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# Post Expiration Royalty Payments and Mandatory Package Licensing as Patent Misuses

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POST EXPIRATION ROYALTY PAYMENTS AND  
MANDATORY PACKAGE LICENSING  
AS PATENT MISUSES

I.

MISUSE IN GENERAL

A. *Theoretical Basis*

Our economic philosophy of free competition is reflected by a legal system prohibiting monopolistic forms of enterprise; yet, a patent grants a monopoly over the use of the patented invention. This exception to the nation's anti-monopolistic jurisprudence has been delimited to a scope commensurate with its unique characteristics. The doctrine of patent misuse has been developed to curtail extension of the patent power beyond the limited monopoly granted. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*<sup>1</sup> initiated the development. The Court held that a restriction on the sale of a patented projection machine, allowing only films in which the patentee had an interest to be used with the machine, was an abuse of the patent grant. The Court reasoned that since the patentee's monopoly was limited by the coverage of the patent claims, any further economic regulation came within the area of general law prohibiting monopolies. Thus, the attempted restriction on the use of the machine, the attempted "tie-in" of the films with the patented machine was a patent misuse.

Besides "tie-in" cases, such as *Motion Picture*, the misuse theory proscribes any device by which the patentee endeavors to extend the scope of his patent so as to control some object, patented or not, which lies beyond the patent grant.<sup>2</sup> Post-expiration royalty payments and mandatory package licensing, the two patent arrangements discussed in this comment, are therefore prohibited.<sup>3</sup>

1. 243 U.S. 502 (1917).

2. For a general introduction to the misuse doctrine and its antitrust aspect, see OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS 755-912* (1959); REPORT OF THE ATT'Y GEN'L'S NAT'L COMM. TO STUDY THE ANTITRUST LAWS 223-60 (1955).

3. The collection of royalty payments for the use of a patented article, after the patent has expired, was declared a misuse in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Mandatory package licensing has also been condemned. *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959).

- (1) Price restrictions combined with cross-licensing agreements. *United States v. Line Material Co.*, 333 U.S. 287 (1948). See Farley, *Price Fixing and Royalty Provisions in Patent Licenses*, 34 J. PAT. OFF. SOC'Y 46 (1952).
- (2) Grant-back agreements made with the purpose of violating antitrust policy. *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 316 U.S. 241 (1947). See generally Simmons, *Antitrust Aspects of Grant Back Clauses in License Agreements*, 41 J. PAT. OFF. SOC'Y 574 (1959).
- (3) Patent-pooling or cross licensing with the purpose of violating the antitrust system. *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963). See Comment, 20 U. PRR. L. REV. 54 (1958).
- (4) Certain restrictions placed on a sale of the patented article. *E.g.*, *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

### B. *Practical Consequences*

Three basic consequences may ensue from a finding that the owner has misused his patent. First, since a misuse is without the protection of the patent grant, it may be a violation of the antitrust laws.<sup>4</sup> The leasing of patented tabulating machines upon the condition that only the lessor's tabulating cards be used, a situation legally indistinguishable from the *Motion Picture* case, has been adjudged an antitrust violation.<sup>5</sup>

Secondly, a determination that a patentee's license contract contains such a price fixing device which misuses his patent allows the licensee an exception from the rule of licensee estoppel.<sup>6</sup> This exception is limited to situations where the covenant to pay royalties cannot be severed from the illegal misuse provisions in the contract. The exception then proceeds on the rationale that a court cannot give effect to an illegal contract. Since the provisions are not severable, the whole contract is illegal and so cannot serve to estop the licensee from contesting the patent's validity.

The third, and perhaps the most penalizing, effect of a misuse adjudication lies in its potential invocation as a defense in either an infringement suit or an action for royalty payments. The Supreme Court's opinion in the *Motion Picture*<sup>7</sup> case arose from an infringement action by the patentee against the buyer of his patented machine who had refused to accede to the limitation requiring buyers to use only particular films with the machine. The Court denounced this limitation and denied relief even though the buyer, by the contract of sale, had assented to the plaintiff's conditions. This refusal of patent enforcement is based on an application of the equitable maxim, "clean hands." A patentee who abuses his privilege is a wrongdoer and cannot acquire the aid of equity.

These three penalties remain effective until the patentee "purges" himself of the misuse.<sup>8</sup> For an effective purge, the patentee must not only

4. While every patent use which violates the antitrust laws is a misuse since a monopoly beyond the rightfully obtained patent grant is by definition a misuse, the converse proposition, that every patent misuse transgresses the antitrust laws, is rejected by some authority. *E.g.*, REPORT OF THE ATT'Y GEN'L'S NAT'L COMM. TO STUDY THE ANTITRUST LAWS 254 (1955); Harris & Seigel, *Evolving Court Opinion on Patent Licensing: An Interaction of Positive Competition and the Law*, 5 PTC J. RES. & ED. 103, 106 (1961); *contra*, *Mercoind Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944) (dictum).

5. *Int'l Bus. Mach. Corp. v. United States*, 298 U.S. 131 (1936). Section 3 of the Clayton Act, 15 U.S.C. 14 (1963), was applicable. It should be noted that this section specifically regulates either "patented or unpatented" goods.

6. *Edward Katziuger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947), (this case presented an express provision in the licensing agreement not to contest the patents); *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947); *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173 (1942); *Nachman Spring-Filled Corp. v. Kay Mfg. Co.*, 139 F.2d 781 (2d Cir. 1943).

7. *Supra* note 1.

8. . . . [T]he courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the effects of such misuse have been dissipated or 'purged' as the conventional saying goes.

*United States Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957).

cease the illegal practice, but must dissipate all effects of the misuse. Only then is a patent owner allowed to invoke licensee estoppel and able to sue for royalties and infringement.

## II.

### POST-EXPIRATION ROYALTY PAYMENTS — A MISUSE

In addition to using the patented device himself, a patent owner may license another party to use, make or sell his invention. Royalty payments are specified in the licensing contract as consideration for this permission. However, any royalties payable as consideration for the use of a patented article after that patent has expired constitute a misuse.

#### A. *History, A Misuse Evolving*

##### 1. *The Traditional Rule*

Extension of the misuse doctrine by favorable court application is typified by this development. Judicial disfavor had been cast upon the practice of charging royalty payments after the patent's lapse until it ultimately has been declared a misuse. Traditionally, a licensee could collect royalties after the seventeen-year statutory monopoly if an intention to so provide could be fairly inferred from the contract. The contract language which expressed this as the parties' intention was said to rebut the presumption that royalty payments were not intended after the patent's termination. But, in the early cases construing this rule,<sup>9</sup> the courts were not discussing patent misuse, the present problem, and no intention of continued royalty payments was ever found.<sup>10</sup> Though this type of patent exploitation was not considered a misuse, it was the object of strong judicial reprimand.

However, the misuse theory was growing and courts were becoming more conscious of the potential power of patentees to exceed their limited grant; judges began to criticize these licensing agreements as contrary to the patent philosophy. Four circuit courts,<sup>11</sup> while not presented with a

9. The leading cases appear to be: *E. R. Squibb & Sons v. Chemical Foundation, Inc.*, 93 F.2d 475 (2d Cir. 1920); *Sproull v. Pratt & Whitney Co.*, 108 Fed. 963 (2d Cir. 1901).

Other cases following the traditional law: *Starke v. Manufacturers Nat'l Bank*, 174 F. Supp. 882, *aff'd*, 283 F. Supp. 2d 105 (D. Mich. 1954); *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906 (D.N.J. 1947); *Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co.*, 44 F. Supp. 396 (S.D.N.Y. 1939); *Lathrop v. Rice & Adams Corp.*, 17 F. Supp. 622 (W.D.N.Y. 1936); *Bettis Rubber Co. v. Kleaver*, 104 Cal. App. 2d 821, 233 P.2d 82 (1951).

10. The one exception to this statement is *Adams v. Dyer*, 129 Cal. App. 2d 160, 276 P.2d 186 (1954). However, the court applied straight contract law; it neither cited any patent authority nor considered the misuse issue.

11. *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3d Cir. 1959); *Prestole Corp. v. Tinnerman Prod., Inc.*, 271 F.2d 146, 154 (6th Cir. 1959), *cert. denied*, 361 U.S. 964 (1960); *Scapa Dryers, Inc. v. Abney Mills*, 269 F.2d 6, 13-14 (5th Cir. 1959); *Baker-Cammack Hosiery Mills v. Davis Co.*, 181 F.2d 550, 573 (4th Cir. 1950), *cert. denied*, 340 U.S. 824 (1950).

To the same effect are *Tinnerman Prod., Inc. v. George K. Garrett Co.*, 185 F. Supp. 151, 157-58 (E.D. Pa. 1960), *aff'd*, 292 F.2d 137 (3d Cir. 1961); *April Prod. v. Schirmer, Inc.*, 308 N.Y. 366, 126 N.E.2d 283 (1955).

case on point, agreed that "such a provision, however, might easily lead itself to an unreasonable restraint of trade by extending patents beyond their proper limits."<sup>12</sup>

## 2. *The Ar-Tik Case*

When the precise issue was litigated in *Ar-Tik Systems, Inc. v. Dairy Queen, Inc.*,<sup>13</sup> the predictable result, declaring post-expiration royalties a misuse, was reached. Plaintiff, the owner of a patent covering a frozen dessert machine brought suit against a sub-licensee for royalties due after the lapse of the patent; the licensing contract stated that the royalty would continue "regardless of the expiration of the patent."<sup>14</sup> The Third Circuit, rejecting the old rule, declared that the leading cases were dicta since the required intention to pay royalties subsequent to patent termination had never been found; demonstrated that the trend was against such contracts; and finally, declared the practice a misuse. Authority for the decision was derived from *Scott Paper Co. v. Marcalus Co.*,<sup>15</sup> a Supreme Court opinion, with further reliance placed on cases which contained dicta criticizing the practice.<sup>16</sup>

The *Scott Paper* case had held that an assignor was not estopped from denying the validity of the assigned patent, as would be the usual rule, when he asserts that the accused device is a copy of an expired patent. Reliance on a decision involving assignor-estoppel as a basis for condemning post-expiration royalties appears to be rather tenuous. However, the underlying philosophies are identical; patents become public property upon expiration of the statutory monopoly and any device which thereafter continues control over the invention is illegal.<sup>17</sup>

## 3. *The Brulotte Case*

*Ar-Tik*, by its refusal to follow past law, divided the contemporary law. In an attempt to resolve the conflicting decisions,<sup>18</sup> the Supreme Court granted a petition for certiorari by a licensee who had been held responsible for paying royalties,<sup>19</sup> even though all the patents had expired. The Court,

12. *Baker-Cammack Hosiery Mills v. Davis Co.*, 181 F.2d 550, 573 (4th Cir. 1950).

13. 305 F.2d 496 (3d Cir. 1959).

14. The contract provided:

All sublicenses granted by (defendant's licensor) shall contain a provision obligating the sublicensee to pay to Ar-Tik Systems, Incorporated, (a specified royalty) on all mix used in the machines built during said patent number, said royalty to continue during the life of the machines regardless of the expiration of the patent. . . .

Appendix to Brief for Appellant, p. 114a.

15. 326 U.S. 249 (1945).

16. See note 11, *supra*.

17. "[A]ny 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." *Id.* at 256.

18. *E.g.*, *McLeod v. Crawford*, 176 Neb. 513, 126 N.W.2d 663 (1964), (refusing to follow *Ar-Tik*); *Contra*, *Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963).

19. *Thys Co. v. Brulotte*, 62 Wash. 2d 284, 382 P.2d 271 (1963).

citing the *Ar-Tik* case, reversed.<sup>20</sup> The defendant, buyer of a patented hop-picking machine had refused to make the royalty payments stipulated in his license. This license, though given with the sale, was completely separate from it; the purchase price was an initial flat sum, and the buyer obtained the title to the machine. The license, specified regular annual payments which were to continue beyond the expiration date of the licensed patents and provided that the agreement should remain in force "irrespective of the expiration date of any Letters Patent hereinbefore listed."<sup>21</sup> No differentiation in the amount of royalty payments was made between the pre- and post-expiration periods. Another provision of the contract prevented assignment of the machines or their removal from the county after, as well as before, the termination dates of the patents.

These stipulations in the contract were considered crucial by the Court in deciding that the license was being used to extend the patent monopoly beyond the statutory period. They showed a "bald attempt to exact the same terms and conditions for the period after the patents have expired as they do for the monopoly period"<sup>22</sup> and, consequently, the Court concluded "that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*."<sup>23</sup>

#### B. Prediction — An Unenforceable Prospect

Conceptually, the *Brulotte* decision is totally justified. Conditioning the patent license upon the licensee's agreement to pay royalties for the use of the patent after, as well as before, the patent grant ends is a misuse, an attempt to control something not within the patent.

Practically, however, the decision presents serious difficulty. The owner of a patent is permitted to exact as high a price as he wishes for the use of his patent.<sup>24</sup> Such a price may take the form of the purchase cost of a patented machine<sup>25</sup> or royalties charged for the use of the patented article. Certainly, no prohibition exists which would forbid the patent owner from collecting his price in installments.

How, then, is a court to distinguish deferred purchase price payments, some of which are due after the patent expires, from an unlawful exaction

20. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

21. The agreement stated:

Title to the said machines shall rest . . . on delivery . . . but the resting (of title) . . . shall not (be a) license . . . to use . . . and to practice the methods and processes disclosed and claimed in Letters Patent hereinbefore listed and related thereto. The term of the license granted . . . shall be from the date first above written until completion of the 1958 harvest, irrespective of the date of expiration of any Letters Patent hereinbefore listed.

Brief for Petitioners, pp. 5-6.

22. 379 U.S. at 32.

23. *Ibid.*

24. The *Brulotte* case itself says "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly." 379 U.S. at 33. *Accord*, *Standard Oil Co. v. United States*, 283 U.S. 163 (1931).

25. An implied license is given, which allows the use of a patented article when that article is sold by the patentee or someone under him. *E.g.*, *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873).

of royalties on the article subsequent to the patent's termination? Perhaps a more difficult problem is presented when royalty payments, applicable during the patent period, are deferred until after that period expires.

A skillful contract draftsman will simply avoid any allusions to royalties when referring to the post-expiration period and designate any post-expiration payments deferred installments.<sup>26</sup> Yet, the total amount and even the time of collection will coincide with that of post-expiration royalties. Form, not substance, will be the criterion. Mr. Justice Harlan, the sole dissenter, recognized this obstacle and pondered whether "the Court is basing its decision on the technical drawing of the contract."<sup>27</sup>

The unique character of a patent has always permitted the patentee to negotiate any price he wished<sup>28</sup> and installment contracts, providing a convenient means of payment, have thus become a necessity. These two principles cannot be changed. Given these, no way can be found to prevent circumvention of *Brulotte's* condemnation of contracts providing for post-expiration royalty payments by utilizing legitimate deferred payment contracts.

### III.

#### MANDATORY PACKAGE LICENSING — A MISUSE

The licensing of more than one of the licensor's patents for a single royalty has been termed package licensing. A refusal to license less than such a package transforms this practice into a misuse; where the licensee voluntarily assents to accept a package, no misuse occurs.<sup>29</sup>

#### A. History — A Misuse Evolving

##### 1. The Paramount Case

Oddly enough, the initial case in the historical development of this patent misuse involved the copyright rather than the patent area. The Supreme Court found an antitrust violation in "block booking," that is, refusing to license one copyrighted movie unless others are accepted and shown, in *United States v. Paramount Pictures, Inc.*<sup>30</sup> Patent misuse cases as well as copyright decisions were relied upon,<sup>31</sup> thus indicating

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26. The contract in the *Brulotte* case had been interpreted by the Washington Supreme Court to call for installment payments of the purchase price. 62 Wash. 2d 284, 291, 382 P.2d 271, 275 (1963). However the United States Supreme Court disagreed with this construction and reversed.

The Washington courts had also used that interpretation of the contract so as to allow the state to impose a sales tax on the *Brulotte-Thys* transaction. 31 Wash. 2d 739, 199 P.2d 68 (1948), *cert. denied*, 337 U.S. 950 (1949).

27. 397 U.S. at 38.

28. *Supra* note 24.

29. See Burns, *Does Package Licensing of Patents Violate the Antitrust Laws?*, 41 J. PAT. OFF. SOC'Y 259 (1959); Note, 44 VA. L. REV. 727 (1958).

30. 334 U.S. 131 (1948).

31. *Mercoird Corp. v. Mid-Continent Invest. Co.*, 320 U.S. 661 (1944); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); *Ethyl Gasoline Corp. v. United*

that the Court's opinion was based on principles broad enough to cover both fields.

While the mandatory package licensing of patents had not been proclaimed illegal by *Paramount*, a clear judicial warning emerged. The Attorney General's Antitrust Committee relied on this case to condemn coerced package licensing<sup>32</sup> and courts, while not faced with the exact issue, relied on *Paramount* to criticize the practice by way of dictum.<sup>33</sup>

## 2. *The Hazeltine Case*

The next Supreme Court pronouncement on this patent arrangement was *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*<sup>34</sup> While coercion was averred in the district court, the argument was not pressed in the Court of Appeals<sup>35</sup> or in the Supreme Court.<sup>36</sup> Consequently, the only question ultimately decided by the Court was whether plaintiff-research corporation's scheme of licensing its patents in a package to the defendant manufacturer for a royalty based on defendant's sales was a misuse *per se*.

Mr. Justice Minton, for the majority, stated that the agreement was included in the patentee's "right to market the use of the patent at a reasonable return"<sup>37</sup> and therefore was legal. The fact that less than all the patents in the package were used by the manufacturer was considered irrelevant because royalties are consideration for the right to use the patent, not for the use itself.

In *Hazeltine*, the package licensing arrangement was held valid,<sup>38</sup> yet the question of mandatory package licensing was expressly left undecided. However, a hostile attitude toward mandatory packaging may be observed

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States, 309 U.S. 436 (1940). While this last decision involved licensing restrictions rather than package licensing, very broad language was used: "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article." 309 U.S. at 459.

32. REPORT OF THE ATT'Y GEN'LS NAT'L COMM. TO STUDY THE ANTITRUST LAWS 239 (1955).

33. *E.g.*, *Baker-Cammack Hosiery Mills, Inc. v. Davis Co.*, 181 F.2d 550, 569-73 (4th Cir. 1950), *cert. denied*, 340 U.S. 824 (1950).

34. 339 U.S. 827 (1950); See 17 BROOKLYN L. REV. 155 (1951).

35. *Automatic Radio Mfg. Co. v. Hazeltine Research*, 176 F.2d 799, 805 (1st Cir. 1949).

36. 339 U.S. at 831.

37. *Id.* at 833.

38. The defendant in *Hazeltine* also argued that the system of measuring plaintiff's royalties by a fixed percentage of the defendant's sales was a misuse and therefore a defense to plaintiff's action for royalties. The Court held that such a scheme is not illegal *per se*; it was not an "inherent extension of the patent monopoly." *Id.* at 834. Mr. Justice Douglas, dissenting, disagreed. "The patent owner has therefore used the patents to bludgeon his way into a partnership with this licensee, collecting royalties on unpatented as well as patented articles." *Id.* at 838. See Harmon, *Antitrust and Misuse Implications of the Defined Field License*, 45 J. PAT. OFF. SOC'Y 463, 480-87 (1963).



in dicta in that case. "These cases [*i.e.*, the *Paramount* case] have condemned schemes . . . conditioning the granting of a license under one patent upon the acceptance of another and different license."<sup>39</sup> It should be noted that the Court was using the *Paramount* copyright case in the patent area.

### 3. *The Securit Case*

The foreseeable condemnation<sup>40</sup> of the practice of coercing licensees to accept a patent package was made by the Third Circuit in *American Securit Co. v. Shatterproof Glass Corp.*<sup>41</sup> The plaintiff-patentee had offered defendant-manufacturer a license of certain patents. A royalty was stipulated, based on the square feet of glass sold by the defendant, whether or not any of the licensed patents were used in the manufacturing process. Factually, the *Securit* case appears to coincide with *Hazeltine*, but there was one important difference. Defendant, Shatterproof, had requested some, but less than all of the patents included in the package offered by the patentee; this was denied. Thus, the coercive element, fatally absent in *Hazeltine*, was presented to the Court. If the defendant wished to secure a license of some of the plaintiff's patents, he was compelled to accept a group of them.

The court cited, and followed, the *Paramount* case. It analogized the practice to "tie-in" arrangements, declaring that, in principle, an attempt to control other patented articles and an attempt to control an unpatented article were indistinguishable; both are misuse. "Each patent gives its owner a monopoly in respect to its disclosure, so much and no more."<sup>42</sup>

### B. *Theoretical and Practical Rationales*

The condemnation of mandatory package licensing as a misuse of the patent monopoly is logically founded. The patent owner is using the desired patent as leverage to require his licensee to accept unneeded or unwanted

39. 339 U.S. at 830-31.

40. After the *Hazeltine* decision, many cases contained dicta that compulsory package licensing was a misuse. *Apex Elec. Mfg. Co. v. Altorfer Bros.*, 238 F.2d 867, 872 (7th Cir. 1956), *reversing*, 130 F. Supp. 152 (S.D. Ill. 1955); *Hazeltine Research, Inc. v. Avco Mfg. Corp.*, 227 F.2d 137, 147-49 (7th Cir. 1955), *cert. denied*, 350 U.S. 987 (1956); *Williams v. Hughes Tool Co.*, 186 F.2d 278, 285 (10th Cir. 1950), *cert. denied*, 341 U.S. 903 (1951); *Carter Products v. Colgate-Palmolive Co.*, 164 F. Supp. 503, 525-26 (D. Md. 1958); *Houdry Process Corp. v. Sinclair Refining Co.*, 121 F. Supp. 320, 321-22 (E.D. Pa. 1954).

*Contra*, *Hazeltine Research, Inc. v. De Wald Radio Mfg. Corp.*, 226 App. Div. 1001, 95 N.Y.S.2d 772 (1st Dept. 1950). The New York appellate court held for plaintiff even though coercion was shown. It is to be noted, however, that the opinion relied on the Circuit Court's decision in the previous *Hazeltine* case, which thereafter reached the Supreme Court. As already mentioned, that Court did not decide whether coerced package licensing was a misuse. *Supra* note 34.

41. 268 F.2d 769 (3d Cir. 1959), *affirming* 154 F. Supp. 890 (D. Del. 1957), *cert. denied*, 361 U.S. 902 (1959); See 73 HARV. L. REV. 1628 (1960).

42. 268 F.2d at 777. As an alternative holding the court found for the defendant on the basis that the patentee had violated a consent decree resulting from a previous antitrust suit. This decree restrained the patentee from conditioning the license grant upon the licensee's acceptance of other patents. *Id.* at 778.

patents.<sup>43</sup> The inherent monopoly power of the patent grant is being expanded beyond its statutory scope to engulf other objects. This is the essence of misuse.

The practical aspects of the *Securit* result are likewise desirable. By accepting the license, the licensee acquiesces to the patent's validity and so estops himself from later contesting it.<sup>44</sup> To permit mandatory package licensing would be to permit the licensor to protect patents of doubtful validity from challenge by the licensee. He could thus foist illegitimate patent claims upon others. Because a substantial number of patents which are awarded by the patent office, are unable to meet the judicial standards of patentability,<sup>45</sup> a decision contrary to this could lead to a sizeable mistreatment of licensees as well as patents.

### C. *The Meaning of "Mandatory"*

While it thus became an established legal principle that mandatory package licensing is a misuse, the application of this principle still presents difficulty. When is package licensing mandatory? Compulsion is clearly present where the patentee refuses a request for a license of less than the total package,<sup>46</sup> but in other cases, the presence or absence of coercion is a very difficult factual determination.

A question, still unresolved by the courts, is whether coercion inheres in a patent owner's offer to license less than the package but for the same royalty as would be charged for the proposed package. The obvious answer finds coercion. By his refusal to reduce rates proportionately with the reduction of patents licensed, the patentee appears to be forcing more patents into the license than the licensee desires.<sup>47</sup> Yet, a more penetrating analysis would appear to undermine this conclusion. By accepting the package, the licensee would estop himself from contesting the validity of every patent in that group, including those not originally requested by him. This may prove to be a very real hardship where the validity of these additional patents is doubtful. The bribe, therefore, is not without its burden; and a licensee, cognizant of this fact, will not be coerced by the licensor's offer into accepting the complete package.

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43. "Mandatory package licensing is no more than the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent but that is too much. The protection, or monopoly, which is given to the first patent stops where the monopoly of the second begins." 268 F.2d at 777.

44. *E.g.*, *United States v. Harvey Steel Co.*, 196 U.S. 310 (1904).

45. Stedman, *Invention and Public Property*, 12 LAW & CONTEMP. PROB. 649, 657 (1947).

46. "Package licensing should be prohibited only where there is refusal, after a request, to license less than a complete package." REPORT OF THE ATT'Y GEN'LS NAT'L COMM. TO STUDY THE ANTITRUST LAWS 239-40 (1955).

47. *Accord*, *American Securit Co. v. Shatterproof Glass Corp.*, 154 F. Supp. 890, 895 (D. Del.), *aff'd*, 268 F.2d 769 (3d Cir. 1959); REPORT OF THE ATT'Y GEN'LS NAT'L COMM. TO STUDY THE ANTITRUST LAWS 240 (1955).

## IV.

## CONCLUSION

The manufacture of any modern complex article will usually require the use of several patented articles. Research organizations, because of their expertise in a narrow area, often possess patents controlling the entire field<sup>48</sup> in which the manufacturer is engaged. In these circumstances, logic would dictate that the patentee could serve his own best interests by executing a single license which includes all the necessary patents. Naturally, the expiration dates of the included patents will differ.<sup>49</sup> Such a transaction is package licensing, which may become mandatory, and royalty payments will be due under a contract which extends beyond the termination of some of the patents. Post-expiration royalties thus become a threat in the same contract. For these reasons, the two misuses are often intimately connected in practice.<sup>50</sup>

In this area, the licensing of many complicated and entangled patents as a package,<sup>51</sup> should not find refuge from the sanctions of the misuse doctrine merely by reason of the complexity and entanglement. This philosophy appeared in the logical declaration that mandatory package licensing was a patent misuse. However, in designating a patentee's activity a misuse, the court should exercise caution lest blindly applied theory lead them to condemn practices which can be easily circumvented by the use of certain legal methods. In such a case, the decree, in effect, has demanded only formal compliance with the law; the designation of post-expiration royalties as an abuse of the patent grant has left this result.

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48. The plaintiff, Hazeltine Research, Inc., in the Supreme Court *Hazeltine* case licensed a package of 570 patents and 200 applications "related to the manufacture of radio broadcasting apparatus. Respondent [plaintiff] and its corporate affiliate and predecessor have for some twenty years been engaged in research, development, engineering design and testing and consulting services in the radio field." *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 829 (1950).

49. Such an agreement could have many convenient aspects for the contracting parties: complex bookkeeping would be avoided; some troublesome questions of infringement which arise because the manufacturer-licensee, producing articles very close to those patented but unlicensed, may overstep his license and infringement could be evaded; the difficulty of determining an infringement in these circumstances where articles, very similar to patented ones, are being manufactured is also circumvented; complementary patents if licensed together obviate infringement trouble caused by the licensing of only one of these patents.

However, because the public interest in stimulating invention and obtaining disclosure of scientific advancements, and not the inventors reward is dominant in the patent system "convenience cannot justify an extension of the monopoly of the patent." *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950). Thus package licensing contracts must be kept within the law of misuse.

50. The license in the *Securit* case is an example. As well as demanding that the licensee take all the offered patents, *Securit's* standard licensing agreement, paragraph 8(a), had this provision: "that agreement shall continue, in full force and effect to the expiration of the last to expire of any, of *Securit's* patents. . . ." *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3d Cir. 1959).

51. *E.g.*, the 570 patents and 200 applications in *Hazeltine's* package license covering the radio broadcasting field.