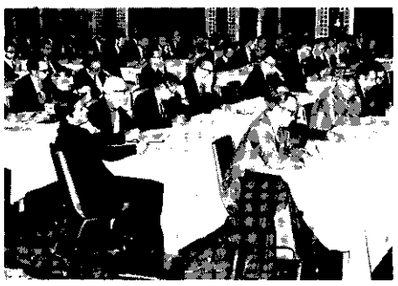
# LES REGIONAL MEETINGS



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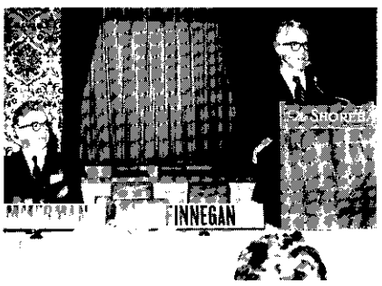
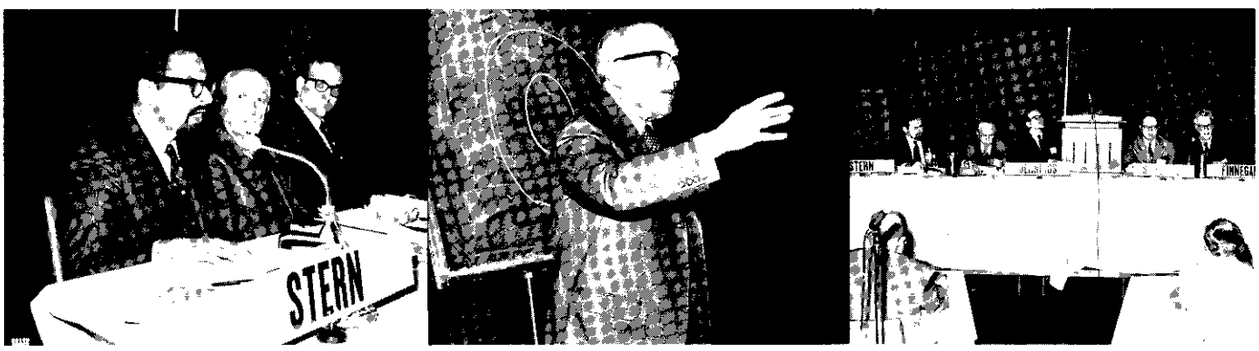



*Marcus B. Finnegan, Chairman, Eastern Regional Meeting, presiding at the luncheon session*

*Audience, Eastern Regional Meeting*

## EASTERN REGIONAL MEETING

The spring meeting of the Eastern Region of the Licensing Executives Society was held at the Shoreham Hotel in Washington, D. C. on April 21, 1971. Marcus B. Finnegan was the Meeting Chairman, and Tipton D. Jennings served as Program Chairman. About 160 members and guests attended. On April 20, the Trustees of LES were in session at the Shoreham, and numerous committee meetings were held. Registration for the meeting began on the evening of the 20th, and the meeting started formally with a cocktail party for early arrivals at 6:00 P.M. on that evening. At 9:00 A.M. on April 21st, the morning sessions of talks concerning *Anti-trust Problems in the Licensing of Technology"* the workshops and panel discussion began. The texts of some of the talks and summaries of workshops appear below:




*During The Panel Discussion*

### THE PATENT-ANTITRUST SPECTRUM OF PATENT AND KNOW-HOW LICENSE LIMITATIONS: ACCOMMODATION? CONFLICT? OR ANTITRUST SUPREMACY?

*by*
*S. Chesterfield Oppenheim**

In 1955 I published a law review article[1] in which my thesis was that so long as the Patent Code and the antitrust laws are judicially interpreted to protect the "hard core" lawful exclusivity of patent rights, and to condemn "hard core" patent misuse and antitrust violations, the two bodies of law can peacefully coexist.

With respect to license limitations in domestic commerce, which is the sole subject of this address,

*Prof. S. Chesterfield Oppenheim*

it may fairly be concluded that placed in perspective, the corpus of judicial decisions dealing case-by-case with the interactions of patent and antitrust public policies does not reveal substantial evidence of a trend toward undermining judicial protection of the "hard core" of license limitations ancillary to the lawful scope of the patent grant.

This conclusion may come as a surprise to patent counselors who complain about the uncertainty of the state of the law because of a few conflicting decisions of the District Courts or the Courts of Appeals on license limitations or because of ambiguities or a dictum in certain Supreme Court opinions in that area. But this yearning for certainty must be balanced against the need for flexibility, two opposing forces which are as old as the process of law itself.[2] We must be on our guard against extension of the certainty of *"per se"* rules beyond their proper bounds but we must also be reconciled to the imprecision of an antitrust policy Rule of Reason applied to restraints beyond the rights of exclusion inherent in the patent grant.[3]

Apart from the dark cloud the dictum of Justice Black in *Lear v. Adkins*[4] has cast over federal and state protection of valid trade secret or know-how rights, a topic I shall later discuss, the first part of this paper on patent license restrictions will show that my prime concern is that the pronouncements of top officials of the Department of Justice Antitrust Division from 1965 to date reflect enforcement attitudes which tend to subordinate the Congressionally sanctioned exclusive rights of the patentee to antitrust policy considerations. If the courts should respond favorably to this reoriented thinking of the Antitrust Division, the end result would be to drift from progress toward accommodation of patent and antitrust policies to increased conflict between them, if not to antitrust erosion of lawful patent rights. The Congress would then be faced with the need for corrective legislation.

The second part of this paper will explain why I believe the Antitrust Division's approach to trade secret or secret know-how license limitations, as announced by the head of the Division, Mr. McLaren, is basically sound in advocating protection of such rights under state as well as federal law. Here the current controversial issue is whether this should be accomplished by a case-by-case adjudication of whether Congress should negate the dictum of Justice Black in *Lear V. Adkins* by a congressional amendment. In fairness the Patent Bar should recognize that the Black dictum, not the Antitrust Division's thinking, has generated the alarm regarding the continued vitality of genuine trade secret protection.

## PART I
## *PATENT LICENSE LIMITATIONS*

As a backdrop to patent license limitations, first let me remind you that the premise that patent and antitrust policy are not intrinsically in conflict, and that both policies stem from the paramount objective of maintaining private competitive enterprise, appears to be generally accepted.[5] This is the position taken in the 1955 Report of the Attorney General's National Committee to Study the Antitrust Laws[6] and in the recent Report of the President's Commission on the Patent System.[7] The Commission declared that the Patent System and the antitrust laws are fully compatible and not mutually exclusive in the sense that the limited time exclusiveness of the patent grant threatens effective antitrust enforcement.[8]

The goal of this approach is to achieve accomodation of patent and antitrust so that each public policy may operate on a parity within its own Congressionally appointed and judicially defined orbit.

The speeches of the present head of the Antitrust Division and his chief officials contain assurances that the Patent System is not inherently at odds with the antitrust laws, although the two at times do conflict.[9] We are told that the Antitrust Division seeks to reconcile the patentee's rightful claim to reward for his invention and the antitrust objective of promoting competitive innovation through application of a Rule of Reason to license restrictions which do not presently fall within the well established illegal *per se* category. Regrettably, these words of promise may not be fulfilled when placed in the full context of recent pronouncements of the Antitrust Division.[10] From them emerges a fundamental question of whether there is failure to distinguish between criteria for determining whether patent license limitations are inherent in, and ancillary to, the patentee's rights of exclusion and the criteria for determining whether the license restrictions



*LES NOUVELLES*

is published five times a year

are purely contractual provisions of an antitrust nature beyond the scope of the lawful monopoly of the patent grant.

The policy guides of the Antitrust Division reveal coalescence of patent policy and an antitrust Rule of Reason. Mr. McLaren [11] and his staff associates have stated their approach as follows:

> "In considering whether to attack a particular licensing provision or practice we ask two fundamental questions. First, is the particular provision justifiable as necessary to the patentee's exploitation of his lawful monopoly. Second, are there less restrictive alternatives which are more likely to foster competition available to the patentee? Where the answer to the first question is No, and to the second Yes, we will consider bringing a case challenging the restriction involved."

I believe those criteria are not compatible with the patent policy standard for determining the metes and bounds of the patentee's reward as formulated in the unanimous Supreme Court opinion in the 1926 *General Electric* case[12] as follows:

> "Conveying less than title to the patent or part of it, the patentee may grant a license to make, use, and vend articles under the specifications of his patent 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."

Postponing for later comment the sanction of a first sale price license restriction, the "reasonably within the reward" standard announced in *General Electric* is properly interpreted only if it makes permissible licensing restrictions which are an integral part of the patent grant's right to exclude. Construed with the 1912 *Motion Picture Patents* opinion of the Supreme Court, [13] the patent law places outside the normal and pecuniary reward of the patentee only license restrictions which extend the monopoly grant to control any product, service or other subject matter not within the scope of the patent.

The tying clause license condition is the prime example of this extra-patent control condemned in *Motion Picture Patents* and later reaffirmed as *per se* patent misuse in violation of the public policy of the patent laws in a series of Supreme Court decisions in private patent infringement suits.[14] The basic distinction between intra-patent and extra-patent license restrictions should be observed to preserve the patentee's right to exact all the pecuniary reward his rights of exculsion will lawfully allow. However, when the patentee tries to charge all the traffic will bear from licensing royalties or in profits from his own operations by imposing restraints outside the patent grant, he is subject to the prohibitions of the patent laws and, on additional proof, he may also be found in violation of the antitrust laws.[15]

The starting point for accommodation of patent and antitrust is Section 154 of the Patent Code which, pursuant to the intent of the Constitutional provision, declares that every patent shall contain a grant to the patentee, his heirs or assigns, for the term of seventeen years "of the right to exclude others from making, using, or selling the invention throughout the United States."

This limited time exclusiveness is the only way Congress has power to legislate because Article I, Clause 8, of the Constitution, in unequivocal terms, states that "Congress shall have Power . . . to Promote the Progress of Science and Useful Arts by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries."[16] Congress can fix the limited term to less than the present seventeen years but it has no power to make the patent grant less than exclusive, *i.e.,* the right to exclude others. So long as he stays within the claims of his patented invention, the patentee, acting individually, may refuse to license anyone. This is integral to his right to exclude. It includes his right to select his licensees. In that connection, Mr. McLaren properly stated that "it is desirable to preserve intact the patentee's power to grant licenses unilaterally, when and to whom he pleases".[17] Furthermore, the Patent Code affirms the divisibility of patent rights.[18] Hence the patentee may license less than all of his rights and for less than the entire term of the patent.[19] In sum, the patent laws do not obligate the patentee to promote the kind and extent of competition demanded by the antitrust laws.[20]

The Antitrust Division's tests for determining whether to challenge a particular licensing provision unwarrantedly uses antitrust Rule of Reason criteria which become relevant only if the patentee's conduct involves the plus elements of antitrust violation. The standard applicable to the patentee as formulated in the *General Electric* opinion requires only a showing that the particular patent license restriction is ancillary to the pecuniary reward for the patentee's lawful rights of exclusion. Nowhere in the Patent Code or in the body of court decisions is there any support for the Antitrust Division's position that the patentee must justify a license provision as necessary to utilization of his patent. If the limitation is within the monopoly of the patent grant, it is *per se* lawful. Moreover, the patent grant does not place upon the patentee the burden of showing that he did not have available to him less restrictive alternatives more likely to foster competition than the license restriction embodied in the license agreement.

The patent laws have different measures of permissible and wrongful conduct than the standards of the antitrust laws. For example, patent misuse is not invariably also an antitrust violation unless there is additional proof of anticompetitive conduct violating the Sherman and Clayton Acts or Section 5 of the Federal Trade Commission act. [21] Lower federal courts have clarified and sharpened these distinctions in a series of private patent-antitrust suits decided in the 1960's.[22] There are, of course, instances where the conduct of the patentee may transgress both the patent and antitrust laws. Factual situations involving the horizontal element of combination or conspiracy among patent owners or among their licensees are identifiable as "hard core" antitrust violations.[23] Likewise, patent license tying clause conditions are categorized as "hard core" patent misuse.[24]

The Antitrust Division criteria for testing the legality of a particular licensing provision equates rather

than differentiates patent policy and antitrust Rule of Reason considerations. This tends to defeat rather than to achieve an accommodation of patent and antitrust policies applied to licensing practices. It tends to generate conflicts inconsistent with the inherent nature of the patent grant as well as to make antitrust considerations paramount. That kind of an approach sets the course for unwarrantedly cutting down the statutory scope of the patentee's lawful rights of exclusion.

My criticisms of the Antitrust Division's approach stem from fundamental beliefs I have held over the years regarding the premises and rationale for accomodating patent and antitrust policies. In my 1955 article, I expressed the belief that the Patent System benefited from the success of the Antitrust Division in purging "hard core" antitrust violations coupled with abuse of patent rights in a series of cases decided by the Supreme Court and lower federal courts in the 1940's.[25] Several of these cases involved illegal international cartels. Those government victories were clearly not in derogation of lawful patent rights. Today patent and antitrust counselors generally regard them as a catharsis which was long overdue.

Mr criticisms do not question the obligation of the Antitrust Division to test borderland issues on which judicial clarification on patent license limitations is needed. [26] But the guideline tests announced by the Antitrust Division for challenging particular patent license restrictions go far beyond that objective. The Antitrust Division, among other pronouncements, has declared its determination to seek drastic modification of the Supreme Court precedents favorable to the patentee in the 1938 *General Talking Pictures* case,[27] involving field of use restrictions, and the 1947 *Transparant-Wrap* case[28] involving an assignment grant-back. Regardless of differences of view on the merits of those rulings, patent counselors have relied upon those explicit precedents on permissible licensing restrictions as the law of the land.

The bar and patent licensing executives are now faced with speculative evaluations regarding the impact these newly announced challenges of the Antitrust Division may have on the courts or on the Congress. Under our system of checks and balances, either the judiciary of the Congress may have the final say. In the interim, however, legal counselors may be in a quandary on how to advise company management. Shall they advise on the basis of what the law *is* or on what the Antitrust Division believes the law *ought to be*? It is understandable that some attorneys may be heeding the advice of Bruce B. Wilson, Mr. McLaren's special Assistant, who said in a recent address:[29]

> "One of the jobs of the lawyer in private practice is to keep his client out of antitrust trouble. One of the ways to accomplish this objective is to be cautious as to the types of restrictions which you put into license agreements. I found in private practice that it is much easier to answer the question of whether I should put a particular restriction in a license agreement, than it is in my present position to answer the question of whether the Division should challenge the same restriction. I believe this is one area in which it is wise for the private practitioner to err on the side of caution."

When one considers the fear of private treble damage suits if the government should succeed in its attack upon a particular license provision, it should not be surprising that the inhibitory effects of the warnings of the Antitrust Division officials may cause some counselors to hesitate to exercise a judgment based solely on existing judicial precedents.

I now turn to specific examples of why and how the Antitrust Division's tests for challenging particular judicially approved licensing practices are relevant to antitrust considerations rather than patent policy considerations.

## *ANTITRUST DIVISION VIEWS ON FIELD OF USE LICENSE RESTRICTIONS*

Field of use patent license limitations are widespread.[30] The Division does not question all such restrictions but its warnings reveal that it regards many of them as purely contractual provisions subject to antitrust attack rather than restrictions integral to the patentee's rightful reward.[31]

Mr. Stern, Chief of the Division's Patent Unit, speaking for himself, has articulated the Division's reasoning in some detail.[32] He begins by questioning the assumption that limiting the field of uses for which the licensee may sell the patented product is valid under the authority of the 1938 *General Talking Pictures* case.[33] There, the Supreme Court, in an opinion by Justice Brandeis, sustained a provision in a license to make and sell a patented sound recording system only in the commercial field. Applying the 1926 *General Electric* standard of reward normally within the patent grant, Justice Brandeis said that the legality of a use restriction had never been questioned. The Court held there was patent infringement when a licensee, authorized to make and sell only for private home use, violated that restriction by selling the equipment in the commercial field in which it was not licensed.

Mr. Stern is hopeful that if and when the 1926 *GE* first sale price license restriction is overruled, any residual precedent value of that case will be reduced, thus requiring *General Talking Pictures* to stand, if at all, on some other basis.

I find that reasoning puzzling. Even if the first sale price restriction sanction, which has already been reduced by lower federal court decisions to the vanishing point, should be outlawed by the Supreme Court, the *GE* case general standard of permissible licensing restrictions within the reward and the scope of the patent grant would not necessarily be affected as applied to restrictions other than price.

Mr. Stern's statements also apply antitrust principles to field of use licensing in a manner which fails to distinguish patent law and antitrust considerations. Mr. Stern states that, under some circumstances, it would be reasonable for a patentee to reserve to himself a field of use in which he operates in order to induce him to license another use not in competition with him. That is not a patent law test. The patentee is under no duty to justify excluding all others from a field of use. I also differ with the position questioning the right of the patentee to carve out separate exclusive

licenses for separate fields of use. So long as the patentee acts unilaterally, negotiates vertically with each exclusive licensee, does not restrict the licensee's activity outside the granted field of use, and does not attempt to exercise control over the product after a valid first sale within the authorized field of use, such a practice does not transgress patent law policy.[34] Any challenge of such conduct should be made under the antitrust laws by proving horizontal or vertical restraints on competition outside the scope of the patent grant.

It is apparent to me that from the various addresses of Antitrust Division officials there emerges a pattern of testing field of use limitations by substituting antitrust considerations for patent law principles. The entire line of reasoning is geared to the Division's tests of whether there are less restrictive alternatives available to the patentee which are more likely to foster competition and whether the more restrictive provision is justifiable as necessary to the utilization of the patent grant. If the restriction is within the patent grant's scope, it is strange indeed to argue that the patentee's rights of exclusion must be exercised only if this promotes optimum competition in his patented invention.

Another contradiction comes to the surface in connection with the judicially approved right of the patentee to grant an exclusive license, exclusive even of the patentee himself.[35] Whether the exclusive license applies to a field of use or other divisible rights of the patent grant, the patent law public policy does not require the patentee to justify an exclusive license or to defend it against the charge that it does not foster competition as would be the case with non-exclusive licenses. Yet the Antitrust Division strays from such patent policy criteria of legality by emphasizing that non-exclusive licensing would usually be more profitable to the patentee and would relieve the patentee of the burden of proving absolute economic necessity for the exclusive license either for his own benefit, or to induce acceptance of a license by a company which will not otherwise risk investment in a new market relevant to the patent. Again these are antitrust considerations, which would not even be evidence of illegal conduct since the patentee, acting alone, has the option of granting an exclusive license or non-exclusive license as he sees fit.

The argument that multiple exclusive field of use licenses are for the benefit of the licensees and not for the benefit of the patentee is questionable. When the patentee engages in such field of use licensing because his licensees will not otherwise risk investment, is he not being motivated by economic necessity and is he not in reality licensing for his own benefit? The courts have not condemned mere multiple licenses unilaterally granted by the patentee.[36] Such restrictions still relate to the patentee's pecuniary reward for his patented invention. The type of restriction designed solely for the benefit of the licensee is illustrated by a license agreement such as that in the *Ethyl Gasoline* and *Univis Lens* cases[37] where the patentee receives his full price reward for the sale of a patented product but fixes the resale price or other terms from which only the licensees derive profit. This is as clearly patent misuse as in the case where the patentee includes a tying clause in his patent license to derive profits from unpatented parts or supplies.[38]

The root error in the Antitrust Division's thinking, as I previously stressed, is its challenge of judicially approved license restrictions inherent in the patentee's legitimate reward as though they were purely contractual provisions with the purpose and effect of extending the patent monopoly beyond its lawful boundaries.

### *DIVISION QUESTIONS TRANSPARENT-WRAP SUPREME COURT SANCTION OF ASSIGNMENT GRANT-BACK*

Another Divison target is the *Transparent-Wrap* Supreme Court decision[39] upholding a patent license provision requiring the licensee to assign back to the patentee improvement patents of the licensee. This was held not in itself illegal *per se* and justified by the assignment provision of the Patent Code. On remand on antitrust aspects, Judge Hand held there were no illegal antitrust restraints.[40]

The Division seeks to circumscribe the *Transparent-Wrap* ruling. Applying its less restrictive alternatives criterion, the Division indulges the assumption that all assignment grants-back tend to stifle research and development. It advocates nonexclusive grants-back as the desired alternative.

Our PTC Research Institute empirical study revealed that while grant-back provisions are quite common, an assignment and an exclusive grant-back is relatively uncommon.[41] It is ironic that the Division begrudges reliance on a Supreme Court decision in the *Transparent-Wrap* case where Justice Douglas, a stalwart antitruster, and often charged with being hostile to patent rights, wrote the Court's opinion. Even though that decision is still the law,[42] the Division places it under an antitrust cloud by threatening to attack it when it finds the occasion to do so. As a counseling approach, I think an assignment grant-back should not be required unless the licensor's position as a small company is so disparate compared to the large-scale size and resources of the licensee that the licensor needs protection against the licensee's massive research and development resources. A *per se* illegality rule would block this lawful option of the licensor.

### *FIRST SALE PRICE LICENSE LIMITATION*

There is little usefulness in dwelling on the Antitrust Division's repeated efforts to get the Supreme Court to overrule the 1926 *General Electric* decision[43] sustaining a first sale price restriction in a patent license. Our empirical study revealed that such a limitation was used by only two companies out of 108 companies responding to our questionnaire.[44] Furthermore, court decisions subsequent to 1926 have so hemmed in the scope of permissible use of a first sale price license limitation that, as a practical matter, patent counselors are fully aware of its narrow vitality.[45] The Division has also questioned quantity limitations in a patent license as akin to a price limitation[46] but a few court decisions on that point approve that limitation.[47]

### *TERRITORIAL LIMITATION WITHIN THE UNITED STATES*

It is not clear precisely what the Division's position is on territorial patent license restrictions within the United States. Mr. Donnem has expressed doubt regarding the assumption that Section 261 of the Patent Code legalizes such limitations.[48] Yet that provision explicitly states that an applicant, patentee or his assigns may grant an exclusive right under his application or patent to the whole or any part of the United States. The Attorney General's National Antitrust Committee 1955 Report, relying on Section 261, declares there is "no doubt of the right of the patentee to place territorial restrictions upon his assigns or licensee within the United States."[49] As Committee Co-Chairman I concurred in that view. Two District Courts have upheld such domestic patent license limitations.[50] Territorial restrictions in international patent licensing is a subject presenting different problems.

It is also not clear how the Division would regard a situation where the patentee, acting unilaterally, negotiates independently with each of several parties, licenses containing vertical territorial restrictions in different parts of the United States. My view is that these multiple vertical territorial restrictions are lawful within Section 261. If, however, there is proof of a horizontal agreement to divide markets of the type that is prohibited under the Sherman Act, then the illegality stems solely from antitrust considerations.

### *RESTRICTIONS ON PURCHASER*

*General Talking Pictures* did not involve a purchaser who bought for value in good faith and without notice of the use restriction in the license. Therefore, there was no inception of a valid sale since both the seller and the buyer of the sound equipment had knowledge that the use restriction was being violated.[51]

It is beyond dispute that restrictions upon purchasers after an *authorized first sale* of a patented article by the licensee clearly exhausts the patentee's monopoly. If the sale is made within the licensed field of use or territory, the patentee cannot restrict the resale price or territory in which the resale is made.

### *ONLY THE PATENTEE CAN SELECT HIS LICENSEES*

The Antitrust Division is on sound ground in attacking any agreement where the patentee delegates to another a veto power over the selection of licensees under the patent. The patentee or his assignee to whom he conveys all right and title is the only one legally entitled to grant licenses under the patent. Hence the *Besser, Krasnov* and *McCullough* cases[52] are clearly correct in condemning a purely contractual provision whereby the patentee grants another, or others jointly, a veto power over the selection of licensees. The patentee's right to exclude must always be exercised unilaterally. The patentee may, however, grant a licensee authority to sub-license. The Antitrust Division is, therefore, correct in its position that only the patentee, acting unilaterally, may select his licensees.

## PART II
## *TRADE SECRET OR SECRET KNOW-HOW LICENSE LIMITATIONS*

As previously stated, on this topic my concern is not the rationale of the Antitrust Division as stated by Mr. McLaren. Rather it is the startling dictum of Justice Black in *Lear v. Adkins.*[53]

Before discussing that dictum, a summation of Mr. McLaren's view and a resume' of the legal principles underlying trade secret protection may avoid misunderstanding of the nature of the controversy. In my discussion I use the terms "trade secret" and "secret know-how" as virtually interchangeable.

Mr. McLaren is to be commended for declaring that he favors protection of valid trade secret rights in both federal and state courts. He specified the elements of his advocated Rule of Reason approach to restrictions in know-how licensing as follows:[54]

> "First, the restriction must be ancillary to carrying out the lawful primary purpose of the agreement. Second, the scope and duration of the restraint must be no broader than is necessary to support that primary purpose. And third, the restrictions must be otherwise reasonable under the circumstances. In effect, the rule on know-how licensing is pretty much the same as the rule on patent licensing. Except as to certain well-known restraints which are *per se* unlawful, the standard is the rule of reason."

Bear in mind that unpatented trade secret subject matter does not give the owner the statutory rights of exclusion set forth in Section 154 of the Patent Code. A trade secret is not a monopoly. Mr. McLaren's Rule of Reason properly formulates an ancillary restraints doctrine which would permit the courts to distinguish between restrictions in royalty-bearing know-how license agreements reasonably ancillary to the main lawful purpose of the agreement and restrictions which involve plus antitrust restraints beyond the proprietary information rights disclosed in confidence under the license. If any other official of the Division should express a view to the contrary, I presume he is speaking for himself and not for Mr. McLaren.

It should be kept in mind that each trade secret case is decided on the specific factual situation. The courts have used various theories of protection, such as property rights, contract, unfair competition, quasi-contract, and breach of trust or confidence.[55] The Restatement, Torts, Sections 757[56] and 758, sets forth the basic principles governing liability.

The Restatement defines a trade secret as "Any information of peculiar value to its owner, not protected by patent and not generally known or accessible to everyone". This is far more extensive than patentable subject matter and supplements, rather than conflicts with, patents. The Restatement does not purport to present an exclusive enumeration of specific kinds of trade secrets. Examples given are "a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or device, or a list of customers".

Trade secrets last only as long as substantial secrecy

is preserved. Ideas in general circulation are obviously in the public domain. Any person who independently learns the secret may lawfully use the secret or disclose it to others. The main elements of a plaintiff's trade secret or secret know-how case are (1) proof of existence of a specific trade secret not discovered by fair means; (2) a confidential disclosure to defendant in trust or confidence; and (3) the confidence was violated by disclosure to others to the injury of the plaintiff. I presume that Mr. McLaren had these requirements in mind when referring to valid trade secret rights which have value.

Turning to Mr. Justice Black's dictum in *Lear v. Adkins,* I believe it asserts an unwarranted broad federal preemption of unpatented trade secret rights. The premise of the dictum is that if an owner of a trade secret discloses it in confidence in return for contractual royalty payments, this runs counter to federal patent policy and to the Supremacy Clause of the federal Constitution.

With the concurrence of Chif Justice Warren and Justice Douglas, Justice Black said:

> "The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals with or without approval of the State."

In essence, Mr. Justice Black construes the Constitutional provision on patents and the Patent Code as preempting contractual arrangements for licensing trade secrets for royalty payments. The Justice cited in support the *Sears* and *Compco* decisions of the Court.[57]

The demise of the licensee estoppel doctrine in *Lear v. Adkins,* on which all Justices concurred, occasioned no surprise to members of the patent and antitrust bars who knew that previous decisions of the Court had eroded the license estoppel doctrine by exceptions. The suit in *Lear* was by the inventor against the licensee of the patent for breach of a patent licensing agreement. To understand the thrust of Justice Black's dictum, note that the license was executed in 1955 while a patent application disclosing trade secrets was pending in the United States Patent Office. Lear thus obtained access to Adkins' ideas for which Lear promised to pay royalties five years before the patent issued to Adkins in 1960. This raised the heart of the question whether federal patent policy bars a state from enforcing an agreement governing access to unpatented trade secrets.

The Supreme Court held that with respect to royalty payments due after the patent issued, the licensee was not obligated to pay unless the patent was valid. But regarding royalties accrued and unpaid prior to the issuance of the patent, the Court declined to resolve the question whether a state may protect the owner of unpatented trade secrets. Hence, the majority of the Court did not accept Justice Black's dissenting view that trade secret licenses run contrary to national patent policy.

In my opinion Justice Black's dictum misconceives the public policy considerations supporting federal and state enforcement of trade secret licensing for agreed upon royalty payments. Patent and trade secret rights have coexisted in the United States for more than a century. Prior to the Black dictum the Supreme Court has not questioned trade secret licensing.[58] Congressional enactment of patent laws, including the Patent code of 1952, has not even intimated that the patent laws preempt enforcement of contractual provisions in trade secret licenses.

Federal statues protect against disclosure of trade secrets by various federal agencies.[59] A federal statute makes it a crime for a federal government employee to disclose trade secrets. Nineteen states make it a crime to misappropriate trade secrets.[60] The Internal Revenue Code recognizes trade secrets as property subject to capital gains treatment.[61] Despite the alarm that the *Sears* and *Compco* decisions of the Supreme Court would be applied expansively, the federal and state courts have generally not applied that phase of federal preemption to deny protection to trade secrets.[62]

I have long been against giving a competitor a "free ride" by misappropriation of what equitably belongs to another, such as innovation resulting from the labor, efforts and expenditures of one who innovates trade secrets.[63] The Black dictum would sanction unjust enrichment by allowing one to "reap where he has not sown.".

It is elementary that a patent may issue only on a process, machine, manufacture or composition of matter. Trade secret subject matter covers a much greater scope than patentable subject matter.

Justice Black's dictum would obstruct rather than promote competition in unpatented trade secrets. This competition is as important as the competition of patented and patentable art. Trade secret licensing opens up, rather than suppresses that art. To say that the owner of a trade secret can only lawfully keep the secret to himself, use it in his own business, or sell it outright, unless he obtains a patent covering the secret subject matter is inherently at odds with antitrust policy. Moreover, our patent policy does not obligate an inventor to disclose either patentable or trade secret subject matter. The option to seek a patent for commercial exploitation or to license trade secrets for royalty payments rests with the inventor. Even when the inventor files a patent application, which is preserved in secrecy while the application is pending, the inventor still retains the option of whether to pay the final fee and accept a patent which the Patent Office decides has allowable claims, or to rely upon trade secret protection.

The Black dictum also overlooks the risks the owner of trade secrets assumes in licensing their use for royalties on a confidential disclosure basis. One is the risk that a third party may discover the secret by fair means. Another risk is that the licensee may be able to innovate through fair means his own improved trade secret by what he has learned from the licensed trade secrets. Perhaps the most significant risk is that of rapid obsolescence of one's trade secrets by technological advancements. It is naive to suppose that trade secrets have perpetual existence. No empirical study of the life of trade secrets has been made but it would not be surprising if it were found that a substantial percentage of trade secrets have a shorter life than the 17 year patent monopoly — and even so, many patents become outmoded before the patent expires.

When one considers how widespread trade secrets are in our competitive economy, it is a matter of great concern to contemplate to what extent the Black dictum would open the door to sanctioned misappropriation of trade secrets and breaches of confidential disclosures. This would put a premium on rewarding fraudulent conduct rather than promoting the public interest in protecting valid trade secrets.

In *Painton & Co. v. Bourns,*[64] the District Court applied the Justice Black dictum in *Lear v. Adkins* by holding that the enforcement of a trade secret license for royalty payments would be contrary to "our national patent law and policy". The case is now on appeal in the Second Circuit.

*Painton v. Bourns* has stirred up a tempest of alarm which I hope the appellate court will dissipate. The Second Circuit may dispose of the issue as a question of interpretation of the contract pursuant to California law, the forum prescribed by the agreement. My reading of the terms of the contract persuades me that Bourns is right in contending that Painton had a mere license to use the Bourns trade secrets on payment of royalties and that the termination of the license ended the licensee's right to use the secret information. The District Court held to the contrary on a rationale which misinterprets the majority Supreme Court holding in *Lear v. Adkins* and gives the dissenting dictum of Justice Black the weight that is only warranted by a Supreme Court decision precedent. This injection of a misreading of the public policy of our patent laws led the District Court to rule that Painton could use Bourns' trade secrets as long as it desired and that the termination of the contract only terminated the royalty payments. For reasons I have already discussed with respect to the Justice Black dictum, I consider the District Court's reasoning completely untenable.

The PTC Research Institute conducted empirical studies relating to trade secrets. Several surveys showed that there has been increased reliance by American companies on trade secrets.[65] Other surveys revealed that trade secrets or secret know-how from American companies was sought more often by prospective foreign licensees than patents or trademarks.[66] Often the principal asset the licensees want is know-how.

The Rule of Reason ancillary restraints doctrine gives promise of continued federal and state court sanctioning of limitations ancillary to valid trade secrets without impairment of antitrust enforcement against restraints of an illegal *per se* nature or those which, taking in to consideration all of the relevant circumstances, are non-ancillary and unreasonable. That approach also maps out the road to a proper accommodation of trade secret and unfair competition doctrines to patent policy.

In conclusion I recapitulate three fundamentals for accommodation of patent public policy and antitrust policy related to license limitations:

First, preserve to the patentee the full reward to which the exclusive rights of the patent grant entitle him within the scope of the claims of his patented invention.

Second, apply the antitrust laws *only* when there is proof of plus antitrust elements arising from restraints beyond the exclusivity bounds of the patent grant.

Third, reject the fallacy that federal patent policy preempts licensing for royalties of trade secret or secret know-how and continue to protect valid secret proprietary information pursuant to long-established federal and state judicial precedents.

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[1]Oppenheim, Patents and Antitrust: Peaceful Coexistence?, 54 Mich. L. Rev. 199 (1954) See also Oppenheim, A New Approach to Evaluation of the American Patent System, 33 J.Pat.Off. Soc. 551 (1951).

[2]See Cardozo, The Nature of the Judicial Process (1921). The interaction of the judicial and legislative process in a cognate area is depicted in my paper on The Judicial Process in Unfair Competition Law, 2 Idea 116 (1958) (Conference Number).

[3]Elman, "Petrified Opinions" and Competitive Realities, 66 Col.L. Rev. 625 (1966).

[4]*Lear, Inc. v. Adkins,* 395 U.S. 653 (1969).

[5]For collection of cases and commentaries on the American Patent System and Patent-Antitrust Issues (See Oppenheim and Weston, Federal Antitrust Laws Ch. 13, Third Edition (1968) (1970 Supplement); Nordhaus & Jurow, Patent Antitrust Law (1961).

Recent surveys are Wood, Patents, Antitrust and Prima Facie Attitudes, 50 Va. L. Rev. 571 (1964); Symposium on Patents, Know-how and Antitrust, 28 U. Pitt. L. Rev. 147 (1966); Patents and Antitrust (Analyses), BNA Antitrust and Trade Regulation Today, 131-165 (1967); Kadish, Patents and Antitrust Guides and Caveats, 13 Idea 83 (1969).

For other earlier surveys of the case law, see Report of the Attorney General's National Committee to Study the Antitrust Laws, Ch. 5 (1955); Antitrust Problems in the Exploitation of Patents, Staff Report to Subcommittee No. 5, Committee on the Judiciary, House of Representatives (1956). For a challenging conceptual approach, see Harris & Siegel, Positive Competition and the Patent System, 3 Idea 21 (1959).

The PTC Research Institute has conducted empirical studies on industrial property licensing: Behrman, U.S. Companies as Licensees Under Foreign-Owned Patents, Trademarks and Know-how, 5 Idea 16 (1961); Bangs, Use of Industrial Property in Foreign Countries, 13 Idea 553 (1970); Lightman, Company Patterns in U.S. Foreign Licensing, 14 Idea 1 (1970); Oppenheim and Scott, Empirical Study of Limitations in Domestic Patent and Know-how Licensing (First Report), 14 Idea 193 (1970); Second Report, 14 Idea 123 (Conference Issue) (1970). See also *infra* notes 65, 66.

[6]Report at 224-225. After stating that "Reconciliation of the inventor's private rewards with the public interest in promotion of technological progress has often been stressed by the Supreme Court," the Report continues:

> "The private reward of the patent grant aims to achieve its public purpose in a number of ways. Prominent among these is the encouragement of the early disclosure of patentable inventions — and their ultimate availability to the public upon expiration of the patent. The offer of patent protection thus serves to head off the secrecy that might otherwise blanket the use of the invention. Second, the patent system seeks to achieve its public purpose by encouraging investment of risk capital. This is accomplished by affording a market within which the patent owner can invest and induce others to invest without fear of competition. New products and processes have always entailed substantial investment at considerable risk. In recent years the expenditures required to this end have increased. By protecting such investment — and thereby encouraging new technologies — the patent seeks to increase competition by what is superficially an inconsistent grant of monopoly, but is in fact a mechanism intended to assure competition in invention."

[7]The report was transmitted to the President on November 17, 1966. The Commission was established on April 8, 1965.

[8]The Staff Report to the House Subcommittee No. 5, op. cit. supra note 5, as of 1957 concluded that:

> The present statutory scheme and judicial climate afford ample means for preserving the rights of patent owners in the legitimate exploitation of their property, while at the same time correcting patent abuse and safeguarding competitive opportunity.

[9]See addresses cited *infra* note 10.

[10] McLaren, Patent Licenses and Antitrust Considerations, 13 Idea 6 (Conference Number, 1969); McLaren, Recent Cases, Current Enforcement Views, and Possible New Antitrust Legislation, 38 ABA Antitrust L.J. 211 at 212 (1969). Wilson, Patents and Antitrust, the Legitimate Bounds of the Lawful Monopoly, address before the Patent Law Association of Pittsburgh, November 19, 1969 (mimeographed); Donnem, The Antitrust Attack Upon Restrictive Patent Licenses, 49 Mich. State Bar Journal 36 (1970); Stern, The Antitrust Laws and Restrictive Patent License Provisions, address before Patent Office Academy, United States Patent Office, April 20, 1970 (mimeographed); Stern, The Antitrust Laws and Restrictive Field Provisions in Patent Licenses, address before the Licensing Executives Society Workshop, October 15, 1970 (mimeographed). For similar official views of a former head of the Antitrust Division, Donald F. Turner, see Antitrust Enforcement Policy, 29 ABA Antitrust L.J. 187 at 188 (1965); Patents, Antitrust and Innovation, 26 U.Pitt.L.Rev. 151 (1966); 10 Idea 32 (1966) (Conference Number).

[11] McLaren, Patent Licenses and Antitrust Considerations, *supra*, note 10 at 63.

[12] *United States v. General Electric Co.*, 272 U.S. 476 at 490 (1926).

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

[14] *Carbide Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931); Leitch Mfg. Co. v. Barker, 302 U.S. 458 (1938); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); *B.B. Chemical Co. v. Ellis*, 314 U.S. 495 (1942).

[15] Illustrative of patent misuse are the cases, cited *supra*, notes 13 and 14, where the patentee-licensor uses his patent to control unpatented subject matter outside the scope of the invention described in the claims of the patent. Also outside the metes and bounds of the patent grant are attempts by the patentee to control the resale price of a patented article after a first sale *authorized* by the patent license and from which the patentee already received the reward the patent law secured to him. Such extra-patent control may constitute both patent misuse and antitrust violation. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940); *United States v. Univis Lens Co.*, 316 U.S. 241 (1942).

[16] The Genesis of American Patent and Copyright Law (1967), by Professor Bruce W. Bugbee, is the leading scholarly account of the colonial background leading to the Constitutional provision on patents and copyrights. That provision was unanimously adopted by the Constitutional Convention with no recorded debate.

Professor Bugbee states: "Clearly the legal safeguarding of an originator's rights in his inventions, writings, or other discoveries was a fundamental principle upon which the delegates were in complete agreement" (p.2) Professor Bugbee further observes: "Like many other Constitutional provisions, the unanimously approved 'intellectual property' clause was neither accidental nor unprecedented; along with the legislation of 1790 which it authorized, it was in large part the product of colonial and early state experience." (p.3).

It is interesting to note that Professor Bugbee prefers the term "inventive property" to denote the creative aspect of inventing. He points out that the term "industrial property" stresses the commercial rights in an invention.

[17] Mr. McLaren has also said: "A patentee may decline to issue any licenses at all." *Supra* note 10, 13 Idea at 64. The courts have recognized this refusal to license. In *Sylvania Industrial Corp. v. Visking Corp.*, 132 F.2d 947 at 958 (4th Cir. 1943), the Court said:

> It is the right of a patentee to withhold licenses if he sees fit to do so and to confine his patented methods to the manufacture of his own goods . . . Any advantage accruing from this practice is not unlawful, but is attributable to the monopoly conferred by the patent statute.

[18] For a depth analysis, see Powell, The Nature of a Patent Right, Col. Rev. 663 (1917).

[19] The Attorney General's Antitrust Committee's Report, *supra*, at p. 225 summed up the public interest objectives in the transferability of the property rights of the patentee:

> It is now well settled, in the words of the Patent Code, other property it achieves its social and economic purpose by its transferability as well as by its existence. The statutes have accordingly long provided that the whole of the patent right may be transferred by assignment, and the right transferred as to a specified part of the United States by a grant. Similarly, less than the whole of the patent right may be transffrred by license, which may be express or by implication. The rights of transfer may serve directly to adapt private interest to the public purpose of elevating our national standard of living through technological progresseeee and increased productivity.

Justice Holmes has said: " A patent is property carried to the highest degree of abstraction — a right in rem to exclude, without a physical object or content". Holmes-Pollock Letters at 53 (1941).

[20] A patent grant "carries, of course, the right to be free from competition in the practice of the invention." Justice Douglas' opinion for the Court in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 at 665 (1944).

Justice Douglas also recognized that the patent laws limit the scope of antitrust enforcement:

> The patent laws which give a 17-year monopoly on 'making, using, or selling the invention' are *in pari material* with the antitrust laws and modify them *pro tanto*. This was the *ratio decidendi* of the *General Electric* case. See 272 U.S. at 485. We decline the invitation to extend it. *Simpson v. Union Oil Co.*, 377 U.S. 13 (1964).

Since the 1890 Sherman Act was enacted one hundred years after the first United States Patent Act, Justice Douglas' observations, *supra*, coming from a Justice who is noted as an antitrust stalwart, should remind the Antitrust Division officials that the patent laws cut down the scope of the antitrust laws rather than viewing the patent laws as merely an exception to antitrust policy.

[21] See Attorney General's Antitrust Committee Report at 254 (1955).

[22] *Columbus Automotive Corp. v. Oldberg Mfg. Co.*, 264 F.Supp. 779, 793 (D.Col. 1967); *Laitram Corp. v. King Crab, Inc.*, 245 F. Supp. 1019, 1020 (D.Alaska, 1965); *Berlanbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782 (9th Cir. 1964); *Baldwin-Lima-Hamilton Co. v. Tatnall*, 228 F.2d 395 (3d Cir. 1959); *Waco-Porter Corp. v. Tubular Structures Corp.*, 222 F.Supp. 332, 336 (S.D.Cal. 1963).

[23] See cases cited *infra* note 25.

[24] See *Ethyl Gasoline* and *Univis Lens* cases, cited supra note 15.

[25] *United States v. Masonite Corp.*, 316 U.S. 265 (1942); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945); *United States v. National Lead Co.*, 332 U.S. 319 (1947); *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948); *United States v. General Electric Co.*, 80 F. Supp. 989 (S.D.N.Y. 1948) (*Carboloy* case).

[26] As of 1955 my article, cited *supra*, note 1, indicated the borderline issues which existed at that time and some of which still need clarification.

[27] See *infra* notes 31-34.

[28] See *infra* notes 39-42.

[29] *Wilson, supra* note 10.

[30] The PTC Research Institute Empirical Study, by Oppenheim and Scott, *supra*, note 5, revealed that only 28 percent (74 of 108 respondents) stated they never engage in field of use licensing. The reasons for use of this type of license restriction yielded a variety of explanations. See 14 Idea, note 5, *supra* at 145.

[31] Mr. McLaren has stated the Antitrust Division's position on field of use licensing as follows:

> . . .there may be some justification for a patentee reserving for himself a well-defined field out of the various potential applications for his invention. On the other hand, it is difficult to see how justification can be shown for the type of restriction which divides fields of use among licensees who otherwise would compete. Such restrictions in effect grant a submonopoly to each of the licensees, and all competition among those who would be likely competitors is eliminated. In due course, I expect that we will bring a case directly challenging restrictions of this type.
>
> Some of those who seek to justify all field-of-use restrictions may point out that such restraints are likely to arise where there is a substantial disparity in the value of the invention as applied in various non-competing end uses. A patentee, if he is to gain a maximum royalty, will try to charge different royalties depending on the market served. Royalty discrimination, it is argued, is inherent in the lawful patent monopoly and depends for its success on field-of-use restrictions. However, it is not necessary to eliminate, by contractual restriction, all competition between licensees, in order to achieve maximum royalties from various end-use

applications. In some circumstances, the patentee may be able to maximize his return by, for example, establishing different royalty rates for the various uses and then offering to license freely throughout the range of application. McLaren, Patent Licenses and Antitrust Considerations, *supra* note 10 at 63-64.

Mr. Wilson, Special Assistant to Mr. McLaren, has observed:

> With respect to field-of-use restrictions, I initially should make one thing clear. We see no difference between a license which contains a positive prohibition against sales in particular fields and one which merely grants a license limited to a particular field. Our investigations have shown that the *effect* of these two types of provisions is precisely the same. The licensee in fact sells only in the fields of which he is licensed. We are not willing to permit the form of the agreement to take precedence over its substance.

Wilson, Patents and Antitrust, *supra* note 10. See also Donnem, *supra* note 10 at 37-39.

[32]The two addresses of Mr. Stern, to which my discussion refers, are cited *supra*, note 10.

[33]*General Talking Pictures Corp. v. Western Electic Co.*, 305 U.S. 124 (1938).

[34]Subsequent to the *General Talking Pictures* case, the courts have continued to uphold field of use restrictions in patent licenses, except in particular circumstances where they have been used as the cover for industry-wide cartel arrangements, or have adversely affected competition in unpatented goods, or have involved attempts to restrict the use of products that have been sold in ordinary channels of trade. For decisions holding field of use restrictions in patent licenses valid, see *Automatic Radio Mfg. Co. v. Hazeltine Research*, 176 F.2d 799 (1st Cir. 1959), *sgg'd aff'd on other grounds* 339 U.S. 827 (1950); *Hazeltine Research v. Admiral Corp.*, 183 F.2d.953 (7th Cir. 1950), *cert. denied* 340 U.S. 896 (1950); *Sperry Products v. Aluminum Co. of America*. 171 F.Supp. 901 (N.D.Ohio 1959); *Eversharp, Inc. v. Fisher Pen Co.*, 204 F.Supp. 649 (N.D. Ill. 1961); *Chemagro Corp. v. Universal Chemical Co.*, 244 F. Supp. 486 (E.D. Texas 1964); *Benger Laboratories, Ltd, v. R. K. Laros Co.*, 209 F. Supp. 639 (E.D.Pa. 1963), *aff'd per curiam* 317 F.2d 455 (3d. Cir. 1963), *cert. denied* 375 U.S. 833 (1963); *Barr Rubber Products Co. v. Sun Rubber Co.*, 277 F. Supp. 484 (S.D.N.Y. 1967); *Good Humor Corp. v. Popsicle Corp.*, 59 F.2d 344 (1932), *aff'd* 66 F.2d 659 (3d Cir. 1933); *Westinghouse Electric Corp. v. Bulldog Electric Products Co.*, 106 F.Supp. 819 (D.W. Va. 1952), *aff'd on other grounds* 206 F.2d 574 (4th Cir. 1953), *cert. denied* 346 U.S.909 (1953).

[35]*Rail-Trailer Co. v. ACF Industries, Inc.*, 358 F.2d 15 (7th Cir. 1966), where the court said that "without more" an exclusive license "does not constitute an illegal restraint of trade."

[36]As the Attorney General's Antitrust Committee Report stated at 241:

> In general, a patent license, valid when standing alone, does not become invalid because other licenses are granted. Illegality would attach only through a finding equivalent to a conspiracy among the licensees. However, the presence of a multiplicity of patent licenses with restrictions may indicate something more than the repeated individual grant of proper licenses. Thus a showing of joint effots of the licensees to find patents under which all can be licensed subject, for example, to identical price fixing provisions — or a showing that the licensees gathered at meetings to discuss price fixing licenses — goes far to show illicit horizontal agreement between licensees. Such agreement has been properly held to be outside the range of proper license activity and to be contrary to the antitrust laws.
>
> In short, to the extent that such licenses are entered into as individual licenses, and are legal as such, they may stand. To the extent that they involve horizontal agreement between the licensees, antitrust violation follows:

For examples of horizontal agreements beyond the scope of individual patent rights and involving the plus elements of antitrust violation, see cases cited *supra* note 25.

[37]*Supra* note 15.

[38]*Supra* notes 13, 14.

[39]*Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947). The Attorney General's Committee's Antitrust Report at 227 (1955) defines a grant-back in these terms:

> Grant back covenants, sometimes included in patent licenses, provide for license or assignment to the licensor of any improvement patented by the licensee in the products or processes of the licensed patent.

[40]*Stokes & Smith Co. v. Transparent-Wrap Machine Corp.* 161 F.2d 565 (2d Cir. 1947), *cert. denied* 331 U.S. 837 (1947).

[41]14 Idea at 139-142, study cited *supra* note 5. Improvement patents are the most common type of patents covered by grant-back provisions (about 60 percent reported by respondents to the questionnaire). The reasons for requiring grant-back commitments are summarized at 141-142.

[42]The lower federal courts have generally sustained grants-back, including assignment grants-gack, absent proof of a conspiracy to restrain or monopolize interstate trade: *Modern Art Printing Co. v. Skeels*, 123 F. Supp. 426 (D.N.J. 1954), *rev'd on other grounds 223 F.2d 719 (3d Cir. 1955) (assignment); United States v. Birdsboro Steel Foundry & Machine Co.*, 139 F.Supp. 224 (W.D.Pa. 1956) (assignment); *International Nickel Co. v. Ford Motor Co.*, 166 F.Supp. 551 (S.D.N.Y. 1958); *Sperry Products, Inc. v. Aluminum Co. of America*, 171 F.Supp. 901 (N.D. Ohio 1959), *aff'd* 285 F.2d 911 (6th Cir. 1960) (assignment); *Zajicek v. Koolvent Metal Awning Corp. of America*, 283 F.2d 127 (9th Cir. 1960) (assignment); *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F.2d. 252 (7th Cir. 1960), *cert dismissed*. 366 U.S. 211 (1961) (nonexclusive with right to sublicense); *B & M Corp. v. Miller*, 150 F.Supp. 942 (W.D. Ky. 1967) (not clear whether assignment or license back); *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550 (S.D.N.Y. 1967)(license back).

[43]*United States v. General Electric Co.*, 272 U.S. 426 (1926).

[44]14 Idea at 137-139, study cited *supra* note 5.

[45]The following holdings have narrowed the permissive use of a first sale price restriction ancillary to the patent license: a patentee cannot fix the price charged by his licensee if only part of the product involved is covered by the patent, *United States v. General Electric Co.*, 80 F.Supp. 789 at 1004-1005 (S.D.N.Y. 1948); if his patent covers the process and machine used in producing the product but not the product itself, *Barber-Colman Co. v. National Tube Co.*, 136 F.2d 339 (6th Cir. 1943); the patent owner may not fix the price when he issues more than one license, *Newburgh Morie Co. v. Superior Moire Co.*, 237 F.2d 283 (3d Cir. 1956); a licensee price cannot be fixed by patent owners participating in a cross-licensing arrangement, *United States v. Line Material Co.*, 333 U.S. 287 (1948).

It is well known that the Antitrust Division came close to achieving an overruling of the first sale price restriction in *Line Material, supra*, and *Untied States v. Huck Mfg. Co.*, 382 U.S. 197(1965), where a divided Court affirmed without opinion the District Court's dismissal of the government's charges of a conspiracy in violation of Sections 1 and 2 of the Sherman Act. Huck has granted Townsend, the sole licensee, a license to make and sell patented devices covered by the Huck patents. The agreement provided that Townsend was to maintain at least Huck's prices on the licensed products. The District Court held that the evidence in all material respects made controlling the 1926 General Electric decision.

The General Electric sanction apparently would not apply to a sole licensee who does not manufacture in competition with the patentee-licensor. See *Royal Industries v. St. Regis Paper Co.*, 420 F.2d. 449 (9th Cir. 1969).

The Antitrust Division has declared its intention to continue to seek an overruling of the first sale price restriction sanctioned in the 1926 General Electric decision. McLaren, *supra* note 10; Donnem, *supra* note 10.

[46]Donnem, *supra* note 10 at 40. The same view was expressed by a former head of the Antitrust Division. Turner, Patents, Antitrust and Innovation, 28 U.Pitt.L.Rev. 151 (1966).

[47]*Rubber Tire Wheel Co. v. Milwaukee Rubber Wheel Co.*, 154 F. 358 (7th Cir. 1907); *Q-Tips, Inc. v. Johnson & Johnson*, 109 F. Supp. 657 (D.N.J. 1951), *aff'd* 207 F.2d 509 (3d Cir. 1953), *cert. denied* 347 U.S. 935 (1954); *Williams v. Hughes Tool Co.*, 186 F.2d 278 (10th Cir. 1950); *United States v. E. I. DuPont de Nemours & Co.*, 118 F. Supp. 41 at 224-226 (D. Del. 1953), *aff'd on other grounds* 351 U.S. 377 (1956), where the Court said: "The cases are to the effect [that] owner of a valid product patent may by license restrict production of the licensee to a specified quantity, at a specified place."

The PTC Research Institute empirical study, *supra* note 5 at 150 revealed that 76 percent of the respondents said they never limit the licensee's production.

[48]Donnem, *supra*, note 10 at 39.

[49]At 237. The PTC Research Institute empirical study, *supra* note 5, at 148 showed that nearly 70 percent of the questionnaire respondents said they never use territorial restrictions.

[50]*United States v. Crown Zellerback Corp.*, 141 F. Supp. 118, 127 (N.D. Ill. 1956); *Deering Milliken & Co. v. Temp-Resisto Corp., 160 F. Supp. 463 (S.D.N.Y. 1958).*

[51]There is need for carefully distinguishing the situations where there is a *first authorized sale* of a patented article which "exhausts" the patent monopoly and situations where a patent license restriction, such as in the *General Talking Pictures* case, is violated by a sale of a patented article unauthorized by the license. In that event it is erroneous to contend that antitrust principles override the license restriction and therefore calls for the application of the rule that the purchaser may resell or use the article as he pleases and also determine the resale price of the patented article. This confusion still persists by reason of the failure to confine the rule against restrictions on pruchasers to cases where there is inception of a lawful first sale. There is an area of uncertainty where the purchaser acts in good faith and pays value without notice of the license restriction. No court has been called upon to decide that narrow question.

[52]*United States v. Besser Mfg. Co.*, 96 F.Supp. 304 (E.D. Mich. 1951), *aff'd* 343 U.S. 444 (1952); *United States v. Krasnov*, 143 F. Supp. 484 (E.D. Pa. 1956), *aff'd per curiam* 355 U.S. 5 (1957); *McCullough Tool Co. v. Wells Surveys, Inc.*, 343 F.2d 381 (10th Cir. 1965), *cert. denied* 383 U.S. 933 (1966).

[53]*Lear, Inc. v. Adkins* 395 U.S. 653 (1969).

[54]McLaren, Competition in the Foreign Commerce of the United States, address before a symposium at the Marshall-Wythe School of Law, College of William and Mary, Williamsburg, Virginia, October 16, 1970. My article on Foreign Commerce Under the Sherman Act - Points and Implications of the Timken Case, 42 Trade-Mark Rep. 3 at 20 (1942) stated a like Rule of Reason approach:

> In respects similar to, but not necessarily identical with, patent rights, restrictions accompanying transactions in secret information should be regarded as lawful when they are reasonably ancillary to a main lawful purpose within the ambit of the confidential disclosure.

[55]For cases and comments on trade secrets, see Oppenheim, Unfair Trade Practices, 229-279 (2d ed. 1965) (1969 Supp.). Comprehensive texts are Turner, The Law of Trade Secrets (1962), and Callmann, Unfair Competition, Trademarks and Monopolies, Ch. 14 (3d ed. 1968). See also Trade Secrets: Report of an Institute Clinic, 14 Idea 212 (1970); Harris & Siegel, Trade Secrets in the Context of Positive Competition, 10 Idea 297 (1966).

[56]Restatement, Torts, Section 757, states the general principles: *Liability for disclosure or use of another's trade secret — general principle.*

"One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if
(a) he discovered the secret by improper means, or
(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
(d) he learned the secret with notice of the facts that it was a secret that its disclosure was made to him by mistake."

[57]*Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.* 376 U.S. 234 (1964). See Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy, 80 Harv. L.Rev. 432 (1967).

On March 19, 1971 Senator Scott reintroduced in the 92nd Congress, 1st Session, a proposed Amendment No. 23, to S.643, which is intended to counteract the preemptive effect of The Black dictum in *Lear v. Adkins* and in *Sears* and *Compco, supra.* The Amendment reads as follows:

§301. *Preservation of other rights*

This title shall not be construed to preempt, or otherwise affect in any manner, rights or obligations not expressly asising by operation of this title whether arising by operation of State or Federal law of contracts, of confidential or proprietary information, of trade secrets, of unfair competition, or of other nature.

[58]As early as 1889 the Supreme Court recognized the enforceability of a trade secret license. *Dr. Miles Medical Co. V. Park & Sons Co.*, 220 U.S. 373 (1911). Since then Circuit Court of Appeals have not questioned trade secret licenses See *Foundry Services, Inc. v. Beneflux Corp.*, 206 F.2d 214 (2nd Cir. 1953); *Formulabs Inc. v. Hartley Pen Co.*, 275 F.2d 52 (9th Cir. 1950) *cert. denied* 363 U.S. 830 (1960); *Imperial Chemical Industries Ltd. v. National Distillers & Chemical Corp.*, 342 F.2d 737 (2nd Cir. 1965), modified 354 F.2d 459 (2nd Cir. 1965).

[59]Congress has enacted various laws which prohibit disclosure or publication of trade secrets. Illustrative are the Freedom of Information Act, 5 U.S.C. §552(b)(4), Supp. IV. (1969); the Federal Trade Commission Act, 15 U.S.C. §46(f) (1964); the Securities and Exchange Act of 1934, 15 U.S.C. §78x (a) (1964).

[60]18 U.S.C. §1905 (1964).

[61]26 U.S.C. §2314-2315 (1964) Congress has more specifically recognized that trade secrets may be licensed by providing tax treatment for rentals and royalties secured from licenses of "secret processes and formulas." 26 U.S.C. §861(a)(4); 862(a)(4) (1964(.

[62]See Handler, Some Comments on Selected Current Rulings and the Burning Issues of the Day, 38 ABA Antitrust L.J., No. 4, 574 at 578, footnote 23 (1969).

[63]See my comments in Unfair Trade Practices Relating to Industrial-Intellectual Property, 14 Idea 384 at 459-461 (1970), PTC Research Institute Clinic. See also, Harold F. Baker, Monopoly Concept of Trade Marks and Trade Names and "Free Ride" Theory of Unfair Competition, 17 Geor.Wash.L.Rev. 112 (1948).

[64]*Painton & Co., Ltd. v. Bourns, Inc.*, 309 F.Supp. 271 (S.D.N.Y. 1970).

[65]Harris & Siegel, Protection of Trade Secrets: Initial Report, 8 Idea 360 (1964); Harris & Siegel, Trade Secrets in the Context of Positive Competition, 10 Idea 297 (1966); Harris & Siegel, Patents and Trade Secrets: Instruments of Positive Competition, 12 Idea 631 (1968).

[66]Behrman, Licensing Abroad Under Patents, Trademarks and Know-How by United States Companies, 2 Idea 181 (1958); Behrman & Schmidt, Royalty Provisions in Foreign Licensing Contracts, 3 Idea 272 (1959); Behrman & Schmidt, New Data on Foreign Licensing, 3 Idea 357 (1959); Behrman, Foreign Licensing Investment and Economic Policy, 4 Idea 150 (1960).

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