the combination is not illegal per se.[8] Thus, a patent interchange may grant patent licenses which restrict fields of use and still not run afoul of the Sherman Act.[9] But the general rule remains that patent

[1] 26 Stat. L. 209 (1890), as amended, 15 U.S.C. (1952) §1.

[2] Vulcan Mfg. Co. v. Maytag Co., (8th Cir. 1934) 73 F. (2d) 136.

[3] United States v. General Electric Co., 272 U.S. 476, 47 S.Ct. 192 (1926).

[4] General Talking Pictures Corp. v. Western Electric Corp., 304 U.S. 175, 59 S.Ct. 116 (1938); Automatic Radio Mfg. Co. v. Hazeltine Research Inc., 339 U.S. 827, 70 S.Ct. 894 (1950).

[5] United States v. General Electric Co., note 3 supra, at 489.

[6] United States v. Line Material Co., 333 U.S. 287, 68 S.Ct. 550 (1948); Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, 67 S.Ct. 610 (1947); Hartford-Empire Co. v. United States, 323 U.S. 386, 65 S.Ct. 373 (1945); United States v. New Departure Mfg. Co., (D.C. N.Y. 1913) 204 F. 107; Lynch v. Magnavox Co., (9th Cir. 1938) 94 F. (2d) 883.

[7] Blount Mfg. Co. v. Yale and Towne Mfg. Co., (D.C. Mass. 1909) 166 F. 555; National Harrow Co. v. Hench, (3d Cir. 1897) 83 F. 36; United States v. Vehicular Parking, Ltd., (D.C. Del. 1944) 54 F. Supp. 828; United States v. New Wrinkle, Inc., 342 U.S. 371, 72 S.Ct. 350 (1952).

[8] Standard Oil Co. (Indiana) v. United States, 283 U.S. 163, 51 S.Ct. 421 (1931); Standard Sanitary Mfg. Co. v. United States, 226 U.S. 20, 33 S.Ct. 9 (1912); United States v. United Shoe Machinery Co., 247 U.S. 32, 38 S.Ct. 473 (1918); Vulcan Mfg. Co. v. Maytag Co., (8th Cir. 1934) 73 F. (2d) 136.

[9] Cutter Laboratories, Inc. v. Lyophile-Cryochem Corp., (9th Cir. 1949) 179 F. (2d) 80.

restrictions are much more likely to be declared illegal if found in interchange agreements rather than in individual licenses.[10] The principal case contains elements of both an individual license and a group license. All of the original patents of the interchange were acquired from only one of the parties, DeVlieg. If, in the absence of the interchange, he had granted licenses to the other machine tool manufacturers with identical restrictions, such licenses might very well have been upheld.[11] When DeVlieg assigned his patents to the patent holding company, API, it might have been expected that API, as his assignee, possessed the same rights as DeVlieg[12] and the same immunity in granting licenses with restrictive covenants that he would have had. However, the court in the principal case held differently. Without repudiating the long line of decisions which protect the individual patent license, the result indicates that the mere fact of combination makes the license agreements suspect, despite the fact that all the patents came from one party. This decision goes a step further than the previous patent interchange cases which condemned restrictive agreements made between the owners of several distinct patents. The results may have been influenced by the fact that the licensing agreement contained grant-back provisions, so that all parties were actually contributing patents, or agreeing to contribute future patents, to the pool. Whether the same conclusion would have been reached in the absence of the grant back provisions is arguable. The meaning of the case for patentees, though, is clear. When there is a combination of more than two patent owners granting patent licenses, the safest course is to license the patents to all applicants on an equal basis and without license restrictions.[13] Failure to do so may give rise to questions of illegality under the holding of the principal case.[14]

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10 Not only the licensor, but also the licensees, may be held liable for participating in illegal patent interchanges. United States v. General Instrument Corp., (D.C. N.J. 1949) 87 F. Supp. 157.

11 However, the doctrine of implied conspiracy, based on a showing of conscious parallelism of action, might still have led to a conviction. See United States v. Masonite Corp., 316 U.S. 265, 62 S.Ct. 1070 (1942).

12 See 4 CORBIN, CONTRACTS 525 (1951).

13 Cutter Laboratories, Inc. v. Lyophile-Cryochem Corp., note 9 supra.

14 "Even when monopoly is absent, however, licenses should be made available to every applicant in the industry where the participants in the interchange give up their independent discretion to license under the interchanged patents." REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS 245-246 (1955). The REPORT recognizes that its recommendation may go beyond the scope of previously decided cases, but the principal case indicates that the courts may be willing to accept its position.