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Recent Decisions

PATENTS — VALIDITY OF LETTERS PATENT — LICENSEE ESTOPPEL TO DISPUTE VALIDITY


There exists a strong federal policy manifested in patent law for preserving free and open competition in unpatented and unpatentable inventions. In furtherance of this objective, federal courts favor the exposure of worthless patents in order to relieve the public from their burdensome effects on the economy. Ironically, the doctrine of licensee estoppel though deeply embedded in patent law seems to have thwarted both of these aims by precluding a licensee from challenging the validity of a patent. As recent Supreme Court decisions reemphasize the federal policy favoring free competition in unpatented ideas, the divergence between policy and a

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1 A patent is a statutory grant of a limited monopoly giving the patentee "the right to exclude others from making, using, or selling an invention" for a term of 17 years. 35 U.S.C. § 154 (1964). See U.S. Const. art I. § 8, cl. 8. The fact that a patent is only temporary and must meet strict standards in order to be granted reflects an underlying philosophy and purpose of the patent system once expressed by Thomas Jefferson, an administrator of the patent system and the author of the Patent Act of 1793, ch. 11, 1 Stat. 318:

That ideas should be freely spread from one another over the globe for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature. . . . Inventions then cannot, in nature, be subject to property. Society may give an exclusive right to the profits arising from them, as an encouragement to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of society . . . . Letter from Thomas Jefferson to Isaac McPherson, August 1813, published in VI WRITINGS OF THOMAS JEFFERSON, 180-81 (Washington ed. 1854).


4 Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, rehearing denied, 376 U.S. 973 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, rehearing denied, 377 U.S. 913 (1964). Neither of these cases involved licensee estoppel. Instead, they held that since unpatented articles or designs belong to the public, a state may not grant an injunction against, or award damages for, copying such products without conflicting
rule of law has become more pronounced. *Lear, Inc. v. Adkins,* presented the Court with an opportunity to reassess the vitality and the underlying validity of the estoppel doctrine. In both respects the Court found the venerable rule wanting.

While employed by the Lear aviation company, John Adkins, an inventor and mechanical engineer, developed a low-cost method of producing gyroscopes. To protect the rights to his ideas, the inventor filed an application with the Patent Office in 1954. Shortly thereafter, the parties drafted a licensing agreement under which Lear promised to pay royalties in return for the use of Adkins' invention in the manufacturing process. But in 1957, Lear ceased its royalty payments on the gyro then being produced. Upon the issuance of the patent in 1960, Adkins sought recovery in the California courts for breach of the licensing agreement.

with the exclusive power of the federal government to grant patents to only true inventions. *Aro Mfg. Co. v. Convertible Top Replacement Co.,* 377 U.S. 476, 492 (1964) (Black, Douglas, and Clark, JJ., and Warren, C.J., dissenting): "When articles are not patentable and therefore are in the public domain . . . to grant them a legally protected monopoly offends the constitutional plan of a competitive economy free from patent monopolies except where there are patentable 'Discoveries.'" (emphasis added).


7 Until a patent is issued, an inventor does not have an exclusive right to a new and useful invention, nor can he maintain an action for infringement of his idea. *Gayler v. Wilder,* 51 U.S. (10 How.) 476, 492 (1850).

8 In 1957, Lear decided that a prior patent had anticipated Adkins' invention and terminated the royalties on the gyro being manufactured in Michigan; 2 years later, royalties on the gyro produced in California were also discontinued. However, the contract agreement stipulated only three conditions by which Lear could terminate its royalties and the licensing agreement: (1) Lear's discontinuance of the use of Adkins' invention upon 90 days prior notice; (2) the Patent Office's refusal to issue a patent on the substantial claims in the patent application; (3) subsequent invalidation of a patent issued on the invention. *Adkins v. Lear,* 67 Cal. 2d 882, 897, 435 P.2d 321, 329, 64 Cal. Rptr. 545, 553 (1967).

9 It was not unusual in the 1950's for the Patent Office to take over 3 years to render a final decision on the patentability of an invention. In addition to the inconvenience for the applicant, such delays often caused others working in the same field or on the same invention a serious loss of engineering time and money, since the Patent Office holds all applications in confidence until a final determination is made. 35 U.S.C. § 122 (1964); 37 C.F.R. § 1.14(a) (1960). See *Bryant, The Patent Mess,* 66 FORTUNE, Sept. 1962, at 111, 113.

10 The Patent Code, 35 U.S.C. § 1 (1964), has no provision for the licensing of patents. Rather, license agreements are a creature of common law and are governed by general principles of contract law. *United States v. American Bell Tel. Co.,* 128 U.S. 315 (1888); *L.L. Brown Paper Co. v. Hydroloid, Inc.,* 32 F. Supp. 857 (S.D.N.Y. 1939), aff'd, 118 F.2d 674 (2d Cir. 1941), cert. denied, 314 U.S. 633 (1941). Controversies regarding licensing contracts, e.g., actions to set aside, to specifically enforce, or to recover royalties, cannot be maintained in federal court, absent diversity of citizen-
Concluding that the company was liable for the royalties under the license contract, the California Supreme Court held that the doctrine of licensee estoppel foreclosed Lear from challenging the validity of the patent.\(^1\)

The United States Supreme Court reversed and remanded for a determination of the patent’s validity, overruling the licensee estoppel doctrine as no longer sound in light of the national policy favoring free competition in unpatentable ideas.\(^2\) The Court further held that, until the state court determined the validity of Adkins’ patent, Lear’s royalty obligations were suspended.\(^3\)

The estoppel doctrine is neither statutory nor is it an offspring of the policies underlying patent law. Instead, it has a judicial heritage whose genesis is in equity and the common law of contracts.\(^4\) A licensee’s orthodox defense in a suit for royalties had

\(^{11}\) 67 Cal. 2d 882, 435 P.2d 321, 64 Cal. Rptr. 545 (1967).

\(^{12}\) 395 U.S. at 671.

\(^{13}\) Id. at 674. While concurring in the overruling of the estoppel doctrine, Mr. Justice White questioned the Court’s jurisdiction in this particular case to decide whether “federal law overrode state contract law and precluded collection of the royalties which Lear had promised to pay.” Id. at 677, 679 (concurring opinion). Lear had not raised the royalty issue as a defense in the lower courts nor had the California Supreme Court rendered a final judgment on it. See 28 U.S.C. § 1257 (1964), which gives the Supreme Court jurisdiction to review final judgments by the highest court of a state involving federal rights.

\(^{14}\) Some courts have analogized licensee estoppel to an estoppel applied in the landlord-tenant relationship, which itself rests on contract principles. See, e.g., Barber Asphalt Paving Co. v. Headley Good Roads Co., 284 F. 177, 179 (D. Del. 1922), aff’d, 292 F. 119 (3d Cir. 1923); Wilder v. Adams, 29 F. Cas. 1216 (No. 17,647) (C.C.D. Mass. 1846); LANova Corp. v. Atlas Imperial Diesel Engine Co., 44 Del. 55, 63, 55 A.2d 272, 275 (1947); Davis Co. v. Burnsville Hosiery Mills, Inc., 242 N.C. 718, 720, 89 S.E.2d 410, 412 (1955). It is a general rule that a tenant may not dispute a landlord’s title in a suit for rent. 3A G. Thomson, REAL PROPERTY § 1255, at 502 (J. Grimes replacement ed. 1959). A lease entitles a tenant to quiet enjoyment of the premises, free from interference by the landlord. Having thus benefited from the undisturbed use of the premises, the lessee may not challenge the lessor’s title. By analogy, where a licensee enjoys the use of a patented invention, without interference from its owner, he is estopped from attacking the validity of the patent. In either case, the obligations and
been that his performance was excused because an invalid patent was tantamount to a failure of consideration. The estoppel rule precluded such a challenge, for the courts perceived a number of bargained-for benefits flowing to the licensee sufficient to enforce a royalty obligation. An exclusive patent license gives to a licensee an exclusive privilege to manufacture, use, or sell an invention, plus a right to the economic gain incident to such a monopoly. The licensor suffers a corresponding detriment in that he relinquishes both his right to license others and the opportunity to exploit the patent himself. On the other hand, a licensee under a non-exclusive agreement receives at the very least a patentee's waiver of his right to sue for infringement; here too, the licensee gains competitive benefits to the extent that a patentee bars others from using his invention.

The Supreme Court has never delineated a precise basis for the estoppel doctrine, yet throughout the decades it has often received the Court's uncritical acclaim. The rule gained acceptance as early as 1855 in *Kinsman v. Parkhurst*, where the estoppel doctrine was applied against an assignee. The patentee had assigned an interest in his patent to a manufacturer in return for a share of the profits from sales of the invention. Sued in equity to account for the profits, the assignee objected to the patent's validity. Relying on the estoppel doctrine, the Court held that the "invalidity of benefits are derived directly from the contractual relationship, not the title to the property.

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15 See *A. CORBIN, CONTRACTS § 1255 (1962).*
19 *Cooper, supra* note 3, at 1128.
20 *59 U.S. (18 How.)* 289 (1855).
21 Both a patent and an application for a patent may be assigned. 35 U.S.C. § 261 (1964). A license is distinguished from an assignment in that the latter involves the transfer of the entire interest, or an undivided portion of the entire interest, in the exclusive patent right. *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891). A license passes no legal or equitable rights in the monopoly, but is a mere permission granted by the patentee to make, sell, or use the invention. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 24 (1912). However, in terms of contract law, both the assignee and the licensee may be obligated to compensate the assignor or licensor for the benefits received from the patent monopoly, irrespective of its validity.
the patent does not render the sales of the machine illegal, so as to taunt with illegality the obligation of the [assignees] to account. In other words, the validity of a patent was irrelevant to the assignor's contractual duty to share the profits. The Court upheld the estoppel doctrine as against licensees in *United States v. Harvey Steel Co.* A license contract between a patentee and the United States provided that the latter would be relieved of its royalty obligations only upon an adjudication of the patent's invalidity. Finding that this provision was inserted in the contract in reliance upon the licensee estoppel doctrine, the Court deduced that the licensee itself could not raise the validity issue to trigger the proviso. The absence of any critical analysis by the *Harvey* Court of the justifications for the estoppel doctrine is noteworthy. This blind adherence to the estoppel rule was subsequently mirrored in *Automatic Radio Co. v. Hazeltine Research, Inc.*, which acknowledged the doctrine of licensee estoppel as the "general rule" and foreclosed the licensee of radio broadcasting apparatus from challenging the validity of the underlying patents in a suit for royalties.

However, amid these reaffirmations of the estoppel doctrine, the Supreme Court has chiselled away numerous exceptions and limitations until there remained only a broken skeleton. The first major exception to the estoppel doctrine was the notion that in defending an infringement charge an assignor could introduce evidence as to the prior state of the art to qualify the coverage of the patent claims.

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22 59 U.S. (18 How.) at 393.
23 196 U.S. 310 (1905).
25 Id. at 836.
26 Even before the *Harvey* case, the estoppel doctrine had yielded to the demands of public policy. In *Pope Mfg. Co. v. Gormully*, 144 U.S. 224 (1892), the Court denied enforcement of a licensee's contractual promise never to contest the validity of a patent, noting the importance "to the public that competition should not be repressed by worthless patents." *Id.* at 234.

Assignor estoppel arises in infringement suits where the assignee charges the assignor with infringing a patent right originally owned by the latter. This rule developed alongside licensee estoppel, although the justifications were somewhat different. One reason for estopping the assignor has been to prevent unfairness and injustice. Thus, in *Faulks v. Kamp*, 3 F. 898 (C.C.S.D.N.Y. 1880), the court thought it unfair and unjust to allow an assignor to sell a patent for valuable consideration, then to defeat the full enjoyment of the patent by proving what he had sold was worthless. Some courts have drawn the analogy to an estoppel by deed in property law. Just as a grantor of land is estopped from derogating the title passed to the grantee, so also fair dealing forecloses the assignor from discrediting the conveyed interest. See, e.g., *Foltz Smoke-
when it was held that an assignor could defend an infringement claim by showing that he was actually operating under an expired patent. 28

The estoppel doctrine yielded not only to policies expressed in the patent laws but also to federal antitrust policy against unlawful monopolies. Licensee estoppel has been held inapplicable where licensing agreements contained provisions in potential conflict with

28 Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945). An employee of the Scott Paper Company had assigned to the company his patent to a method and a machine for applying cutting edges to boxes of rolled waxed paper. Subsequently, the employee left the company and organized his own business which produced boxes having the same cutting edge. When the Scott company sued for infringement, the assignor alleged that the invention used to make the boxes was a copy of a machine whose patent had expired and thus was now dedicated to the public use.

The impact of the Scott opinion is akin to the illusion of a glass which is half full or half empty depending upon the observer's point of view, i.e., it is unclear whether the Court was merely promulgating a specific exception to the estoppel doctrine or was actually repudiating the estoppel rule. See 326 U.S. 264 (Frankfurter, J., dissenting). The broad language of the majority opinion cogently supports the latter view and reflects an overriding federal policy against the unwarranted protection of ideas unqualified for patent protection:

It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against . . . his assignor the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restrictions. For no more than private contract can estoppel be the means of successfully avoiding the requirements of legislation enacted for the protection of a public interest . . . . The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of legislative power. Id. at 257.

However, in an effort to dispel any doubts as to the status of the estoppel doctrine, the Court subsequently upheld it in Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); see text accompanying note 24 supra. See also Cooper, supra note 3, at 1151-52.
To the Lear Court, it was evident that subsequent cases had gradually sapped the vitality of the estoppel doctrine. Entwined with the historical justification were the theoretical and practical arguments for overruling licensee estoppel. The Court concluded that the contractual basis of the estoppel rule, though conceptually sound apart from other considerations, nevertheless conflicted with both the spirit of contract law and the national policies of patent law. Admittedly, a licensee may receive sufficient benefits in using a patent, regardless of its validity, to require enforcement of the agreement in accordance with the letter of contract law. However, the Court placed overriding emphasis on the need to measure commercial dealings by a "standard of good faith." For example, the rule ought not to prevent a licensee from


In following the public policy expressed in the antitrust laws, the Sola Court held that it was necessary to determine the validity of the patent before the validity of the price-fixing provisions could be determined. A further blow to the estoppel doctrine was dealt by Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947), and MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U.S. 402, rehearing denied, 330 U.S. 853 (1947), which involved licensing agreements containing price-fixing provisions. Unlike Sola, the licensor in neither of these cases attempted to enforce the price-fixing agreement. Nevertheless, finding the potentially illegal price-fixing provisions to be inseparable from the royalty obligations, the Court held that the validity of the patent could be challenged. On the basis of these decisions, where licensing agreements contain provisions possibly illegal under the antitrust laws, the estoppel rule is inapplicable.


31 See notes 16, 18 supra & accompanying text.

voiding the contract by proving fraud.\textsuperscript{33} Moreover, since patents are most often granted in \textit{ex parte} administrative proceedings, it seemed unfair to deny a licensee the opportunity to challenge a patent in an adversary context.

The most compelling argument for granting to Lear extensive relief follows from the Court's premise that the maintenance of free competition in the use of ideas in the public domain outweighs the private equities of the estoppel doctrine. Any social benefits that emanate from preserving the integrity of contract agreements must be subordinated to the broad objectives of federal policy. To uphold a doctrine which sustains the sanctity of contracts would effectively deny a licensee, and the public, the free use of ideas which are not patentable or are unpatented. In essence, federal policy dictates the overruling of the estoppel doctrine.

Presumably, federal policy would not have been completely vindicated solely by laying to rest the licensee estoppel doctrine. Free competition of ideas can only be fully realized if the right to challenge the validity of a patent is in fact exercised. To encourage this, the Court further held that a licensee could suspend royalty payments while litigating a patent's validity.\textsuperscript{34} A suspension of royalty payments during litigation enhances the economic rewards to a licensee. Having the most to gain economically in defeating a patent, a licensee could perform a vital service by unshackling the public from the burdens of worthless patents.\textsuperscript{35} Moreover, continued enforcement of the royalty obligation would give the licensor an economic incentive to delay a final adjudication of a patent's

\begin{footnotesize}
\begin{enumerate}
\item Ruling that Lear could stop royalties the moment it instituted a challenge directly obviated the contractual provision that allowed Lear to discontinue royalties upon invalidation of the patent. See note 8 supra. That the Court is willing to void a provision of the contract would seemingly undercut the force of the contractual arguments for overruling the estoppel doctrine. When the two rationales for burying the estoppel rule — the spirit of contract law and federal patent policy — are balanced against each other, the latter clearly prevails.
\item Cf. Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134 (1968), illustrating the Court's reluctance in antitrust cases to invoke "broad common-law barriers to relief where a private suit serves important public purposes." \textit{Id.} at 138.
\end{enumerate}
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validity. Finally, on a more conceptual level, enforcing royalties for the use of ideas which may already be in the public domain (because the idea is retroactively deemed unpatentable) would create an anomaly, for no one has a right to sell ideas that belong to the public.

The immediate beneficiary of the change wrought by Lear is the patent licensee. It is clear that he may raise the invalidity of a patent as a defense in an action to enforce a royalty agreement. Licensees no longer need follow a circuitous pathway, paved by numerous exceptions to the estoppel rule, to attack patent validity. However, in laying to rest the licensee estoppel doctrine, the Court has raised a spectre of uncertainty to haunt both the judiciary and the business world.

Conceivably, the Lear holding is equally applicable to assignor estoppel. The estoppel doctrine has been applied to assignment contracts for much the same reasons that it has been applied to licensing agreements. Assuming that federal policy overrides the equity notions of contract law which the estoppel doctrine sought to preserve, the law should not discriminate between licensees and assignors. The implication of Lear seems clear enough. Federal policy is frustrated when even a select few, namely, the licensees, are deprived of the free use of ideas which are in the public domain. This national interest is no less impeded where estoppel is imposed upon assignors to achieve the same effect.

The Court's suspension of the royalties pending a determination of patent validity poses a potential problem. In Lear, the licensee had paid no royalties between the issuance of the patent and Lear's challenge of its validity in the trial court. But if royalties had been paid prior to such attack, it is arguable that a subsequent invalidation of the patent would have required the licensor to refund royalties to the licensee. At least this suggestion is the logical ex-

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36 Since the assignor receives valuable consideration for an interest in his patent, it has been held inequitable to allow him to prove the speciousness of his patent. For a discussion of assignor estoppel, see note 27 supra. In reviewing the historical demise of the estoppel rule, Mr. Justice Harlan glossed over any distinction between licensee and assignor estoppel. Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co., 266 U.S. 342 (1924), and Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945), were cited by the Court for having undermined the very basis for the licensee estoppel doctrine, yet the issue in those cases was whether an assignor could be estopped from challenging patent validity.

37 See Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853 (6th Cir. 1933). The court of appeals held that a licensee was not entitled to recover royalties paid before a patent was adjudged invalid; the licensee, however, had based his request for relief on a contract principle, mistake of fact, not on the mandates of federal policy.
tension of the royalty obligation. One basis for the cessation of royalty payments is essentially pragmatic — to increase a licensee's economic incentive to discredit a patent. Another reason is more theoretical. A licensee has a right to the free use of ideas that are in the public domain; to require a licensee to pay for this use undermines federal policy. That a possible recovery of royalties from the licensor will multiply a licensee's incentive goes without saying. As for the precepts of federal policy, a patentee is not entitled to receive from a licensee compensation for ideas that belong to the public. Any royalties collected in derogation of patent policy are, in effect, consideration for an illegal contract and, therefore, ought to be rescindable. The *Lear* Court evinced no qualms over barring enforcement of an express term of a license contract.\(^8\) To further free competition of unpatented and unpatentable ideas, it may not hesitate in the future to void the entire contract.\(^9\)

The likelihood that patent policy may preclude enforcement of the entire agreement is not idle speculation. Indeed, the Court specifically raised this issue with respect to the royalties accruing before the issuance of Adkins' patent\(^{40}\) but abstained from deciding the question.\(^{41}\) Mr. Justice Harlan anticipated that the policies announced in *Lear* may have a revolutionary impact upon the con-

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\(^8\) See notes 8 & 34 supra.

\(^9\) Abrogating an entire licensing contract would, of course, free the licensee from all royalty obligations and would, in a sense, restore him to his former status as a member of the general public.

\(^{40}\) The question was: "Whether and to what extent, States may protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." 395 U.S. at 674. Historically, state courts have enforced royalties accrued on unpatented inventions. See, e.g., *Acme Chair & Metal Crafts Co. v. Northern Corrugating Co.*, 209 Wis. 8, 244 N.W. 582 (1932) (licensee compelled to pay royalties on unpatented device many features of which are not covered by existing patents); *Myers v. Gerhardt*, 344 Ill. 620, 176 N.E. 713 (1931) (licensor able to recover royalties on an invention whose patent is subsequently declared invalid); *Hamilton v. Park & McKay Co.*, 112 Mich. 138, 70 N.W. 436 (1897); *Ingraham v. Schaum & Uhliger*, 157 Pa. 88, 27 A. 404 (1893) (royalties enforceable with respect to invention whose patent application is subsequently refused). See also *Gesing v. Grand Rapids Hardware Co.*, 362 F.2d 363 (6th Cir. 1966) (licensee obligated to pay royalties due on series of locks which are described in the patent application, but not included in the patent grant).

\(^{41}\) The Court was not in any position to render a decision on the issue of prepatent royalty enforcement since the question had neither been briefed nor argued. However, Mr. Justice Black, joined by Mr. Chief Justice Warren and Mr. Justice Douglas, dissented from even reserving this question for future decision. They concluded that *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), had already settled the question implicitly by holding that no state has the right to authorize any kind of monopoly on unpatented inventions; private agreements by which inventors disclose their discoveries for payments "run counter to the plan of our patent system." 395 U.S. at 677.
tractual rights of the inventor. Given the complexity of possibly revamping the law of 50 jurisdictions, the states, not the Court, should first attempt to reconcile their present laws with federal patent policy. Thus, the Court directed the California Supreme Court to definitely consider the question of prepatent royalties if it should find the Adkins' patent invalid.\textsuperscript{42}

Assuming, arguendo, that the patent is invalid, the California court will have to reassess the contractual rights of the inventor in a manner consistent with federal policy as explicated in \textit{Lear}. Of course, no one can predict what that court will decide. However, there are at least four alternatives. First, it could rule that Lear is obligated to pay for royalties due prior to the issuance of the patent in 1960. To reach this conclusion the court would have to determine that federal patent policy is not significantly frustrated where the licensee is willing to bargain for ideas that are not readily available to it and to which immediate access will prove highly profitable, especially in gaining an economic edge over competitors. Second, Adkins may be entitled to royalties, but to a lesser amount than the sum stipulated in the contract. In that case, the court will have to arbitrarily set an amount that reasonably compensates the inventor for his time and money spent in realizing his ideas. Third, the California court could simply hold that federal policy precludes Adkins from collecting any royalties for ideas which are ultimately found to be unpatentable. Finally, as an extension of the third alternative, the court could decide that Lear is not only released from its royalty obligations but is also entitled to a refund. Whatever result the California court fashions, its decision may well prove the model for other courts to follow.

On the other hand, if the California court finds that Adkins' patent was valid, it will be spared the contract problem, at least for the present. But this will not diminish the impact of \textit{Lear}. Any other state court confronted with a similar fact situation will undoubtedly find licensees invoking the forceful commands of \textit{Lear}. If the state courts should collectively fail to reconcile the competing demands of state contract and federal patent law, the Supreme Court will probably have no choice but to decide the question itself.

\textsuperscript{42} 395 U.S. at 675. The Court has in effect applied the abstention doctrine to avoid decision of a federal constitutional question where questions of state law may be dispositive of the case. See C. Wright, \textit{Federal Courts} § 52 (1963). However, this case is unique in that Lear did not even raise a federal question concerning the prepatent royalties. In raising the issue itself, the Court probably wanted to alert state courts and to exert subtle pressure on them to directly resolve, without sidestepping, the possible conflict between state and federal law.
with the risk of handing down a broad rule which does not ade-
quately resolve the unique problems arising from the particular
laws of the several states.

The reverberations of Lear may well extend beyond federal pat-
ent policy and state contract law. Conceivably, Lear could spur a
reexamination of the state law of trade secrets and its protection
against both the deliberate and the inadvertent misappropriation of
unpatented, secret ideas. One of the principal justifications ad-
vanced in support of trade secret law is that it maintains com-
mercial morality among competitors and between manufacturers and
inventors who disclose their ideas to the former in anticipation of
making a sale. The practical ramifications of trade secret law are
twofold. First, it enables an inventor or a business to keep its
unpatented ideas secret for a potentially unlimited duration. Sec-
ond, unlike patent law, it offers protection for the commercial ex-
ploration of the secret ideas without the necessity of public disclo-
sure. These implications are in problematical conflict with the
dual objectives of patent law — the disclosure and the free circu-
lation of unpatented and unpatentable ideas. The question arises
whether the policies and justifications underlying trade secret law
outweigh the policies of federal patent law. Commentators have

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43 A trade secret has been broadly defined as:

[A]ny formula, pattern, device or compilation of information which is used
in one's business, and which gives him an opportunity to obtain an advantage
over competitors who do not know or use it. It may be a formula for a
chemical compound, a process of manufacturing, treating or preserving
materials, a pattern for a machine or other device, or a list of customers. RE-
STATEMENT OF TORTS, Explanatory Notes § 757, comment b at 2 (1939).

Although a trade secret may leak into the hands of competitors in a variety of circum-
stances, the problem usually arises within the context of the employment relationship.
An employer will disclose confidential information to an employee who subsequently
leaves either to organize a competing business or to join a competitor. Absent legal
sanctions, there is nothing to restrain the employee from using the secret to under-
mine the former employer's competitive advantage. See Doerfer, Limits on Trade
Secret Law Imposed by Federal Patent and Antitrust Supremacy, 80 HARV. L. REV.
1432, 1435-38 (1967).

Mr. Justice Harlan states very broadly that the Lear case includes "the difficult
question of whether federal patent policy bars a State from enforcing a contract regulat-
ing access to an unpatented secret idea." 395 U.S. at 672. He footnotes this statement
with references to several articles which discuss the relation of trade secret law to fed-
eral patent law. Id. at 672 n.18. Coming within this description of contracts are
those employment contracts in which the employee agrees not to divulge nor use any
trade secrets disclosed by the employer if the former should leave the company. See
generally R. CALLMANN, UNFAIR COMPETITION AND TRADE-MARKS ch. 14 (Supp.
1965); R. ELLIS, TRADE SECRETS (1953).

44 Note, The Trade Secret Quagmire — A Proposed Federal Solution, 50 MINN.

45 Adelman, Trade Secrets and Federal Pre-Emption — The Aftermath of Sears
generally concluded that state trade secret law actually complements patent law and promotes the development of new inventions. But the Lear decision has kindled a fear among members of the patent profession that the Supreme Court will eventually hold that under the Supremacy Clause federal law preempts state protection of unpatented inventions. Given its large role in governing today's business relations, any nullification of trade secret law should be effected only if it is found that its threat to free competition does in fact overshadow the sum of its social and economic benefits.

Aside from the legal ramifications of the Court's holding, there is the economic question of the effect the decision will have upon existing business relations. This question assumes even greater significance because the abrogation of the estoppel doctrine wrought by Lear applies to contracts already in force at the announcement of the decision as well as to contracts to be formed in futuro. Despite respondent's warnings to the contrary, the Lear majority concluded that existing business relationships would not be undermined, partly because of the already existing ease with which the estoppel doctrine can be circumvented. However, it may reasonably be predicted that a number of licensees will rely on the high mortality rate of patents scrutinized in the courts. Even if a licensee does not actually challenge the underlying patent, the Lear decision places him in a much stronger bargaining position with respect to contracts subject to renewal. The mere threat of throw-

40 See Doerfer, supra note 43, at 1454.
47 U.S. CONST. art. VI, cl. 2.
48 Letter from Tom Arnold, Chairman of the National Council of Patent Law Associations (NCPLA), to NCPLA Delegates, June 23, 1969. In light of the Lear decision, Mr. Arnold urged that a new clause be grafted onto the proposed new patent statute: "This [title] shall not be construed to preempt or itself to affect, state or other federal law relating to inventions not protected by this title, or to preempt or itself affect either trade secret law, contract law relating to trade secrets, or other unfair competition law." Id.
50 395 U.S. at 674 n.19.

In periods of dissatisfaction with the functioning of business as a supplier of reasonably priced goods, popular sentiment has tended to demand curtailment of its special franchises, rewards, and prerequisites. Sensitivity of judges to these tides of general opinion has been reflected in variances in the severity of their attitude toward patent claimants.

Thus, in this period of rapidly increasing prices, one would have some basis for predicting an upward trend in the finding of patent invalidity.