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may have voted in favor of a pension plan with full knowledge that company executives would receive large benefits. In such a case, the majority stockholders' determination is entitled to a presumption of good faith.[61]

Although the courts almost always review the reasonableness of a pension as determinative of whether a pension plan is valid, this consideration is not always germane to the issue. In the *Fogelson* case, the largest pension other than the president's was $7,285. Obviously, the formula under the plan as applied to the salaries of lower paid employees resulted in a reasonable pension, and no objection was made. Thus, the only cause for the unreasonableness of the president's pension, if it was unreasonable, was that his salary was excessive *before* the plan was adopted. This factor may be a reason to attack the excessive salary of the executive, but it is no justification for attacking a pension plan which is valid.

CONCLUSION

Pension plans benefit both employer and employee. Employer benefits continue to vest in the future as well as at present. Courts should consider these factors when determining the validity of a plan in which employee benefits are based on past service.

In deciding the validity of plans in which benefits are based on future service, courts should consider the reasonableness of the benefits to all employees. Selecting one possibly overcompensated employee and testing the plan by the amount of his benefit does not present a fair picture of the total plan.

PAUL C. MORRISON

Patent Misuse—Attempts to Collect Royalties on Expired Patents

The general law of contracts applies as well to patent license agreements as to other types of agreements, but peculiarities of the patent law, influenced as it is by court decisions concerning mis-use and anti-trust, has made patent licensing a field in which few fools rush in and where perhaps even angels would fear to tread.[1]

The matter of the payment of royalties on an expired patent has been the issue of a considerable amount of litigation. Although the problem appears well settled when there is no provision in the license requiring such payments, the converse is true when the license contains a provision demanding the payment of royalties on expired patents. The decisions which enforce such license provisions are founded on contract

61. Davis v. Louisville Gas & Elec. Co., 16 Del. Ch. 157, 142 Atl. 654 (Ch. 1928).

law, while those denying the enforceability of such provisions are based on patent law. Before embarking on a discussion of the conflicting theories, a brief discussion of the rights and duties of a patent owner is advisable.

THE PATENT LAWS

The principal objective of the patent laws is "to promote the progress of science and useful arts,"[2] and not to reward the inventor.[3] In an effort to accomplish this broad objective, Congress has given the inventor the opportunity to secure the material rewards of his invention for a period of seventeen years in return for his full disclosure of the invention to the public. At the end of the statutory period, the public is free to use the invention.[4]

PATENT LICENSES

Congress has provided for the assignment of patents and has granted the assignee the same exclusive rights as the patentee.[5] A license under a patent, however, is a contract which merely grants the licensee the right to use, make, or sell the patented invention.[6] Title to the invention remains with the patentee. Since licenses arise out of a contract arrangement, they are subject to all applicable contract law.[7] It generally is understood that when two persons enter into a contract, they may do so under any condition which is satisfactory to both parties.

1. MacCutcheon, *Patent Licensing Do's and Dont's*, 35 J. PAT. OFF. SOC'Y 658, 680 (1953).

2. U.S. CONST. art I, § 8; Commenting on the function of the patent system, Judge Rich recently said: "It is not like a system of military awards in which medals are given out by the people to their heroes as expressions of gratitude for their *exceptional* services. While the element of reward is one factor in the patent system, it is probably the least important. The patent system is an incentive system calculated to do two things, principally. First, it stimulates work, research, development, invention, and discovery by holding out the prospect of profit. Second, in exchange for and as a condition of the patent protection, it secures a full *disclosure of the invention.* Promotion of the useful arts takes place through the combination of these two factors, the doing of the work *and the disclosure of the results* thereof. . . . The biggest contribution the patent system makes to progress is to induce a steady flow of contributions and to secure their continuous disclosure. Application of Nelson, 280 F.2d 172, 182 (C.C.P.A. 1960).

3. " 'While one great object [of our patent laws] was, by holding out a reasonable reward to inventors and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius, the main object was "to promote the progress of science and the useful arts." ' " Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 511 (1917), quoting Pennock v. Dialoque, 27 U.S. (2 Pet.) 1 (1829).

4. Special Equip. Co. v. Coe, 324 U.S. 370 (1945); Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).

5. The right to sell or assign a patent is statutory. 35 U.S.C. § 261 (1958).

6. The authority to license a patent is not statutory. The right to relinquish the power to exclude is inherent with respect to any property. Folk, *Scope and Limitations of the Patent Monopoly,* 22 J. PAT. OFF. SOC'Y 135, 141 (1940).

7. DeForest Radio Tel. Co. v. United States, 273 U.S. 236, 241 (1927).

These conditions usually are concerned with provisions such as the length of time of the contract and the amount of money to be paid in return.

Since the licenses in question are based on a patented invention, patent law must be considered when entering into the contract arrangement. The courts generally have held that when a patentee enters into a license agreement, he may do so "for any royalty, or upon any condition, the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[8] The patent laws have made it clear that it is the public interest which is dominant in the patent system and prevents the patentee from using his patent in such a manner as to acquire a monopoly outside the terms of his grant.[9] When a licensor imposes conditions on the licensee which are beyond the scope of his statutory monopoly,[10] the courts generally hold him guilty of patent misuse and refuse to enforce the otherwise valid contract.[11]

THE PATENT MISUSE DOCTRINE[12]

Scope of Patents

It is now well established that the scope of a patent is limited to the invention described in the claims contained in the patent.[13] The claims, of course, must be read in light of the specifications.[14] The owner of the patent can exclude the manufacture, use, or sale of only what is specifically within the scope of his patent. Whenever a patentee utilizes his patent in a manner not encompassed by these limits and thereby encroaches on someone else's rights, he is subject to a charge of patent misuse.

Expansion of the Patent Monopoly

A patentee cannot utilize his patent to monopolize or control the sale or use of unpatented devices. For example, when a patent license

8. United States v. General Elec. Co., 272 U.S. 476, 489 (1926).

9. Mercoid v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); F. C. Russell Co. v. Consumers Insulation Co., 226 F.2d 373 (3d Cir. 1955); Touchett v. E Z Paintr Corp., 150 F. Supp. 384 (E.D. Wis. 1957).

10. The term patent monopoly is used loosely. A monopoly generally deprives the public of something it has enjoyed freely. In the case of a patent monopoly, the public is not denied the use of anything it already possessed. United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933). A patent grant actually gives the public something — the right to use the fruits of invention after a seventeen year period. If it were not for this patent grant, the public conceivably would never have benefit from an invention since the inventor would constantly fear losing his secret to the general public with the subsequent loss of all reward.

11. American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959).

12. An excellent discussion of the history of the misuse doctrine is found in Nicoson, *The Misuse of the Misuse Doctrine in Infringement Suits*, 9 U.C.L.A.L. REV. 76 (1962).

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

14. *Ibid.*

requires as a condition of the license that the licensee use only the licensor's non-patented materials with the patented article, the patentee has expanded his monopoly to one which is greater than that intended by the patent laws. Likewise, a patentee cannot use his patent monopoly as a means of suppressing competition,[15] nor can it be enlarged for the exploitation of another less valuable patent.[16] Specific examples of such contract provisions which have been held to be a misuse of the patent monopoly when used to expand the monopoly include: package licensing (forcing a licensee to take a license on several patents in order to get a license on one);[17] grant-back provisions (requiring the licensee to assign all subsequent improvement patents to the licensor);[18] restrictions on price (*e.g.,* the price at which the licensee may sell the patented product);[19] and the payment of royalties after the expiration of the patent. This note will be confined primarily to a discussion of the decisions concerned with the last named provision.

Birth of the Patent Misuse Doctrine

The patent misuse doctrine was first promulgated in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*[20] The Supreme Court held that the owner of a patent on a film feeding device for motion-picture projectors could not require exclusive use of his unpatented film with his patented machine. The Court stated that the defendant was not guilty of infringement when using a material with a patented device if that material was not within the scope of the patent monopoly. Prior to this case, a patentee was permitted to condition licenses of patent rights upon the purchase from the patentee of materials used in conjunction with the patented article.[21] Thus, the Supreme Court in the *Motion Picture* case eliminated the use of so-called tying clauses by classifying them as unlawful extensions of the patent grant and thus patent misuse. Although the Circuit Court of Appeals for the Second Circuit had utilized the Clayton Act[22] in striking down the tying clause, the Supreme Court reached the same conclusion without resorting to the antitrust laws.

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15. Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944).

16. American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir. 1959), *cert. denied,* 361 U.S. 902 (1959).

17. *E.g.,* Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).

18. *E.g.,* United States v. Aluminum Co. of America, 91 F. Supp. 333 (S.D.N.Y. 1950).

19. *E.g.,* United States v. Univis Lens Co., 316 U.S. 241 (1942); Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).

20. 243 U.S. 502 (1917).

21. Henry v. A. B. Dick Co., 224 U.S. 1 (1912); Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 325 (1909).

Contrary to Public Policy

The patent misuse doctrine was further defined in *Morton Salt Co. v. G. S. Suppiger Co.*[23] The Supreme Court held that the plaintiff was attempting to extend its patent monopoly to unpatented articles and, therefore, an action for infringement of its patent was "contrary to public policy . . . ."[24] As a result, relief was denied until the "consequences of the misuse of the patent"[25] had been dissipated.

The public policy argument was again used by the Supreme Court in *United States v. Univis Lens Co.*,[26] where the Court held that

> public policy . . . limits the . . . monopoly strictly to the terms of the statutory grant . . . [and] the particular form or method by which the monopoly is sought to be extended is immaterial.[27]

In *National Lock Washer Co. v. George K. Garrett Co.*,[28] a court of appeals maintained that since a patent is an exclusive privilege granted " 'in furtherance of a public policy' "[29] the owner of such a privilege cannot claim the protection of his monopoly " 'where it is being used to subvert that policy.' "[30]

PAYMENT OF ROYALTIES BEYOND THE EXPIRATION OF THE PATENT

Where There are No Express Provisions in the License

A number of second circuit decisions have held that in the interpretation of licensing agreements a *presumption* exists that royalty payments are not to be made after the expiration of the patent.[31] The early cases so holding added as dictum that any intention to extend the payments beyond the term of the patent grant must be clearly expressed in the contract.

For example, in *Sproull v. Pratt & Whitney Co.*,[32] an action involving a contract concerned with four patents, the defendant refused to pay royalties on the individual patents as they expired. The court rejected plaintiff's contention that the language of the contract called for the pay-

22. 38 Stat. §§ 728-43 (1914), 15 U.S.C. §§ 12-27 (1958).
23. 314 U.S. 488 (1942).
24. *Id.* at 494; *accord,* Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945).
25. Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 493 (1942).
26. 316 U.S. 241 (1942).
27. *Id.* at 251-52.
28. 137 F.2d 255 (3d Cir. 1943).
29. *Id.* at 256, *citing* Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 494 (1942).
30. *Ibid.*
31. E. R. Squibb & Sons v. Chemical Foundations, Inc., 93 F.2d 475 (2d Cir. 1937); Pressed Steel Car Co. v. Union Pac. R.R., 270 Fed. 518 (2d Cir. 1920); Sproull v. Pratt & Whitney Co., 108 Fed. 963 (2d Cir. 1901).
32. 108 Fed. 963 (2d Cir. 1901).

ment of royalties until the expiration of the last issued patent and held for the defendant. The court went on to say, however,

> Parties may, of course, contract as they choose; but, in the absence of some provision by which a promise for the continuing payment of royalties upon expired patents may be fairly inferred, the presumption is that the contract is upon the ordinary terms as to the duration of [the] royalty.[33]

The same court, in *Pressed Steel Car Co. v. Union Pac. R. R.*,[34] dismissed an action for infringement because infringement was not established and added: "Although the general rule is that liability to pay royalties terminates upon the expiration of the patent, the parties may contract to the contrary."[35]

It is thus apparent that the second circuit court believed that contract principles determined what the owner of a patent could do with his statutory monopoly, regardless of the seventeen year limitation placed on such monopolies by the patent statutes. But the court's thoughts on this matter as precedent can be characterized as mere dicta.

One of the most widely quoted cases is *E. R. Squibb & Sons v. Chemical Foundation, Inc.*[36] This was an action by Squibb to recover royalties paid by mistake to the defendant after the expiration of the patents involved in three different license agreements. Each license was scheduled to run for the term of the patent involved in that license, but royalties were mistakenly paid after the older patents expired. Defendant contended that the licenses should have been read as a single contract, with the obligation to pay royalties to run until the expiration of the youngest patent. The court held that the provision that the royalty was to be paid " 'during the continuance of this license' . . . granted 'for the term of the patent unless sooner terminated' "[37] was definite and should govern. The court then cited the *Sproull*[38] and *Pressed Steel*[39] cases as authority for the proposition that any intent to have the royalties paid after the expiration of a patent must be "phrased in language from which such intention may fairly be inferred."[40]

Since the court in the *Squibb* decision concluded that the licenses in issue in the case contained express provisions terminating the payment of royalties when the patents expired, there is no reason why it should have proceeded to discuss the presumption in relation to circumstances where

33. *Id.* at 965.
34. 270 Fed. 518 (2d Cir. 1920).
35. *Id.* at 525.
36. 93 F.2d 475 (2d Cir. 1937).
37. *Id.* at 477.
38. Sproull v. Pratt & Whitney Co., 108 Fed. 963 (2d Cir. 1901).
39. Pressed Steel Car Co. v. Union Pac. R.R., 270 Fed. 518 (2d Cir. 1920).
40. E. R. Squibb & Sons v. Chemical Foundation, Inc., 93 F.2d 475, 477 (1937).

there is no provision for terminating the payment of royalties; for it is this dictum which is cited so often in later cases to unjustifiably uphold express provisions calling for the payment of royalties after the patent of the licensed invention expires.

Another decision involving a license based on a number of patents is *Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co.*[41] The license agreement contained a provision requiring that the license run "to the full end of the term or terms of each and every of said letters patent"[42] now owned or later to be acquired relating to the art of sintering. The plaintiff contended that payment should be required on everything covered by any of his patents until all of the patents had expired. The court held that the language of the contract did not support such an interpretation; it only was necessary for the defendant to pay royalties on the sinter produced under unexpired patents.

Scapa Dryers, Inc. v. Abney Mills[43] presented a rather unusual situation, because the licensee was attempting to extend his patent monopoly. Hindle (an Englishman) was the owner of United States and foreign patents relating to looms for weaving dryer felts used in the paper making industry. In 1939, The Brandon Corporation of South Carolina (now Abney Mills) entered into an agreement with Hindle which provided that Brandon would be the exclusive user of the patented looms in the United States. Thereafter, the patents were assigned to Brandon. The successor corporation, Abney Mills, contended that the contract provision gave them an exclusive right to the use of the looms in the United States, in perpetuity or as long as the corporation existed. Scapa, an English manufacturer of dryer felts under the English patent, incorporated in Georgia in 1948 and contended that the 1939 contract gave Abney an exclusive right to the looms only for the life of the patents, which expired in 1948. Testimony revealed that although the duration of the agreement neither was specified nor discussed at any time during the negotiations, a letter indicated that the franchise payment was to be for the life of the patents. The court felt that if the agreement was construed as Abney would have it, Hindle would be prevented forever from selling his looms in the United States. Such an interference is unwarranted and is contrary to the following public policy arguments declared by the Supreme Court:

> The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation by others, of its disclosures .... The public has invested in such free use by the grant

41. 44 F. Supp. 396 (S.D.N.Y. 1939).
42. *Id.* at 397.
43. 269 F.2d 6 (5th Cir.), *cert. denied,* 361 U.S. 901 (1959).

> of monopoly to the patentee for a limited time. Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.[44]

The court in the *Abney* case justifiably concluded that the provision was intended to give exclusive rights for the life of the patents only.

It is now well established that in the absence of an express agreement, the payment of royalties ceases at the termination date of the patent.[45] It has been suggested that the requirement of a clear intention or express agreement is an indication of an appreciation by the courts of the possible adverse effect of such agreements on the public interest.[46]

Where There is an Express Provision in The License

Package Licensing — Agreement to Pay Royalties Until the Expiration Date of the Youngest Patent

Although a patentee may not condition the granting of a license under a patent on the acceptance of other patents,[47] there are occasions where package licensing is necessitated because of the complexity of the technology involved. This practice also is a convenient way to avoid infringement, and may even be suggested by the licensee. Generally, however, such a grouping will involve patents which expire at different times.

Probably the first case to question the dicta of the earlier decisions such as the *Squibb* and *Pressed Steel* cases, which implied that royalties could be collected after the expiration of the controlling patent when specifically stated in the contract,[48] was *Baker-Cammack Hosiery Mills, Inc. v. Davis Co.*[49]

The defendant hosiery company had raised the defense, among others, that the action of Davis in trying to impose package license agreements on the industry constituted a violation of the federal anti-trust laws and a patent misuse. The package license agreement also called for the payment of royalties to the expiration date of the youngest patent. The court

44. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255-56 (1945). See also cases cited notes 23-30 *supra.*

45. Starke v. Manufacturers Nat'l Bank, 174 F. Supp. 882 (E.D. Mich. 1959), *aff'd per curiam,* 283 F.2d 117 (6th Cir. 1960); Tate v. Lewis, 127 F. Supp. 105 (D. Mass. 1954); Ohio Citizens Trust Co. v. Air-Way Elec. Appliance Corp., 56 F. Supp. 1010 (N.D. Ohio 1944); ELLIS, PATENT LICENSES § 109 (3d ed. Deller 1958); 69 C.J.S. *Patents* § 262 (1951). In Bettis Rubber Co. v. Kleaver, 104 Cal. App. 2d 821, 233 P.2d 82 (1951), the court held that a provision in an agreement to pay royalties on six patents "for the full term of said patent and any continuation or extension thereof" did not require the payment of royalties on the expired patents.

46. Harmon, *Antitrust and Misuse Implications of the Defined Field License,* 45 J. PAT. OFF. SOC'Y 463, 473 n.24 (1963).

47. Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).

48. See cases cited note 31 *supra.*

49. 181 F.2d 550 (4th Cir.), *cert. denied,* 340 U.S. 824 (1950).

held that even though the original license agreement required accepting a license under all six patents, the Davis Co. had subsequently offered to license in groups of two and even indicated a possibility of further negotiations. Since the new offer also eliminated the provision concerning the expiration date, the court was not compelled to rule on the issue. It did volunteer, however, that "such a provision, however, might easily lend itself to an unreasonable restraint of trade by extending patents beyond their legal limit . . . ."[50]

The *Baker-Cammack* decision pointed to the anti-trust problem as a possible consequence of extending the patent monopoly beyond its legal limit. Therefore, the possibility exists that a patentee trying to take advantage of contract law to circumvent the patent statutes may violate the anti-trust laws; the patentee could no longer raise the defense of his government granted monopoly.

In *H-P-M Dev. Corp. v. Watson-Stillman Co.*,[51] the defendant objected to the provisions of the license agreement calling for the payment of a royalty on some of the patents in a package which had expired. The court disregarded the objection because no evidence concerning the expiration dates had been presented. The court went on to say that even if such evidence had been presented, it would be of no avail since "parties have been held to have legally agreed to pay royalties upon expired patents under certain circumstances."[52] This statement must be questioned since the only case cited by the court for this proposition was the *Pressed Steel* case[53] which, as indicated previously, did not involve any express agreement for the payment of royalties beyond the expiration date. Furthermore, the portion of the *Pressed Steel* decision relied on as authority was dictum.

The *H-P-M* decision was cited with approval in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*[54] In this case, the license agreement covered 570 patents and 200 applications related to the manufacture of radio broadcasting apparatus. Under the agreement, Automatic Radio acquired the right to use any or all of the patents and future developments as desired. For this privilege, they were to pay royalties based upon a small percentage of sales of complete broadcasting receivers with a minimum payment of $10,000 required per year. Concluding there was no inherent extension of the patent monopoly, the Supreme Court upheld the agreement, stating:

> In licensing the use of patents to one engaged in a related enterprise,

50. *Id.* at 573.
51. 71 F. Supp. 906 (D.N.J. 1947).
52. *Id.* at 913.
53. Pressed Steel Car Co. v. Union Pac. R.R., 270 Fed. 518 (2d Cir. 1920).
54. 339 U.S. 827, 833 n.7 (1950).

> it is not *per se* a misuse of patents to measure the consideration by a percentage of the licensee's sales.[55]

It is submitted that this decision has not been widely followed in spite of its logical approach to the problem because of the peculiar fact situations involved. First, there was a very large number of patents involved, and they defined a fairly narrow field of invention. Under these circumstances it would be difficult, if not impossible, to determine which products utilized licensed patents; a general agreement by the licensee to pay a percentage of all product sales appears justified. Second, the licensee did not object to the license arrangement when it was presented to him. The courts generally have precluded a later objection to package licensing where acceptance of the entire package was not required by the licensor. There was no evidence presented in the *Hazeltine* case to show that the licensee was compelled to accept the package. Third, the record was not clear as to whether the licensee's products actually used the patented inventions. Had evidence been submitted that a large number of the radios sold were not within the unexpired patents, the results might have been different.

Two recent cases involving package licenses have held contrary to the *H-P-M* and *Hazeltine* cases. In *American Securit Co. v. Shatterproof Glass Corp.*,[56] an infringement action, the court concluded that the agreement providing for the payment of royalties until the expiration of the last patent to expire constituted patent misuse because it would result in the payment of royalties on expired patents. Although the *Hazeltine* decision was cited several times, the circuit court apparently accepted the view of Justice Douglas in his dissent in the *Hazeltine* case[57] rather than the majority opinion.

An agreement to pay royalties on one expired patent and one to expire in four years was held to constitute misuse of the licensed patents in *Prestole Corp. v. Tinnerman Prods., Inc.*[58] The court based its decision on the unauthorized extension of the patent monopoly beyond the seventeen year grant. The court also stated that even though the general public is still free to use the invention of the expired patent, Prestole

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55. *Id.* at 834.

56. 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959). *Accord*, Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1 (D. Md. 1963), *aff'd per curiam*, 327 F.2d 497 (4th Cir. 1964).

57. "The patent owner has therefore used the patents to bludgeon his way into a partnership with his licensee, collecting royalties on unpatented as well as patented articles. A plainer extension of a patent by unlawful means would be hard to imagine." Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827, 839 (1950) (dissent).

58. 271 F.2d 146 (6th Cir. 1959), *cert. denied*, 361 U.S. 964 (1960). The court also noted that although the patentee has the right to refuse to license his invention, he does not have the right to enlarge his monopoly by attaching conditions to its use.

cannot be permitted to extend the monopoly of the expired patent as to its licensee.

One of the significant aspects of the *American Securit* and *Prestole* decisions is the Supreme Court's denial of certiorari in both instances despite the apparent inconsistency with the *Hazeltine* decision. This can only lead to the conclusion, suggested earlier, that the *Hazeltine* opinion must be given a narrow interpretation.

More recently, however, in *Thys Co. v. Brulotte,*[59] the Supreme Court of Washington ruled that a provision calling for the payment of royalties after the expiration of the patent was valid and enforceable. The court was quick to criticize and dispose of the cases containing opposing views[60] by stating that those opinions were either dicta or mere statements of the rule that a patent cannot be extended beyond its seventeen year period. The court then went on to cite a number of opinions which also were dicta[61] and apparently relied heavily on *Six Star Lubricants Co. v. Morehouse,*[62] which did not involve package licensing.

Although the Thys contract involved a number of patents, the court dismissed defendant's contention that the license was conditioned on the acceptance of all of the patents since, as in the *Hazeltine* case, this was not shown in the record. One could conclude from the decision that had such facts been presented to the courts, the package licensing in question would have been held improper.

Licenses Not Involving Package Licensing — Provision Upheld

Six Star Lubricants Co. v. Morehouse[63] involved a license provision that royalties would be paid "as long as it manufactures, jobs or sells any greases or lubricating compounds made according to the said formulae, or any modification or improvement thereof . . . ."[64] Defendant Morehouse refused to pay any royalties after the expiration of the patents in question. The Supreme Court of Colorado held for the defendant on the grounds that the plaintiff had failed to prove that the greases

59. 382 P.2d 271 (Wash. 1963), *cert. granted,* 376 U.S. 905 (1964).

60. Prestole Corp. v. Tinnerman Prods., Inc., 271 F.2d 146 (6th Cir. 1959), *cert. denied,* 361 U.S. 964 (1960); American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir.), *cert. denied,* 361 U.S. 902 (1959); Tinnerman Prods., Inc. v. George K. Garrett Co., 185 F. Supp. 151 (E.D. Pa. 1960), *aff'd,* 292 F.2d 137 (3d Cir.), *cert. denied,* 368 U.S. 833 (1961).

61. *E.g.,* E. R. Squibb & Sons v. Chemical Foundation, Inc., 93 F.2d 475 (2d Cir. 1937); Pressed Steel Car Co. v. Union Pac. R.R., 270 Fed. 518 (2d Cir. 1920). The court cited but refused to follow Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F.2d 496 (3d Cir. 1962), which admittedly was pertinent to the instant case. Thys Co. v. Brulotte, 382 P.2d 271, 275 n.3 (Wash. 1963), *cert. granted,* 376 U.S. 905 (1964).

62. 101 Colo. 491, 74 P.2d 1239 (1938).

63. *Ibid.*

64. *Id.* at 493, 74 P.2d at 1240.

sold corresponded to the patented formulae. The court, however, commenting on the defendant's contention that a contract provision requiring the payment of royalties after patents have expired is invalid, went on to say:

> There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents.[65]

It would appear, therefore, that if the plaintiff had succeeded in proving that the composition of the greases sold was within the license agreement, the court would have relied on contract principles and enforced the contract even though the patent monopoly was spent. The court maintained that since the parties entered into the contract knowing that the contract called for the payment of royalties after the patents had expired, they could "not now complain of an anticipated condition brought about by operation of law."[66]

The court in *Adams v. Dyer*[67] also upheld an agreement which was claimed to require the payment of royalties after the expiration of a patent.[68] It was conceded, however, that the agreement really provided for a practical way of carrying on the family business,[69] since it called for two of the children to manufacture and sell the patented article. They were to pay the remaining children a one per cent royalty on all sales. The court held that the expiration of the patent could not nullify the contract and decided the issue solely on the basis of contract law.

This decision cannot be questioned in view of the peculiar facts involved. Clearly, the agreement concerned the management of a successful business operation and was not a license agreement requiring the payment of royalties on an expired patent.[70] The decision indicates that the patent defense was added as an afterthought.[71]

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65. Id. at 497, 74 P.2d at 1242. (Citations omitted.)
66. *Id.* at 498, 74 P.2d at 1243.
67. 129 Cal. App. 2d 160, 276 P.2d 186 (1954).
68. See 31 GEO. WASH. L. REV. 535, 537 n.22, (1963).
69. 129 Cal. App. 2d 160, 161, 276 P.2d 186, 187 (1954).
70. An additional factor which would support the court's conclusion that the contract involved a business and not a patent is found in the patent laws. "In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention without the consent of and without accounting to the other owners." 35 U.S.C. § 262 (1958). It is suggested that in view of this section, all of the children had the right to manufacture the Oil Weigh Meters since the patent was left to the children, share and share alike. It is well settled that the above section of title 35 gives one owner of a patent the right to use the patent without restraint from the other owners and without accounting of profits. Talbot v. Quaker-State Oil Ref. Co., 104 F.2d 967 (3d. Cir. 1939). Therefore, as part owners of the patent, defendants did not need permission to make the meters and the agreement could only have been concerned with the family business.
71. The court disposed of this defense without citing any decisions.

Provision Held to Constitute a Misuse

One case stands alone in the area of licenses not involving package licenses in which a license was held to constitute a patent misuse. In *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*,[72] the license agreement called for the payment of royalties for the life of the machines, regardless of the expiration of the patent. The Court of Appeals for the Third Circuit believed that its own decision in *American Securit*[73] and the public policy arguments of the *Scott*[74] case compelled it to rule the provision unenforceable. The court concluded:

> After the expiration . . . the grant of patent monopoly was spent. An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable.[75]

CONCLUSION

The decisions which have upheld the provision in a license agreement calling for the payment of royalties after the expiration date of the patent are rationalized on the basis of contract law. These decisions have expressed the concept that a licensor and a licensee should be able to agree to pay any consideration and should be able to contract for any length of time. If such an agreement is reached, the licensee should not thereafter be permitted to cancel any provision in the contract unless it is declared unconscionable.[76]

It is submitted, however, that this concept fails to recognize the uniqueness of the situation. The position which the licensor holds during the contract negotiations is unlike any other because of the grant of the patent monopoly. The patent gives the licensor the right to exclude. Without the patent, he is still able to make, use, and sell his invention, but he lacks the power to exclude others.[77] Thus, the patent gives the

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72. 302 F.2d 496 (3d Cir. 1962).

73. American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir. 1959), *cert. denied*, 361 U.S. 902 (1959).

74. In Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945), a suit for patent infringement, the question was whether the assignor of a patent is estopped to defend on the ground that the alleged infringing device is from an expired patent. The Supreme Court said "that the patent laws preclude the patentee of an expired patent and all others . . . from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent." *Id.* at 256.

75. Ar-Tik Systems, Inc. v. Dairy Queen, Inc., 302 F.2d 496, 510 (3d Cir. 1962).

76. See UNIFORM COMMERCIAL CODE § 2-302.

77. The owner of a trade secret has no government granted right to exclude. Thus, a license for the exclusive use of a trade secret (not patented) is valid indefinitely. Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655 (S.D.N.Y. 1959). This case involved a contract containing a provision for the payment of royalties for as long as the plaintiff manufactured and sold the product of a secret drug formula (Listerine) which was unpatented. The provision was upheld since there was no patent law or policy involved. Plaintiff had to continue to pay royalties even though another competitor (not excluded by any patent) discovered the trade secret and freely produced and sold the product.

inventor an added advantage in the contract negotiations, and for this reason there is more than simple contract law involved. Since the licensor's rights are protected by the patent law, the licensee usually is forced to accept a license on the licensor's terms or be excluded from the use of the invention for seventeen years. But for the patent, the prospective licensee could *utilize the invention* without paying the inventor any royalty.[78]

Since the owner of a patent is given the exclusive right to his invention by patent law, he should not be permitted to rely on contract law to circumvent the patent statutes which limit his monopoly to seventeen years.[79] Such attempts should be condemned as patent misuse; the license provision calling for the payment of royalties after expiration of the patent should be unenforceable.[80] This rule would not invalidate the contract during the life of the patent, only the provision in question. It appears to be a reasonable approach since as long as the licensee is paying a fair royalty (agreed upon by both parties) during the existence of the patent, that portion of the contract should be valid. The validity of the contract must be scrutinized whenever the licensor's power under the patent is extended beyond the scope of the government grant.

The decisions which hold that the licensee need not pay royalties on an expired patent, regardless of any agreement to the contrary, rest on the assertion that such agreements constitute an unauthorized extension of the patent monopoly. The purpose of the patent laws is to encourage inventors to disclose their invention in return for the grant of a monopoly for a limited period. At the expiration of the patent, the public is free to manufacture and use the disclosed product or process, and "the public at large shall receive the benefits of the unrestricted

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78. Naturally, the person desiring to use an unpatented invention must first discover its essential ingredients, but with the amazing advances in the art of analysis, it is indeed difficult to maintain a trade secret today.

79. The author is aware of the suggestions that a patentee-licensor could spread the payment of royalties over a period exceeding the life of the patent as a matter of convenience to the licensee. Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc., 339 U.S. 827, 833 (1950); Thys Co. v. Brulotte, 382 P.2d 271, 274 (Wash. 1963), *cert. granted,* 376 U.S. 905 (1964); 31 GEO. WASH. L. REV. 535, n.27 (1963). However, it is suggested that the royalties to be paid over the extended period must be based on the events occurring during the life of the patent if such an arrangement is to be upheld on the basis of convenience.

80. The Supreme Court has agreed to reconsider this question. Brulotte v. Thys Co., *cert. granted,* 376 U.S. 905 (1964). The petition was granted limited to questions 1 and 2 of the petition which are as follows:

"1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention has been dedicated to the public.

"2. Whether it is a misuse or an anti-trust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties."

exploitation, by others, of its disclosures."[81] Thus, any restrictions on the manufacture or use of the invention of an expired patent is contrary to the policy and purpose of the patent laws and should not be permitted.

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81. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255 (1945). It is conceivable that the licensee is the only one capable of producing the article in question for a number of years after the expiration of the patent, and any restriction placed on him by a license would deny the right of the public to unrestricted exploitation of unpatented materials.