THE VALIDITY OF CONDITIONS IN PATENT LICENSES

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In discussing this subject one can still begin with the premise that in this country a patentee possesses the absolute right to preclude anyone, except the United States government, from making use of his invention. The government is an exception because of the statute to the effect that whenever his invention is

"... used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture."¹

Though even as against the government the patentee has a right to compensation, he would not, under this provision, be allowed to enjoin the government's use and therefore, to that extent, does not have an absolute right of exclusion. But against all others his right appears to be still absolute.

In the Paper Bag Patent case of 1908 ² the Supreme Court, without dissent, laid down the flat proposition, as stated in the syllabus, that

"...An inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute, and this right is not dependent on his using the device or affected by his non-use thereof, and, except in a case where the public-interest is involved, the remedy of injunction to prevent infringement of his patent will not be denied merely on the ground of non-user of the invention."

This doctrine has been repeatedly attacked in Congress. In 1912 the "Oldfield Bill"³ would have required a patentee who was making no use of the invention himself to permit its use by others on payment of a reasonable royalty. At the Congressional hearing on the bill inventors of note and patent attorneys testified that deliberate nonuse or suppression of inventions whose use would be beneficial to the public was practically nonexistent. The Oldfield Bill was defeated, but the

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3 H. R. 23,417, 62d Cong., and again in 1913, H. R. 1700, 63d Cong.
proposal has been perennially revived in one form or another. In 1939 Mr. Willis B. Rice\textsuperscript{4} advocated the creation of a “Patents Commission” which should have power, among others, to order the granting of licenses by patentees when necessary to the public interest. Just recently the Department of Justice, through Mr. Thurman Arnold, has accused patentees, acting through international cartels, of serious injury to the position of the United States at the beginning of the war in respect of its facilities for manufacture of artificial rubber. Whether the lack of provision for its manufacture at this time is in truth attributable to the refusal of the patentees to license its production in this country, or, as appears the more probable, was the consequence of high cost of production and the financial unwisdom of the necessary capital expenditures in competition with cheap natural rubber supplies, has not been critically considered by the press and the public generally.

Out of the situation there may evolve, wisely or otherwise, some radical change in the patent law, including a statutory limitation upon the right of patentees to exclude others from use of their inventions.\textsuperscript{5} But at the present time the law appears still to be as it was laid down by the Supreme Court in the Paper Bag case.

**The Problem**

The problem of the patentee’s right of exclusion therefore becomes a question of what limitations and restrictions he can impose upon licensees to whom he voluntarily opens his monopoly in some degree. Since he can exclude them absolutely, does it follow that he can admit them only to such an extent, and only upon such conditions as he may choose? By this phrase “Can he?” is meant only “are the courts likely to sustain the validity of such a condition, in so far as that likelihood can be deduced from existing judicial opinions?” Unlike the writer of the Temporary National Economic Committee monograph referred to in a previous footnote, the present writer is not attempting to discuss what ought to be the law.


Perhaps it should be made clear at the outset that this discussion is not intended to cover the type of situation wherein a condition which might be held valid of and by itself is declared invalid, not because of its own nature, but because it is part and parcel of a scheme which as a whole violates the antitrust laws. Here the particular condition falls because the larger structure of which it is a part falls. Thus the district judge said, in one recent decision:

"It occurs to me that if the issuance of restrictive licenses by patentees on the use of machinery used in an industry wherein the patentees are important units, is part of a common scheme or cooperative effort upon the part of these units to obtain dominance of and unreasonably restrain trade in an industry engaged in producing an unpatented article, then certainly a court of equity has the power to declare such restrictions illegal in an action based on the anti-trust laws." 5

Obviously the validity of such incidental conditions necessarily involves consideration of the whole field of monopolistic combination and cannot be considered in this more narrowly purposed discussion. What follows relates only to the probably validity, or invalidity, of particular conditions in and of themselves.

That the patentee could attach such conditions and limitations as he might choose, leaving it to the licensee to decide whether he would enter the monopoly under those restrictions or not at all, seems to have been the original judicial attitude. In the Paper Bag case the Court said, "patents are property, and entitled to the same rights and sanctions as other property." 6 In Rubber Tire Wheel Company v. Milwaukee Rubber Wheel Company, 7 the circuit court of appeals was even more explicit, saying,

"... Congress put no limitations, excepting time, upon the monopoly. Courts can create none without legislating. ... Use of the invention cannot be had except on the inventor's terms. Without paying or doing whatever he exacts, no one can be exempted from his right to exclude. Whatever the terms, courts will enforce them, provided only that the licensee is not thereby required to violate some law outside of the patent law, like the doing of murder or arson." 8

7 (C.C.A. 7th, (1907) 154 F. 358 at 362.
8 This case was cited as a basis for the decision in United States v. Wayne Pump Co., (D. C. Ill. 1942) 44 F. Supp. 949.
Unhappily for the patentee—whether otherwise wisely or not—courts have begun to legislate in this field. They now refuse to enforce certain conditions which the patentee attaches to his permission to use. Some they refuse to enforce on the ground that the condition does "violate some law outside of the patent law," namely, the Congressional statutes prohibiting attempts to create a monopoly. But others they hold invalid simply on the ground that they conflict with the courts' more recently evolved ideas of sound public policy.\(^8\)

**Limitations on Extent of Invasion**

In so far as one can make a distinction between *limitations* upon the extent to which a licensee is authorized to invade the monopoly, and *conditions* with which invasion to any extent must comply, it seems safe to say that the former have not yet been judicially condemned. A patentee still need not open his monopoly at all, and if he does open it he can still effectively restrict the number or character of persons who may come in, and can limit the extent to which the invasion is permitted.

Thus, in *American Equipment Company v. Tuthill Building Material Company*,\(^9\) the court, for the purpose of stating "those propositions over which there can be no dispute" laid down the following postulates: the patentee

"... may exclude the entire population of the United States from making, selling, or using the article covered by the patent. ... The right to exclude all carries with it the lesser right to exclude a part of said population, and to permit another or others to make, sell, or use the patent for a limited period or in a limited territory.

"Appellant's right to license one, or as many as it chooses, to make, sell, or use the patented machine in the Chicago area was clear. It could prefer large manufacturers or small producers. ... In short, the patentee may exclude all ... and this carries with it the right to exclude some and license others. ... He may require minimum royalty payments. He may limit the number or amount of patented articles which the licensee may make."

An even more specific decision is that of *Vulcan Manufacturing Company v. Maytag Company*.\(^10\) Here the patent was for a gear-

\(^8\) A sharp distinction is intended in this discussion between the conditions and limitations which a single patentee attaches to the licensees he gives, and those combinations of several patentees which allegedly violate the antitrust laws because of the combination itself; only the first problem is considered herein.

\(^9\) (C. C. A. 7th, 1934) 69 F. (2d) 406 at 408.

\(^10\) (C. C. A. 8th, 1934) 73 F. (2d) 136.
driven wringer to be used on power washing machines. The patentee's license to the defendant permitted the defendant company to use the wringer only upon washing machines of a specified type, such as the defendant was then making. It carried no condition that the defendant must buy from the plaintiff, but left the whole matter immaterial as to whether the defendant should himself make the washing machines of that particular type, or might get them from anybody it chose. The limitation merely provided that if the defendant did use the wringer, it must attach it to a certain type of washing machine, regardless of where the machine came from. The defendant ultimately shifted its product and began making washing machines of a different and allegedly better type. They continued to attach the patented wringer to this new type of washing machine. The patentee brought action to enjoin on the ground that such use constituted a use of the patented invention not permitted by the license.

The defense contended that the plaintiff was trying to control the type of washing machine which could be manufactured and sold by the defendant, and thus was imposing an illegal condition upon the privilege of using the invented wringer. The court held, however, that there was no condition imposed, legal or illegal; that the limitation was a limitation of the extent to which the defendant was permitted to invade the plaintiff's patent monopoly; that it was permitted to invade the monopoly to the extent of using the wringer on one type of machine, and one type only. It held this a valid limitation, and granted the injunction.

So, too, in Good Humor Corporation v. Popsicle Corporation the court upheld as valid a limitation on the extent to which the licensee might intrude. The patent was for a process of freezing ice cream, sherbet, water ice, and other liquids onto a stick from which they might in due course be eaten. The license purported to grant the defendant the right to use the patented process for making such frozen suckers out of sherbet or water ice, but not to use it for making suckers out of milk, or ice cream. The court held that this limitation of the right of intrusion was valid and enforceable.

11 (D. C. Del. 1932) 59 F. (2d) 344.
12 Radio Craft Co. v. Westinghouse Electric & Mfg. Co., (C. C. A. 3d, 1925) 7 F. (2d) 432, upheld a limitation to the effect that while the licensee might make embodiments of the invention, he might sell them only to certain classes of buyers—amateurs, experimenters, scientific schools, etc. So also Westinghouse Electric & Mfg. Co. v. Tri-City Radio Electric Supply Co., (C. C. A. 8th, 1927) 23 F. (2d) 628, licensee held not privileged to sell through middlemen. The Sherman Act specifically
So long as the limitation can fairly be characterized as a restriction upon the extent to which the licensee is permitted to invade the monopoly created by the patent, whether the limitation be one of geography, or of market, or of purpose, or of extent of use, there appear to be no decisions denying the patentee's right to impose it.\(^{13}\)

But conditions to which the licensee must conform his conduct, by way of consideration for permission to invade the monopoly, have not so consistently found tolerance in the courts.\(^{14}\) On the contrary, both conditions as to the price at which the licensee can dispose of certain articles and conditions as to his manner of use of the patented invention have met with reprobation.

**Conditions Concerning Resale Price**

It is trite learning that conditions fixing the minimum price at which a licensee might resell the patented article, or limiting the prices at which he might sell the unpatented product of a patented machine or process, were originally held by the courts to be valid and enforceable.\(^{15}\) The reasons for the later judicial denial of the validity of these conditions were not made particularly clear by the courts.

An attempted limitation on sales price may arise out of four quite different situations. First, the sales may be by agents of the patentee, allows selection of customers in bona fide transactions not in restraint of trade. Federal Trade Commission v. Beech-Nut Packing Co., 257 U. S. 441, 42 S. Ct. 150 (1922); Johnson v. J. H. Yost Lumber Co., (C. C. A. 8th, 1941) 117 F. (2d) 53 (dictum).

\(^{13}\) American Equipment Co. v. Tuthill Bldg. Materials Co., (C. C. A. 7th, 1934) 69 F. (2d) 406, does in effect invalidate a limitation on the extent of use. The contract provision in fact amounted to limitation on the number of bricks that the licensee might make with the patented machine. In form it was a restriction on the price at which the product would be sold, and it was in terms of price restriction that the court condemned it.

\(^{14}\) It must be conceded that this verbal distinction between limitations and conditions is not absolutely sharp, nor is it assumed to be so. One man is permitted to invade the monopoly to the extent of using the patented wringer on a certain type of washtub only. Another is licensed to invade on condition that he use the patented wringer only on nonpatented washtubs purchased from the licensor. There is a difference in the validity of the two restrictions. Is one a limitation on extent of invasion and the other a collateral condition? The writer has no wish to raise an argument; the terms are used not as a matter of epithetical jurisprudence, not with any suggestion that by calling the restriction by one name or the other its validity can be determined, but only as a verbal convenience in generalization.

acting for him and with authority to sell only at fixed prices. Second, the patentee may authorize a licensee to make embodiments of the invention himself, but on condition that the licensee shall not dispose of them below a fixed price. Third, the patentee may authorize a licensee to use a patented process or to use a patented machine on condition that he shall not sell the unpatented product thereof below a certain price. Fourth, the patentee may sell an embodiment of his invention to another under an agreement concerning the price at which that other may resell it.

Price Restrictions upon Agents

The first of these possibilities is fairly exemplified in United States v. General Electric Company. Here the General Electric Company itself manufactured lamps covered by a patent which it owned. Some of these lamps it sold directly to large buyers through its own salaried employees. To small consumers it sold through some 21,000 retail electric appliance stores. The agreement with these stores fixed the price at which the lamps might be sold. The government attacked these agreements as monopolistic. The Supreme Court first examined the contracts with these retail stores, and, after some difficulty, set up the premise that the stores were not themselves purchasers from the manufacturer, and hence were not owners of the lamps, but were truly mere agents of the manufacturer. The Court then had no difficulty in holding that the contracts, wherein the price at which the agents might sell for the principal was set, were perfectly valid. Said the Court,

"... The owner of an article, patented or otherwise, is not violating the common law, or the Anti-Trust law, by seeking to dispose of his article directly to the consumer and fixing the price by which his agents transfer the title from him directly to such consumer." 17

Price Restrictions upon Patented Articles made by Licensee

The second situation mentioned above, wherein a patentee authorizes a licensee to make embodiments of the invention on condition that he sell them only at a certain price, was also considered in the General Electric Company case. The company had authorized the Westing-
house Company to manufacture light bulbs covered by the patent, on condition that the Westinghouse Company should sell only at prices fixed by the patentee. The Court considered squarely the question whether this condition was valid, and held it to be so.

"... The patentee," said the Court, "may make and grant a license to another to make and use the patented articles, but withhold his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them, he infringes the right of the patentee, and may be held for damages and enjoined. If the patentee goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. 18 He restricts the property and interest the licensee has in the goods he makes and proposes to sell." 19

Price Restrictions upon Unpatented Products of Patented Machine

This decision in its turn suggests the third situation referred to above, where a patentee authorizes a licensee to use a patented process or to use a, patented machine on collateral condition that he will not sell the product thereof below a stated price. In the General Electric

19 United States v. General Electric Co., 272 U. S. 476 at 490, 47 S. Ct. 192 (1926). This decision was followed by the district court in United States v. Wayne Pump Co., (D. C. Ill. 1942) 44 F. Supp. 949, holding that a patentee may lawfully fix the price at which his licensee sells embodiments made by the licensee. Whether or not a certain implied "hunching" in respect to this rule was intended by the court in United States v. Univis Lens Co., 316 U. S. 241, 62 S. Ct. 1088 (1942), is an interesting speculation.
case the Westinghouse Company was not using a patented process or machine; it was making lamps which themselves were covered by the patent. The sale or use of the lamps would itself be an invasion of the patent monopoly. In the situation now to be considered, the lamp or other device which is to be sold is not covered by any patent; its sale and use are free to the world. The condition as to price is not attached to the sale of the lamps, over which the patentee could have no control, but to the use of the process or machine for making them. But despite the difference in fact situations, the reasons given in the General Electric case for upholding the patentee's right to fix the price at which the maker of the patented article may sell it should apply with equal force in supporting his right to fix the price at which the user of a patented machine or process may sell its product. Everything the Court said in the General Electric case concerning the need of the patentee to protect his own selling price from cutthroat competition by his licensees is as applicable when the licensee is a user of the patented process as when he is a manufacturer of the patented devices. The Court's statement might reasonably be paraphrased into a recognition that a patentee who uses his patented machine or process to produce articles for the market will be affected in his profits by the price at which others whom he permits to use that machine or process sell their products; therefore it is important to him to control the price at which any such products are sold. As an analogy, United States v. General Electric Company seems clearly to support the validity of a condition as to the price at which the licensee of a patented machine or process may sell the product. The issue seems not to have been precisely decided by the courts, however, and dicta in other decisions throw some doubt upon the likelihood of the General Electric analogy being followed.

The matter was touched on, but not quite precisely, in American Equipment Company v. Tuthill Building Material Company. Here the equipment company had licensed the defendant to use a patented brick-carrying machine in connection with brickmaking. The royalty for such use was fixed at $.30 per thousand bricks, if no more than a certain number of bricks were made. The agreement provided that the royalty should be increased from this $.30 up to from $1.80 to $3.00 per thousand, according to the amount by which this limited number was exceeded. This increased royalty was so great as to be in effect prohibitive of any excess in the number of bricks made. Obviously, therefore, the royalty to be paid was really a limitation by the patentee

20 (C. C. A. 7th, 1934) 69 F. (2d) 406.
upon the number of bricks which might be made by means of the patented machine, rather than a limitation on the price at which bricks so made might be sold. The limitation was held to be void and unenforceable. In the course of its decision, however, the court said: "The owner of a patent which covers a process or a machine for making an unpatented article . . . may not fix the price at which the article shall be sold." 21 The court gave no reason for this statement, but relied merely upon the precedent of Motion Pictures Patents Company v. Universal Film Company, 22 which itself was not a price-fixing case, but involved an entirely different type of limitation—one obligating the patentee to use the patented machine only with supplies purchased from the patentee.

This American Equipment Company case is the most precise judicial declaration concerning the validity of limitations upon the sale price of products of a patented machine or process. The statement itself that such a limitation would be invalid is unexplained, is predicated upon a precedent which has nothing to do with it, and is thus no more than dictum. On the other side is the analogy of the General Electric Company case in support of the validity of such a condition. Hence the problem seems still to be open for litigation.

Price Restrictions upon Resale of Patented Articles

The fourth possible situation out of which the validity of a price restriction might arise is the outright sale by a patentee of an embodiment of his invention, with a limitation that the purchaser must not sell it below a fixed price. Here there is a quite definitely settled rule that the condition is invalid. But here the reasons for the decision vary according as the court looks at the subpriced resale an an alleged unauthorized invasion of the patentee’s monopoly, or as the breach of an alleged agreement with the patentee. In Bauer & Cie. v. O’Donnell 23 the patentee sued on the theory that the defendant, in reselling below the agreed price, was infringing the patent. The Supreme Court said, "The question propounded is: ‘Did the acts of the appellee, in retailing at less than the price fixed in said notice, original packages of “Santanogen” purchased of jobbers as aforesaid, constitute infringement of appellants’ patent?’" 24 In determining this question, the Court held that when the patentee sold to the first buyer and passed title to him,

21 Id. at 409.
23 229 U. S. 1, 33 S. Ct. 616 (1912).
24 Id., 229 U. S. at 9.
the chattel passed out entirely from the scope of the patent monopoly. Hence the person who resold the chattel could not be said to have infringed upon the monopoly. This was an undeniably logical proposition in which no question of public policy was involved if the major premise be accepted. If by the patentee's sale of the chattel he authorized its use and sale by others free of the patent monopoly, that use and sale could be no infringement of his patent. The major premise, that the patentee did intentionally free the chattel from the restrictions of the patent, the Court merely assumes without real discussion. But that assumption will undoubtedly now be followed by other courts.

In Dr. Miles Medical Company v. Park & Sons Company, the action was one to enjoin inducement of breach of contract, and therefore squarely raised the question of validity of the contract not to sell below the stated price. No question of patent infringement was involved. The majority of the Supreme Court held the agreement to be invalid, saying:

"The complainant's plan falls within the principle which condemns contracts of this class. It, in effect, creates a combination for the prohibited purposes. No distinction can properly be made by reason of the particular character of the commodity in question. It is not entitled to special privilege or immunity. It is an article of commerce and the rules concerning the freedom of trade must be held to apply to it. Nor does the fact that the margin of freedom is reduced by the control of production make the protection of what remains, in such a case, a negligible matter. And where commodities have passed into the channels of trade and are owned by dealers, the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstance whether they were produced by several manufacturers or by one, or whether they were previously owned by one or by many. The complainant having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic."

25 220 U. S. 373, 31 S. Ct. 376 (1911).
26 Id., 220 U. S. at 408-409. Essentially the same decision and the same type of reasoning in support of it appear in United States v. Univis Lens Co., 316 U. S. 241, 62 S. Ct. 1088 (1942). Here the patentee sold optical lens blanks covered by the patent on condition that the buyer-licensee should not resell them below a fixed price. The government asked injunction against such procedure as a violation of the Sherman Act, contending that it constituted a prohibited restraint of trade. The Court assumes, on the authority of precedent and without fundamental inquiry, that by selling the lens blanks the patentee had so completely authorized their use, despite the express limitation accompanying the sale, that whatever the buyer-licensee did with them could not
Justice Holmes, however, in his dissenting opinion, said most emphatically:

“... There is no statute covering the case; there is no body of precedent that by ineluctable logic requires the conclusion to which the court has come. The conclusion is reached by extending a certain conception of public policy to a new sphere. On such matters we are in perilous country. I think that, at least, it is safe to say that the most enlightened judicial policy is to let people manage their own business in their own way, unless the ground for interference is very clear. What then is the ground upon which we interfere in the present case? Of course, it is not the interest of the producer. No one, I judge, cares for that. It hardly can be the interest of subordinate vendors, as there seems to be no particular reason for preferring them to the originator and first vendor of the product. Perhaps it may be assumed to be the interest of the consumers and the public. On that point I confess that I am in a minority as to larger issues than are concerned here. I think that we greatly exaggerate the value and importance to the public of competition in the production or distribution of an article (here it is only distribution), as fixing a fair price. What really fixes that is the competition of conflicting desires. We, none of us, can have as much as we want of all the things that we want. Therefore, we have to choose. As soon as the price of something that we want goes above the point at which we are willing to give up other things to have that, we cease to buy it and buy something else. Of course, I am speaking of things that we can get along without. There may be necessaries that sooner or later must be dealt with like short rations in a shipwreck, but they are not Dr. Miles’s medicines. With regard to things like the latter it seems to be an infringement of the patentee-seller’s monopoly. The logical propriety of this assumption might be questioned, but it was the Court’s assumption. Hence the only remedy left to the patentee would be upon the buyer-licensee agreements not to sell below the fixed price. These agreements the Court held to be in violation of the anti-trust statute.

The finding that by sale of an embodiment the patentee intends to give up control over its use and, hence, to authorize its use in any way, without liability for infringement of the patent monopoly, was made as early as Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U. S. 425, 14 S. Ct. 627 (1893). But in this case, unlike the facts of the Univis case, although the patentee made a practice of selling his device only in connection with purchases of other materials, there was no express negation in the contract of sale of the buyer’s complete right of enjoyment.

So also Keeler v. Standard Folding Bed Co., 157 U. S. 659, at 666, 15 S. Ct. 738 (1895), where the Court said, “Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion.”
to me that the point of most profitable returns marks the equilibrium of social desires and determines the fair price in the only sense in which I can find meaning in those words. The Dr. Miles Medical Company knows better than we do what will enable it to do the best business. We must assume its retail price to be reasonable, for it is so alleged and the case is here on demurrer; so I see nothing to warrant my assuming that the public will not be served best by the company being allowed to carry out its plan. I cannot believe that in the long run the public will profit by this court permitting knaves to cut reasonable prices for some ulterior purpose of their own and thus to impair, if not to destroy, the production and sale of articles which it is assumed to be desirable that the public should be able to get. 27

So far as any real doctrine of public policy is concerned, Justice Holmes's opinion appears to be the sounder. Moreover the opinion of the majority was rejected by some state courts. 28 It was founded upon no real consideration whatsoever of public policy. 29 Since that decision the legislatures of two-thirds of the states have completely repudiated its ideas of sound public policy as to resale price maintenance; statutes commonly called the "fair-trade" acts have been widely adopted. 30 These state statutes which explicitly authorize the making of resale price maintenance contracts have been held valid by the United States

27 Dr. Miles Medical Co. v. Park & Sons Co., 220 U. S. 373 at 411-412, 31 S. Ct. 376 (1911).
28 Ingersoll & Bro. v. Hahne & Co., 88 N. J. Eq. 222, 101 A. 1030 (1917), 89 N. J. Eq. 332, 108 A. 128 (1918), in which the opinion said (88 N. J. Eq. at 226): "I am now considering the public policy of the State of New Jersey as distinguished from any public policy of the United States. ... after careful consideration, I have come to the conclusion that upon the general proposition, I agree with the dissenting opinion of Mr. Justice Holmes...." Grogan v. Chafee, 156 Cal. 611, 105 P. 745 (1909); Ghirardelli Co. v. Hunsicker, 164 Cal. 355, 128 P. 1041 (1912); Fisher Flouring Mills Co. v. Swanson, 76 Wash. 649, 137 P. 144 (1914); Rawleigh Medical Co. v. Osborne, 177 Iowa 208, 158 N. W. 566 (1916); Quinlivan v. Brown Oil Co., 96 Mont. 147, 29 P. (2d) 374 (1934).

The Court's ideas of public policy were contrary also to those of many commentators. Rogers, "Predatory Price Cutting as Unfair Trade," 27 HARV. L. REV. 139 (1913); McLaughlin, "Fair Trade Acts," 86 UNIV. PA. L. REV. 803 (1938). It is particularly odd that the Supreme Court should have thus itself imposed a limitation upon individual freedom of contract, in view of the hesitancy which courts have shown in permitting legislatures to impose limitations. Adair v. United States, 208 U. S. 161, 27 S. Ct. 277 (1907); Braceville Coal Co. v. People, 147 Ill. 66, 35 N. E. 62 (1894); State v. Fire Creek Coal & Coke Co., 33 W. Va. 188, 10 S. E. 288 (1889).

29 See Symposium, 4 LAW & CONTEM. PROB. 271ff (1937).
Supreme Court despite its own previously expressed opinion of the economic unwisdom of such contracts.\textsuperscript{31} Even the Sherman Act has now been amended to read as follows:

"... Provided that nothing contained herein shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears ... the trade mark, brand, or name of the producer ... when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law or public policy now or hereafter in effect in any State. ..."\textsuperscript{32}

In view of these more recent developments, it would seem that even this type of price-maintenance contract might now be generally sustained. If this is so, the ultimate conclusion must be that the whole range of price-maintenance conditions once accepted as valid, then suddenly suspect as invalid, have now again been clothed with respectability and can be enforced either by way of action for infringement of the patent monopoly, because the condition on which infringement was permitted has been broken, or by way of procedure upon the contract itself. That, however, remains to be seen.\textsuperscript{33}

**Conditions Concerning the Use of Nonpatented Material**

A different type of condition in license agreements sets up a requirement that the licensee confine his enjoyment of the patent to its use with certain unpatented materials. Here we find an emphatic judicial repudiation of the validity of all such conditions; a judicial attitude which, unlike the condemnation of resale price restrictions, has not yet met with serious contradiction by other agencies. But here again the reasons for denying validity to those contracts have been neither con-


\textsuperscript{33} Since the invalidity of these resale price contracts was predicated solely upon the Court's belief that they were in conflict with sound public policy, it is pertinent to note the Supreme Court's own realization of the possible impermanence of its beliefs as to public policy. "The truth is that the theory of public policy embodies a doctrine of vague and variable quality, and unless deducible in the given circumstances from constitutional or statutory provisions, should be accepted as the basis of a judicial determination, if at all, only with the utmost circumspection. The public policy of one generation may not, under changed conditions, be the public policy of another." Patton v. United States, 281 U. S. 276, at 306, 50 S. Ct. 253 (1929). See also the suggestion hereinafter that courts have in fact discarded their own once relied upon ideas of wise policy.
sistent nor clear. Sometimes the decision is put upon the ground that the attempted condition is a violation of statute, such as the Clayton Act; sometimes on the ground that it conflicts with "public policy"; sometimes no reason is stated.

In *Carbice Corporation of America v. American Patents Development Corporation* the plaintiff's patent was a container for the use of dry ice (solid carbon dioxide). He permitted the use of his patented containers on condition that they should be used only with dry ice furnished by himself. In due course he began an action to enjoin the defendant from further contributory infringement by furnishing dry ice to users of the containers. The Supreme Court held that the condition was invalid, and that there was no contributory infringement. Just why the condition was invalid, the Court does not say. It does not even put the invalidity on "public policy"; much less does it pretend to investigate the public policy wisdom of the limitation. Neither does it put the invalidity upon the ground of statute, such as the Clayton Act. Instead, it simply confines itself to declaring the limitation to be invalid because of the precedent of *Motion Picture Patents Company v. Universal Film Manufacturing Company*, and of the various price-fixing cases already discussed.

Obviously it does not necessarily follow that because a condition concerning resale prices is contrary to public policy, a condition as to use of certain materials is also contrary to public policy. Moreover, as just pointed out, the resale price decisions have now lost much of the force of their authority. The Court's other justification for its decision —reliance upon the *Motion Picture Patents* case—is also highly questionable. In the *Motion Picture Patents* case the Court had said, it is true, that the patent law does not extend the monopoly of the patentee to materials and things outside the invention. "Whatever right the

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84 283 U. S. 27, 51 S. Ct. 334 (1931).

It must be recognized that the presently prevailing notion of the Department of Justice, as evidenced by Mr. Thurman Arnold, appears to be that any and every condition attached to a license privilege is suspect and presumably contrary to public policy. Moreover, the Temporary National Economic Committee, to which that notion was expounded, approved a blanket recommendation that a patentee "be not permitted to impose restrictions upon the buyer in sales of patented articles. In other words, the holder of a patent should not be permitted to restrict a licensee in respect of the amount of any article he may produce, the price at which he may sell, the purpose for which or the manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce or sell such article." T. N. E. C., Final Report and Recommendations 36-37 (1941) (S. Doc. 35, 77th Cong. 1st sess.).

owner may have to control by restriction the materials to be used in
operating the machine must be derived through the general law from
the ownership of the property in the machine. . . ." 36 Hence, that
case held, an action for infringement would not lie because the defend­
ant, being owner by consent of the patentee of the machine involved,
was entitled to use it in any way he chose, regardless of the monopoly,
and the plaintiff had not even alleged a patent monopoly of the other
materials. But in the Carbice case, though the action was in form for
contributory infringement, the Court held the condition itself to be in­
valid, relying on the Motion Picture decision. As to the validity of the
contract between the parties, that latter Court had explicitly said,

"The extent to which the use of the patented machine may
validly be restricted to specific supplies or otherwise by specific
contract between the owner of a patent and the purchaser or
licensee is a question outside the patent law, and with it we are not
here concerned." 37

The Motion Picture Patents case, therefore, on which the Carbice de­
cision relies for its holding that the contract limitation on use of the
containers was invalid, obviously does not support the Carbice con­
clusion. But the decision itself remains, of course, regardless of how it
is justified. 38

A number of other decisions have put the invalidity of contracts
requiring the licensee to use only with specified unpatented material
upon their inconsistency with the Clayton Act. In Standard Fashion
Company v. Magrane-Houston Company, 39 the plaintiff had agreed to
sell paper patterns to the defendant retailer at reduced price, on con­
dition that the defendant would not handle similar goods of any other
manufacturer. This contract was held unenforceable, because it tended
substantially to lessen competition and fell within section 3 of the
Clayton Act, which made it "unlawful . . . to lease or make a sale or

36 Id., 243 U. S. at 513.
37 Id., 243 U. S. at 509.
257 (1917), was an action to enjoin breach of contract which attempted to fix the
resale price of patented graphophone records; held, the price-fixing was "contrary to
general law and void." The Carbice case did at least cite this decision. This decision in
its turn was rested partly on Bauer & Cie v. O'Donnell, 229 U. S. 1, 31 S. Ct.
376 (1911), which made little attempt to get into the public policy question.
the Court held a similar condition invalid and again it gave no reason for so holding
except that it was so held in the Carbice case.
contract for sale of goods . . . on the condition, agreement, or understanding that the lessee or purchaser shall not use or deal in the goods . . . of a competitor . . . where the effect . . . may be to substantially lessen competition. . . ."\(^{40}\) This case, to be sure, did not involve the question of the patent law, but the Clayton Act itself specifically applies to such contracts "for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented."\(^{41}\)

In *International Business Machines Corporation v. United States*\(^ {42}\) the International Corporation leased patented machines for the mechanical or electrical tabulation of variously punched cards. It was a condition of the lease that the lessee must use in the machine only cards made by the lessor. The lessor alleged that exact thickness of card and freedom from grease smuts was essential to satisfactory operation of the machines; that the purpose of the condition was not to limit competition, but to assure satisfactory operation of the machines, and thereby to protect the lessor's good will. In an action by the government to enjoin the making of such leases, and to declare void those which had been made, it was held that the leases were void under


\(^{41}\) On the effect of the Clayton Act in general, see also Carter Carburetor Corp. v. Federal Trade Commission, (C. C. A. 1940) 112 F. (2d) 722. Action of the company in making prices to distributors depend on whether or not the latter carried products of a competitor was held properly subject to a cease and desist order by the commission, because of violation of Clayton Act.


American Equipment Co. v. Tuthill Bldg. Material Co., (C. C. A. 7th, 1934) 69 F. (2d) 406. A license to use a patented brick-handling machine, the royalty to increase markedly if more than a certain number of bricks were handled. Held, the limitation as to the number of bricks which the licensee might handle "was not a license provision, but was a price fixing, quantity production limitation, the inevitable result of which was the unreasonable restraint of commerce and the creation of a monopoly . . . the dominant thought, purpose, and plan were to control brick production and brick prices. . . . The entire contract is therefore void." Id. at 409.

United States v. Wayne Pump Co., (D. C. Ill. 1942) 44 F. Supp. 949 at 956: "While ownership of the patent gives to the patentee a complete monopoly within the field of his patent, it of course does not give him any license to violate the provision of the Sherman Act or of any other law." (Dictum.)

\(^{42}\) 298 U. S. 131, 56 S. Ct. 701 (1935). But compare the decisions cited in notes 50 and 51, infra.
section 3 of the Clayton Act, because of their tendency to create a monopoly in respect of the unpatented cards.

Agreements Not Tending to Create a Monopoly

It should be noted, however, that the Clayton Act in terms makes such licensing agreements void only if the effect thereof "may be to substantially lessen competition or tend to create a monopoly in any line of commerce." Obviously, licensing agreements which do not thus tend to create monopolies or adversely affect competition do not so fall within the act. If this latter type of condition is to be held invalid, it must be so on the ground that it is contrary to public policy.

But if the condition does not tend to lessen competition or to create a monopoly, would it be contrary to public policy?

What is or is not contrary to public policy is obviously a matter of opinion, and not a rule of law. In *Muller v. Oregon*, where the public policy of a statute limiting the hours of employment for women was in question, Mr. Brandeis filed with the Supreme Court a two-volume brief demonstrating the adverse effect upon women, and through them upon society, of long-continued hours of work. This was a logical and sensible procedure. In another case, after Mr. Brandeis became Justice Brandeis, he remarked that in order to determine the public policy of a law limiting certain aspects of baking activities, it was really necessary for the Court to inform itself definitely of the problems confronting those engaged in the business of baking. "Knowledge is essential to understanding; and understanding should precede judging."

But as a general rule the facts upon which the public policy must depend in any given issue are seldom before the court. A judge's decision as to what is or is not public policy is not a matter of logical deduction from a mass of facts presented in evidence, but his own personal reaction from such information as he may have acquired in one uncertain way or another. Not infrequently, questions of public policy are determined not through the court's knowledge of facts, but because of the enthusiasm and emphasis with which some attorney asserts the conflict with public policy. Once a court has determined that something is not in accord with public policy, other courts find it far easier to adopt that opinion than to hunt out facts and to formulate an opinion for themselves. It may be, therefore, that they will continue

43 208 U. S. 412, 28 S. Ct. 324 (1907).
to declare invalid, as contrary to public policy, agreements which require a licensee as a condition of his permitted use to buy materials of the licensor, even though such agreements do not in fact "substantially" lessen competition, nor "tend to create a monopoly."

On the other hand, judicial opinions of what is or is not wise public policy are not wholly invulnerable to argument nor incapable of change. The apparent change of opinion in respect to the wisdom of resale price agreements has already been suggested. In *People v. Charles Schweinler Press* the New York Court of Appeals quite frankly departed from a previous opinion as to wise public policy on the ground that since the time of its previous opinion it had acquired additional knowledge of facts. It is not impossible, therefore, that in respect of conditions requiring purchase of supplies, which conditions do not actually violate some statute, one court or another might be induced, by proper presentation of facts, to depart from the decision in the *Carbice case*.47

**VARIOUS OTHER CONDITIONS**

Many conditions have been attached to licenses which cannot be classed either as restrictions upon use of nonpatented materials, or as directly affecting the sale price of goods; neither are they what this writer would call limitations upon the permitted extent of invasion of

46 Of course, if the suit is on the contract, rather than for infringement, it need not be brought in the federal courts.
47 There are various indications in the cases, however, militating against any such hope. Thus, in *G. S. Suppiger Co. v. Morton Salt Co.* (C. C. A. 7th, 1941) 117 F. (2d) 968, the plaintiff had licensed others to use his invention on condition that they should buy unpatented salt from him. The trial court held the condition to be invalid. The circuit court of appeals criticized this finding on the ground that the condition would not be invalid unless it was affirmatively shown so substantially to lessen competition or tend to create a monopoly as to run counter to the Clayton Act. The mere fact that it was a limitation on the licensee's freedom in buying salt from whomever he wished, the court obviously felt did not invalidate it as a matter of public policy, if the statute itself were not violated. But the Supreme Court in its turn, *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, 62 S. Ct. 402 (1942), held the condition to be invalid, without attempting to decide whether or not it was a violation of the Clayton Act. As the Court put it: "The public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant." 314 U. S. at 492. See note in 40 Mich. L. Rev. 1266 (1942).

In other decisions it is obvious that the court gave no weight whatever to the "substantiality" of the effect of the condition on competition, apparently believing that the mere existence of the condition and of the attempt thereby to lessen competition in any degree brought it within the condemnation of public policy and made it invalid.
the monopoly—limitations whose validity, as already explained, appears not to have been effectively disputed. In general these other miscellaneous conditions have been held not to be contrary to public policy, hence to be valid and enforceable. In *Steiner Sales Company v. Schwartz Sales Company,* a[46] agreement by a licensee not to contest the validity of the patent during the term of the license was held valid, chiefly on the ground that it merely expressed a limitation which the law itself imposes on him. Whether or not an express agreement not to contest the validity of the patent after termination of a license would be valid was explicitly left undetermined. The court did suggest that a contract not to contest the scope of the patent or not to set up any defense in response to a suit for infringement might possibly be invalid, but did not determine the matter. More particularly in point, the court held valid a requirement that the licensee must buy patented improvements for use with the patented article itself from the patentee.

E.G. Philad Co. v. Lechler Laboratories, (C. C. A. 2d, 1939) 107 F. (2d) 747. In this case it was held also that the condition was invalid even though it affected only special types of materials.

In Leitch Mfg. Co. v. Barber Co., 302 U. S. 458, at 463, 58 S. Ct. 288 (1937), the Court said flatly, "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited. . . . It [this rule] applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly." That the Court which made this declaration of what public policy requires would change its opinion as the result of further education in economic conditions and needs may be hoped, but scarcely expected.

Walton Hamilton, the writer of the report to the Temporary National Economic Committee, Monograph No. 31, *Patents and Free Enterprise* 62 ff (1941), makes a vigorous and persuasive assertion that such conditions as are here under consideration are contrary to public policy—without however offering any evidence in support of the assertion. By contrast he deprecates and depreciates the "high considerations of public policy involved in the recognition of a wide liberty in the making of contracts."

48 (C. C. A. 10th, 1936) 98 F. (2d) 999.
49 Pope Mfg. Co. v. Gormully, 144 U. S. 224, 12 S. Ct. 632 (1891), held contrary to public policy an agreement not to contest validity of licensor's other patents; United Shoe Machinery Co. v. Caunt, (D. C. Mass. 1904) 134 F. 239, held valid for the whole term of the patent a contract not to contest; Eskimo Pie Corp. v. National Ice Cream Co., (C. C. A. 6th, 1928) 26 F. (2d) 901, held (syllabus): "One accepting license under patent may lawfully agree not to contest the patent, not only during term, but even after the license has terminated; but agreement, to have that effect, must be in such express and clear words that intent is clear."
50 A requirement that the lessee buy all repair parts from the lessor was held valid in United States v. United Shoe Machinery Co., (D. C. Mo. 1920) 264 F. 138, affirmed on other ground United Shoe Machinery Co. v. United States, 258 U. S. 451, 42 S. Ct. 365 (1921), but an obligation to buy other supplies from the lessor was held not valid. It is difficult to reconcile the decision in International Business
So, too, in *Pick Manufacturing Company v. General Motors Corporation*\(^1\), it appeared that the Chevrolet Motor Car Company had made contracts with its distributors and dealers binding them not to “sell, offer for sale, or use in the repair of Chevrolet motor vehicles and chassis, second-hand or used parts or any part or parts not manufactured by or authorized by the Chevrolet Motor Company.” In an action by a competing manufacturer of such parts to have these contracts set aside as violative of the Clayton Act, the Chevrolet Company alleged that the condition was necessary in order to protect the company in its guarantee of cars for ninety days or 4,000 miles. The court held that even beyond the terms of this warranty, the limitation was valid as being the proper protection of the reputation of the company. This decision is somewhat difficult to reconcile with that of *Lord v. Radio Corporation of America*,\(^2\) wherein the licensee was authorized to manufacture patented radio receiving sets on condition that he should buy the “vacuum tubes to be used as parts of the circuits licensed hereunder and required to make initially operative the apparatus licensed under this agreement” from the licensor. The court held this restriction to be invalid under the Clayton Act, because it substantially lessened competition in the manufacturing and furnishing of such tubes.\(^3\) Nor is it easily reconciled with the *International Machines Corporation* case.\(^4\) Possibly, however, these decisions simply emphasize the proposition that if the questioned condition does not substantially lessen competition or tend to create a monopoly, its validity depends solely upon whether or not it is contrary to public policy.\(^5\)

Machines Corp. v. United States, 298 U. S. 131, 56 S. Ct. 701 (1935), supra note 42, with these holdings.

\(^1\) (C. C. A. 7th, 1935) 80 F. (2d) 641, affirmed 299 U. S. 3, 57 S. Ct. 1 (1936).

\(^2\) (D. C. Del. 1929) 35 F. (2d) 962.

\(^3\) The case was affirmed Radio Corporation of America v. De Forest Radio Co., (C. C. A. 3d, 1930) 47 F. (2d) 606.

\(^4\) *International Business Machines Corp. v. United States*, 298 U. S. 131, 56 S. Ct. 701 (1935), discussed supra at note 42.

\(^5\) *Westinghouse Elec. & Mfg. Co. v. Diamond State Fibre Co.*, (D. C. Del. 1920) 268 F. 121. The patent was for a gear made of laminated fibrous material held together by a phenolic adhesive. The plaintiff licensed 80 persons to manufacture such gears, but required that they be made only out of blanks furnished by plaintiff. The defendant was enjoined from inducing a licensee to break this contract by buying material from defendants. Held, the condition was a valid restriction on the licensee's right to make, because there was no obligation not to deal in gears of competitor, hence there was no monopoly in gears, and there was no obligation not to buy material for other purposes from others. The court seems to be reconciling its decision with the “invalid extension of monopoly” decisions by considering the laminated blanks which the licensee was obligated to buy from the licensor as parts of the patented device.
CONCLUSIONS AS TO VALIDITY

All these decisions, whether the condition involved concerns price, use, or something else, rather cogently force one to the conclusion that inasmuch as a patentee need not open his monopoly to others at all, any limitation or condition which he chooses to impose upon those to whom he does open it is valid, unless it either runs counter to some statute such as the Clayton Act, or is inconsistent with what a particular court believes to be proper public policy. Yet most courts, today, would be more than willing to concede that “public policy” is not the product of some transcendental reality voicing itself accurately through a mechanistic judge. On the contrary, it is nothing more than the expression of judicial notions of what ought to be, evolved partly from the opinions of prior judgment and largely from personal reaction to a more or less empirically developed assumption of facts. These judicial reactions, therefore, are presumably subject to instruction and argument.

When the problem of patent law before a court is that indeterminable matter of the presence or absence of “inventive genius” it is well recognized that the successful attorney must be a combination of imaginative detective and persuasive proponent. So too, it seems safe to say, determination of the issue of validity of a condition in the license contract will depend, in the absence of specific statute, upon education of the court in respect of the actual fact situation and the persuasiveness of attorneys as to the proper conclusions of policy to be drawn therefrom.

It must be admitted, however, that the attorney who hopes to broaden the scope of the conditions which courts will accept as within the permissive limits of sound public policy is seriously handicapped by adverse propaganda already forcefully broadcast. The Temporary National Economic Committee created by Congress in 1938 has in a sense spiked his guns. After some months of hearing testimony, it has recommended certain changes in the patent laws, and specifically in this connection says:

“We recommend that the owner of any patent be required to grant only unrestricted licenses, and that he be not permitted to impose restrictions upon the buyer in sales of patented articles. In other words, the holder of a patent should not be permitted to restrict a licensee in respect of the amount of any article he may produce, the price at which he may sell, the purpose for which or the manner in which he may use the patent or any article produced
thereunder, or the geographical area within which he may pro-
duce or sell such article. There should be a further prohibition
against any other restriction which would tend substantially to les-
sen competition or to create a monopoly, unless such restriction is
necessary to promote the progress of science and the useful arts." 56

This is an astonishing pronouncement of public policy which repudiates
the greater part of a century of judicial decision. Whether it was really
justified by the evidence is a matter of grave doubt, but it is likely to
be strongly persuasive of judicial notions of public policy hereafter. 57

**Effect of Invalidity of Conditions**

If an attorney guesses wrong as to what the court’s conclusion will
be, the consequences to his client may be startlingly serious. That a
judicially declared invalidity of some condition or restriction should
leave the license in effect without the restriction of that limitation
would, of course, be expected. The patentee who granted the license
subject to the invalid restriction would simply find himself bound by
the other terms of the agreement, without benefit of the restriction.
In a sense, except that the patentee might not have granted the license
at all without the limitation, he will have lost nothing—material by its
invalidity; he merely sought to gain that which legally he could not have.

In the last few years, however, the courts have developed a tend-
ency which imposes a real risk upon anyone who attaches to a license
contract a condition which turns out to be invalid. If the court holds
the condition improper, the patentee’s loss is real and considerable.

In *American Lecithin Company v. Warfield Company*, 58 the plainti-
iff had procured a patent on a process for the prevention of “greying”
in cake chocolate by mixing lecithin with the other ingredients. The
plaintiff patentee had never expressly licensed the defendant to use
his process at all. He had, however, made a practice of not protesting
against the use of the patented process by persons who bought their
lecithin from him. The defendant, who had thus used the process and
bought lecithin from the patentee, began buying from someone else.
The patentee thereupon sued him for infringement, asking an injunc-
tion, accounting, and damages. In this case, one might have supposed

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57 The evidence before the committee is summarized and evaluated by Folk,
Patents and Industrial Progress (1942).
58 (C. C. A. 7th, 1939) 105 F. (2d) 207, cert. den. 308 U. S. 609, 60 S. Ct.
175 (1940).
that the injunction would be issued almost as a matter of course. Granting that any condition obligating the defendant to buy lecithin from the plaintiff would have been invalid, hence any license to which it was attached would at once have become an unconditional license, nevertheless in this particular case no license had been granted, conditional or otherwise. On the face of it, the defendant was a clear infringer. The court, however, denied the plaintiff any relief.

Just what the theory was on which the court denied the relief, the writer defies anyone to demonstrate. The defendant himself argued that plaintiff’s acquiescence in his use of the process constituted an implied license to use it for the life of the patent, on condition that he buy lecithin from the plaintiff; the condition being invalid, the implied license remained. The court, however, called this a foolish proposition, saying that a license for the life of the patent could not possibly be inferred from the circumstances.\(^{69}\) Hence, it said, there was no license, either express or implied. The court also flatly repudiated the defendant’s suggestion that because of the plaintiff’s attempt to monopolize the sale of lecithin he had lost all rights in his patent. The plaintiff did not, said the court, become an outlaw, nor lose the right which he had acquired under the patent law. Apparently, then, in the court’s mind, the plaintiff had a valid patent, the enjoyment of which he had not lost, and the defendant had no license. Nevertheless, the court’s ultimate decision was to refuse the plaintiff any relief by injunction, accounting, or damages.

The Supreme Court, in reaching a somewhat similar conclusion in the later case of Morton Salt Company v. Suppiger Company,\(^{60}\) was more explicit as to its reasons. Here the plaintiff had a patent on a machine for putting the proper amount of salt in cans with vegetables or other canning material. He leased such machines and licensed the lessees to use them without charge, on condition that they should buy their salt from him. The circuit court of appeals held this condition to be valid because it created no tendency to monopoly, and therefore was not in violation of the Clayton Act. On this particular point, the Supreme Court disagreed and held the condition to be invalid. Hence if the plaintiff’s action had been against one of his licensees, it would be understandable that he would have been refused relief, because the license, stripped of the invalid condition, would have protected the defendant.

\(^{69}\) In Leitch Mfg. Co. v. Barber Co., 302 U. S. 458, 58 S. Ct. 288 (1937), the court does seem to infer an implied license from similar facts.

In this case, however, the action was not against a licensee, but against a third person who was making and selling the patented machine without the slightest pretense of a license from the patentee. Not only was there no express license from the patentee to the defendant; there was no relationship from which an implied license or a license “by estoppel” could possibly be deduced. Nevertheless, the defendant moved for dismissal of the proceedings on the ground that, granting the validity of the patent, the plaintiff had no right to an action for infringement. The motion to dismiss was granted by the trial court, and its action sustained by the Supreme Court, which put its decision squarely on the ground that the plaintiff-patentee had lost his right to an injunction against infringement by anyone. In that sense, the Supreme Court’s decision amounted to a declaration that the plaintiff had lost his patent right, at least so far as actions in equity were concerned.

The Court said,

“Undoubtedly ‘equity does not demand that its suitors shall have led blameless lives,’ but additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interests of suitors. Where the patent is used as a means of restraining competition with the patentee’s sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish. Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated. . . .

“The reasons for barring the prosecution of such a suit against one who is not a competitor with the patentee in the sale of the unpatented product are fundamentally the same as those which preclude an infringement suit against a licensee who has violated a condition of the license by using with the licensed

machine a competing unpatented article. . . . It is the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee’s course of conduct, which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.” 62

A particularly disturbing feature of the case is its suggestion that this complete loss of value in the patent might result from a judicial finding of invalidity of conditions other than those which violate the Clayton Act. The Supreme Court’s final statement was:

“It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner’s manufacture or sale of the alleged infringing machine is contrary to public policy, and that the district court rightly dismissed the complaint for want of equity.” 63

But, by way of closing this discussion on a more optimistic note—optimistic to the patentee’s hearing—it might be suggested that this decision does not deny the patentee’s right to an action at law for the recovery of damages. Moreover, the patentee may find some consolation in a decision by the Supreme Court immediately following the Salt Company case. In B. B. Chemical Company v. Ellis, 64 the facts were much the same. The patentee had authorized manufacturers to use his process on condition that they use only materials furnished by him. Again the Court said that because of the invalidity of the condition, the right of injunction must be denied. It wound up its decision, however, by saying:

“Despite this contention, petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner’s right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated.” 65

62 314 U. S. at 493-494.
63 Id. at 494.
65 Id., 314 U. S. at 498. This is given support by another equity case in a different field, wherein the court said, “Numerous authorities support the view that a suit for recovery is not barred in cases where . . . any wrong done is a thing of the past, and is collateral to the cause of action asserted and where the relation of the illegality to the relief sought is indirect and remote. . . .” Judson v. Buckley, (C. C. A. 2d, 1942) 130 F. (2d) 174 at 180.