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PATENTS - ESTOPPEL OF LICENSEE TO DENY VALIDITY - RESTRICTIONS ON LICENSEE'S SALE PRICES

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PATENTS — ESTOPPEL OF LICENSEE TO DENY VALIDITY — RESTRICTIONS ON LICENSEE'S SALE PRICES — Plaintiff sued to recover royalties alleged to be due under a contract licensing defendant to manufacture articles covered by a patent owned by the plaintiff. The agreement provided that defendant licensee should not sell embodiments of the invention manufactured under the license at prices or under conditions more favorable to its customers than those prescribed by the licensor for its own customers. The defendant set up the defense that plaintiff "by reason of the price control provisions of the licensing contract and the invalidity of [the patent]" was not entitled to recover the royalties. The district court and the circuit court of appeals ruled that the defendant, "having accepted a license under the patent, was estopped to deny its validity." The Supreme Court held that because of the possible illegality of the price fixing limitation in the license agreement, the defendant should have been permitted at least to litigate the validity of the agreement. *Sola Electric Co v. Jefferson Electric Co.*, (U. S. 1942) 63 S. Ct. 172.

There have been numerous decisions, in both the state and the federal courts, to the effect that a licensee, when sued for payment of royalties due under the terms of the contract, is estopped to set up invalidity of the patent upon which the contract was based. The underlying idea of these holdings is that the promise of the patentee not to assert a possible monopoly is a good and sufficient consideration for the licensee's promise to pay, even though the presumed monopoly might not in fact have been enforceable.[1] The Supreme Court

[1] Illinois Watch Case Co. v. Ecaubert, 177 Ill. 587, 52 N. E. 861 (1899); Skinner v. Walter A. Wood Mowing and Reaping Mach. Co., 140 N. Y. 217, 35 N. E. 491 (1893); Holmes, Booth & Haydens v. McGill, (C. C. A. 2d, 1901) 108 F. 238; Martin v. New Trinidad Lake Asphalt Co., (D. C. N. J. 1919) 255 F. 93; Victory Bottle Capping Mach. Co. v. O. & J. Mach. Co., (C. C. A. 1st, 1922) 280 F. 753.

does not take issue with the assumption of this rule by the lower courts.[2] But it did say that the defendant might have a defense if the contract itself—as distinct from the patent—were invalid and unenforceable because of the attempted limitation of the license agreement upon prices which might be charged by the defendant for the patented articles. The Court did not say that these limitations would make the contract invalid, but that they might do so, and that the defendant should have been permitted to raise the question in the court below.[3]

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[2] 63 S. Ct. at 173, citing United States v. Harvey Steel Co., 196 U. S. 310, 25 S. Ct. 240 (1905).

[3] For a discussion of the possible illegality of the conditions, and the consequent invalidity of the license contract, see Waite, "The Validity of Conditions in Patent Licenses," 41 MICH. L. REV. 419 at 428 (1942).

This case is also discussed in 56 HARV. L. REV. 814 (1943).