Antitrust Issues Can Arise When Sublicensing

BY JULIE ANNE SCHWARTZ*

The good and the bad of sublicensing; what it is and where the trouble spots are

In his *Commentaries on the Laws of England*, Sir William Blackstone defined property as: "That sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe."[1] Likewise, U.S. patent owners, via the Patent Act, are blessed with "sole and despotic" dominion over their inventions and have the power to exclude others from making, using or selling or offering for sale the fruits of their intellectual endeavors throughout the U.S. for a limited period of time.[2]

If an inventor goes to the trouble of securing a patent, why then would he want to sublicense his invention? This paper will not only answer that question, but it will also attempt to define the term "sublicense" and outline some of the antitrust problems that can arise when a patented product is sublicensed. Finally, this essay will also consider whether there will be any antitrust implications in current sublicensing arrangements as a result of the patent term's extension to 20 years. Before discussing the advantages and disadvantages of sublicensing, however, it is important to define the term "sublicense."

WHAT IS A SUBLICENSE?

Despite the declaration of Judge Learned Hand that "there is no mystery in the term, 'sub-license,' " case law reveals that it hasn't always been clear when an agreement could be characterized as a sublicense.[3]

The word's etymology provides a good starting point for unraveling its meaning. "Sub" translates from the Latin as under or upon.[4] Not only does this root aptly describe the nexus between the master license and the sublicense, but it also clearly depicts the relationship of the sublicensee to the licensee.

Hence, a "sublicense" is a license that is under or below the master license. In other words, it is a license granted to someone else for something that you yourself are licensing. The sublicense's terms are circumscribed by those explicitly granted in the principal license. The rights can be as extensive or more limited than those granted in the master license. For example, a sublicensing agreement may specify to whom, where and for what purposes a licensee may sublicense. More specifically, the licensee may be granted the right to sublicense only its affiliates, or to sublicense only in particular territories and/or specifically for manufacturing purposes.

At the same time, the party beneath or below the licensee that is two, or even more, steps below, or removed from the patent owner, is the "sublicensee."[5]

Furthermore, sublicenses, like licenses in general, immunize licensees and sublicensees from a tort of trespass. Just as a land owner gives others permission to do an act or acts on his/her property that, absent authorization, would be regarded as trespass, when a patent owner grants a license, he/she is guaranteeing the licensees that he/she will not sue them for patent infringement.[6] As Judge Hand so succinctly put it when he defined a sublicense in *Simmen Automatic Railway Signal Co. v General Railway Signal Co.*: "If the licensee is not an assignee and the defendant was not one, he has merely an excuse for what otherwise would be a tort."[7]

It is important to note that an agreement may have all the characteristics of a sublicense without being labeled as such. As early as 1934, a Second Circuit court found that an agreement, though not expressly called a sublicense, was in substance a sublicense.[8] In this case, the Plaintiff, Simmen Automatic Railway Signal Company, sued the General Railway Signal Company for specific enforcement of a contract. According to the terms of their contract, the patent licensee and Defendant General Railway Signal Company was given express permission to grant sublicenses with the consent of Simmen. In 1927, General Railway granted a license to the Union Switch and Signal Company and with Simmen's approval.[9] Though this contract between General Railway and Union Switch was not expressly designated a sublicense, the Court ruled that because the Defendant had been given a specific power to sublicense and that because General Railway was clearly not an assignee, the agreement was indeed such an arrangement.[10]

1. Sir William Blackstone, Commentaries on the Laws of England, 12th ed., 4 vols. (London, 1793-95), 2:2.
2. 35 U.S.C. s 154.
3. *Simmen Automatic Railway Signal Co. v. General Railway Signal Co.*, 72 F. 2d 232, 233 (2d Cir. 1934).
4. Black's Law Dictionary 106 (6th ed. 1990).
5. Ian Cooke et al., Introduction to Innovation and Technology Transfer (1996).
6. John W. Bruce et al., The Law of Easements and Licenses in Land s. 1.03 (rev. ed. 1995).
7. 72 F. 2d at 232.
8. *Id.* at 233.
9. *Id.* at 233.
10. *Id.* at 232.

*LES Fellowship recipient, Franklin Pierce Law Center, Concord, New Hampshire.

At various times and in myriad factual situations, courts have determined that have-made clauses, a resale agreement, an exclusive distributorship agreement, a franchise agreement and an incident of name misuse are not sublicenses. On the other hand, in one case, a toll conversion/sale-back arrangement was found to have all the features of a sublicense.

For example, in *Southwire Co. v. United States International Trade Commission*, a patent licensee's ordering of equipment from a third-party was found to be an exercise of the licensee's rights under a "have-made" clause of its licenses. It was not a grant of a sublicense to the third party or someone else besides the licensee. On behalf of Southwire, the U.S. International Trade Commission argued that Western, ATT and Nassau (collectively "Bell") had violated prohibitions of a 1956 consent decree. Southwire alleged that Bell had breached Section X(G) (3) of the consent decree prohibiting Bell from "granting or receiving any right to grant sublicenses under patents" except to associated companies. Relying on the reasoning of the Court of Claims, the Court determined that Bell did not authorize the third-party (Krupp) to make the equipment for, or sell it to anyone other than Bell. Therefore, Bell hadn't granted a sublicense and hadn't violated the decree's prohibition.[11]

Likewise, in *Cyrix Corporation v. Intel*, the licensor brought suit against its licensee, alleging a breach of the license agreement's prohibition against sublicensing. The District Court held that the arrangement under which the licensee had microprocessor chips, covered by a license, manufactured by its Italian affiliate, shipped to the United States and then later sent to an Italian customer of the licensee, to be a legitimate use of the licensee's rights to have licensed product made for it. ST was selling wafers and not selling or receiving payment for the use of its license from Intel. It hadn't authorized ST-Italy to make the wafers or sell them for anyone other than ST. The production of the wafers was for the use of the original licensee, ST, and not for ST-Italy.[12]

Licensee ST claimed that this arrangement was a valid exercise of have-made rights under the license agreement. Intel argued, however, that ST exceeded its have-made rights under the license agreement. Intel said that the prohibition against sublicensing contained in the license agreement, in addition to the nonexclusive nature of the license, limits ST's have-made rights. In essence, Intel took the position that any exercise by ST of its have-made rights — by having a third party manufacture a licensed product that it then sells to customers is impermissible because of the prohibition against sublicensing in the licensing agreement.

Furthermore, according to Intel, the transactions between ST and Cyrix and ST and ST-Italy for the manufacture of these wafers was merely a front. In other words, Cyrix was buying the wafers directly from ST-Italy and that ST-Italy was not producing wafers for ST, the original licensee, but for its own use. Intel further argued that ST was acting as a broker and that the transaction paperwork for the manufacture of the wafers was passed through ST solely to evade the prohibition against sublicensing contained in the license agreement. Intel assumed that the manufacturing arrangement between ST and ST-Italy was prohibited under the controlling Delaware law as set forth by the Delaware Supreme Court in *E. I. du Pont de Nemours & Co. v. Shell Oil Co.*, 498 A. 2d 1108 (Del. 1985). More specifically, Intel believed that the agreement between ST and ST-Italy was almost exactly like the manufacturing agreement between Shell Oil Company and E. I. du Pont. The Court, however, disagreed and identified eight key differences.[13]

An exclusive distributorship agreement didn't qualify as a sublicense in *Unidisco, Inc. v. Schattner*.[14] The specific facts of this case held that an exclusive distributorship was not a sublicensee. There is contrary authority, however, which holds that the activities of a distributorship are consistent with a license to sell.

In another case, requirements to make payments according to a franchise agreement between a licensee and franchise-holder was not deemed a sublicense. For the consideration of being granted an exclusive franchise over a certain territory, the franchise-holder agreed to guarantee the patent licensor that the patented wood impregnation process would be used by the sublicensees so that the agreement's minimum royalty requirements would be met. In the event the sublicenses failed to generate the minimum royalties, the franchise-holder would have to make up the difference. This payment wouldn't be made as royalties from a sublicense, but strictly as consideration for the exclusive franchise. Since the phrase sublicense was interpreted as including the right to use processes covered by the patent, if the sum was made for some other purpose or by some other person than a sublicense, the payment couldn't be characterized as a royalty due from a sublicense.[15]

In *Intel Corp. v. ULSI System Technology*,[16] an agreement between Hewlett-Packard (HP) and ULSI was found not to be a sublicense, but rather a contract for the manufacture and sale of chips. HP hadn't granted a sublicense, but only sold a product that was designed by its purchaser. The resale by the third party did not constitute a sublicense because HP did not empower ULSI to make Intel patented chips or to use or sell any such chips except those lawfully sold to it by HP. "These would have been the incidents of a sublicense."[17]

The Court relied on the reasoning of *Lisle Corp. v. Edwards*.[18] In *Lisle*, a licensed manufacturer sold products covered by the licensor's patent to a third party, which then

11. 629 F. 2d 1332, 207 U.S.P.Q. 189, 193 (Ct. Int'l Trade 1980).

12. 879 F. Supp. 666 (E.D. Texas 1995).

13. *Id.* at 671.

14. 824 F. 2d 965, 967 (Fed. Cir. 1987).

15. *Taco Corp. v. Hudson*, 99 S.E. 419, 423 (S.C. Sup. Ct. 1957).

16. 995 F. 2d 1566 (Fed.Cir. 1993).

17. *Id.* at 1569.

18. 777 F. 2d 693, 227 U.S.P.Q. 894 (Fed. Cir. 1985).

resold them under its trademark. The licensor, in turn, brought an infringement action against the licensee on the basis that the manufacture of the patented product for the third-party constituted a sublicense. Because such sublicensing was prohibited under the licensing agreement, the patent owner presumed that the products were infringing. The Court in *Lisle*, however, concluded that the licensee's sales were authorized and the resale by the third party failed to constitute a sublicense.

In *PH Group LTD. v. David L. Birch*, an instance of name misuse couldn't be characterized as a sublicense.[19] PH Group, (formerly known as Cognetics Europe, Ltd.) the licensee of computer software, brought an action against its licensor, Cognetics, Inc., for: fraud, breach of contract and breach of implied covenant of good faith and fair dealing.

The facts were as follows. David Birch developed computer software that analyzes Dun and Bradstreet databases for business consulting. In order to exploit his software in Europe, Birch and his associates founded Cognetics. The PH group was formed by others in order to develop a consulting business in Europe through the use of Cognetics software. PH and Cognetics negotiated a license agreement under which PH received the rights to use the Cognetics name and software in Europe. Cognetics, in turn, agreed to provide PH with both the Dun and Bradstreet European databases and the Cognetics software to analyze them.

Shortly after the signing of the agreement in January 1987, PH began doing business in Europe. Also, the same group that had founded PH incorporated Maven Systems, Ltd. (Maven). Maven was started so that individual owners of PH could pursue a consulting business in Europe without using Cognetics software. The agreement clearly allows for these activities.[20]

In its cross-appeal, Cognetics presented evidence that the Cognetics name had appeared on two separate Maven products and that these actions constituted a breach of their contractual sublicensing provision. However, evidence that the sublicensee misused the licensor's name on three separate occasions failed to conclusively demonstrate that the licensee had improperly sublicensed its rights.[21]

In order to prove a breach of section 2(b) of the licensing agreement, Cognetics would have to prove two things: (a) there existed a sublicensing agreement between PH and Maven, and (b) that the sublicensing was improper under section 2(b) or some other provision of the agreement. Sublicensing under 2(b) meant an agreement whereby PH grants a third party permission to use the Cognetics name in tandem with Cognetics software for ongoing commercial purposes.

Cognetics failed to demonstrate that any sublicensing had occurred because none of these conditions were met in the three alleged instances of misuse. Once, the Cognetics name appeared at the bottom of each page in a Maven slide presentation. On another occasion, the Cognetics name appeared on the first and last pages of a 43-page presentation. Most importantly, in both these cases, the products were made without the use of Cognetics software. In yet another instance, the Cognetics name was used in a product proposal, but as before, the final product contained neither the Cognetics name or software.[22]

In contrast with those cases, in *E. I. du Pont de Nemours & Co. v. Shell Oil Co.*,[23] the Court ruled that a toll conversion/sale-back agreement formed one contract and that the contract was indeed a sublicense. In order to determine whether the two agreements comprised a sublicense, the Court looked to the overall effect of the agreement rather than its precise label[24] and then applied the test of *Carey v. United States* to the instant case.[25]

In *Carey*, the U.S. had an exclusive license, including a right to sublicense for a patented process used to produce titanium. The U.S. then entered into a series of agreements that permitted certain producers to use the process to make titanium. The government claimed to be exercising its rights to sublicense, which entitled it to share royalties with the licensor. The licensor, however, claimed that the U.S. was only exercising its have-made rights under the license and, therefore, the licensors were entitled to all royalties.[26]

While trying to settle this dispute, the Court distinguished have-made rights from sublicenses. The *Carey* Court defined a have-made right as "production for the use of the licensee ... A licensee given the right to produce, use and sell might be interested in using the article or selling it. In order to use it, the article must be produced. To have it produced, his license permits him to engage others to do all the work connected with the production of the article." By comparison, a sublicensee produces for the original licensee. In other words, the test for a sublicense is whether the production is by or for the original licensee for the sublicensee or someone else.[27]

Applying the *Carey* test to the facts of the case at hand, the Court determined that the toll conversion/sale-back agreement amounted to a sublicense because Carbide was producing methomy1, not for Shell, but for itself. According to the Court, by "virtue of some neatly tailored drafting," Shell had become a middleman solely in order to bypass the prohibition against sublicensing.

Factors that the Court found irrelevant in determining whether there is a sublicense include custody, control and title in a licensing agreement. The Court stressed that the focus of the evaluation should be the relative rights of the parties rather than the indicia cited above.

19. 985 F. 2d 649 (Fed. Cir. 1993).
20. *Id.* at 649.
21. *Id.* at 652.
22. *Id.* at 653.
23. 498 A. 2d 1108 (Del. 1985).
24. *Waterman v. MacKenzie*, 138 U.S. 252, 256, 11 S. Ct. 334, 335 (1981); *Lindenberg v. First Federal Savings & Loan*, 691 F. 2d 974, 976 (11th Cir. 1982).
25. 326 F. 2d 975 (Ct. Cl. 1964).
26. *Id.* at 1115.
27 . *Id.*

THE ADVANTAGES AND DISADVANTAGES OF SUBLICENSING

Now that the term sublicense has been defined and discussed, we must consider both the advantages and disadvantages of sublicensing. By granting licensees the right to sublicense, a grantor can earn more money from the commercialization of his patented product or process. The licensor can increase his earning potential by requiring that the sublicensees remit a predetermined percentage of anywhere between 5% and 95% of the income from the sublicenses.

Or a licensor can require that the licensee pay on its direct sales and the sublicensee pay a somewhat higher royalty. The licensee would then be able to keep the difference between the two royalties.[28] Thus, such a sublicensing arrangement would benefit not only the licensor, but also the licensee. In short, it would give the licensee the opportunity to recover minimum royalty payments. As the National Director of KPMG Peat Marwick's biotechnology and life sciences practice explained when Genetic Therapy, Inc. received an exclusive license to a broad patent for *ex vivo* gene therapy: "Sublicensing agreements will serve as a revenue source for the company." Genetic Therapy planned to sublicense with pharmaceutical and biotechnology companies who want to develop gene therapy for specific indications or genes.[29]

Secondly, in a majority of cases, sublicensing from outside sources may satisfy the licensor's manufacturing or marketing needs. In still other cases, technology may be acquired solely for the sake of sublicensing it to others. For example, if a sublicensor has greater access to or has a superior distribution network than that of the technology's initial developer, the licensor might want a "stand-alone" venture. When the developer of the technology lacks critical technical and marketing resources to launch a successful marketing program, but does not want to give up its future rights to the technology, sublicensing may offer a constructive alternative. Finally, sublicensing may fulfill important business needs by increasing the application and sale of a mainline product. At one point, a textile machinery manufacturer acquired a dye and additive foam application technique for sublicensing. This arrangement allowed the machinery manufacturer to differentiate his product from others in the same field.[30]

Another unexpected advantage of sublicensing may also be its role as a preventive measure. Recently, sublicensing has been used as a "fix" by the Federal Trade Commission when the agency has detected antitrust problems in an innovation market. For example, in Wright Medical Technology, Inc., the FTC perceived that a seller's R&D would lead to new orthopedic finger implants potentially replacing a buyer's existing product. The buyer, however, was clearly the implant market leader. In order to preserve competition in the R&D for orthopedic implants to be used in the hand, the FTC wanted to maintain the two independent R&D tracks. The case involved a license with a right to sublicense in perpetuity and so agency insisted that the licensee, the Mayo Foundation for Medical Education and Research commercially sublicense the relevant R&D assets within six months. In this way, the FTC hoped to stimulate the competition that would lead to product innovation in the relevant market.[31]

Medical supply companies, biotechnology firms and computer software manufacturers regularly engage in sublicensing. In 1995, Hologic, Inc. and Lunar Corporation drafted a preliminary agreement that called for cross-licensing and sublicensing arrangements for devices known as bone densitometers, which are used in diagnosing osteoporosis.[32]

In that same year, Daltex Medical Sciences, Inc. sublicensed Arrow International Inc. and Beckton-Dickenson on a royalty-bearing basis with respect to certain applications of an antimicrobial technology. The sublicense would allow Beckton-Dickenson to receive the additional royalties Arrow agreed to pay Daltex based on the sales of antimicrobially treated venous catheters.[33] Roughly a year ago, Compuserve offered a sublicensing agreement on-line that requires other software vendors to pay a 1.5% royalty, or roughly 11 cents to Unisys and 4 cents to Compuserve, for every copy of their software sold. The technology — a software algorithm — is at the heart of a widely used format known as GIF (Graphics Interchange Format).[34]

There are also several serious disadvantages to sublicensing, however. Sometimes a licensor prefers not to grant sublicenses to use a product, even if the licensee agreed to guarantee the sublicensee's performance. More commonly, licensors refrain from giving a licensee the right to grant a sublicense to manufacture a product. For example, suppose a company that owns a patented manufacturing technology also has valuable unpatented technical information. This technical information is still used by the licensor outside the licensed territories. In this case, the licensor may not want to disclose the unpatented technical information to unknown sublicensees chosen by the licensee. Instead, the licensor may include an explicit ban on all sublicensing in his agreement with the licensee.[35]

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28. Robert Goldscheider, *The Negotiation of Royalties and other Sources of Income from Licensing*, 36 IDEA: J.L. & Tech. 1 (1995).

29. *Genetic Therapy Up 18% on Exclusive License for Patent*, Dow Jones News Service 3/21/95.

30. William M. Watkins, Business Aspects of Technology Transfer Marketing and Acquisition, 133 (Noyes Publications, 1990).

31. Bryan R. Dunlop, *A Practical Guide to Innovation Markets*, 9-Sum Antitrust 21, 26 (1995); Wright Medical Technology, Inc. FTC File No. 951-0015, 60 Fed. Reg. 18, 414 (Apr. 11, 1995).

32. *Hologic, Inc.: Initial Patent Settlement Reached With Lunar Corporation*, Wall Street Journal, 9/27/95.

33. *Daltex Medical Settles Patent Disputes*, Dow Jones News Service, June 27, 1995.

34. *Unisys Will Ease Efforts To Protect On-Line Software*, The Wall Street Journal, 1/9/95.

35. Most trademark licensing agreements prohibit a licensee from granting sublicenses so that the licensor may preserve quality control over the goods and services with which the mark is used. If a licensor were to grant a right to sublicense, the licensor wouldn't have the privity with the sublicensee to

THE ANTITRUST IMPLICATIONS OF SUBLICENSING

Despite the fact that the patent system grants an inventor a temporary monopoly, the U.S. patent laws and the federal antitrust laws are not at odds with one another. In fact, they are complementary because both were designed to foster innovation, industry and competition.[36] Back in 1907, J.B. Clark put it best when he explained that "if the patented article is something which society without a patent system would not have secured at all — the inventor's monopoly hurts nobody ... his gains consist in something which no one loses, even while he enjoys them."[37] However, just because there may be no inherent conflict between the patent and antitrust laws, does not mean that antitrust problems can't arise — particularly when a patent is being sublicensed.[38]

Unilateral Refusals to Deal

Antitrust implications may arise when a licensor unilaterally refuses to sublicense. However, a refusal to sublicense was found to be lawful in the case of *SCM v. Xerox*.[39] In this private antitrust case, the Plaintiff, SCM, asserted that it had sustained injuries as a result of alleged exclusionary acts committed by the Defendant, Xerox Corporation (Xerox) in violation of Sections 1 and 2 of Sherman Antitrust Act.[40] The Court held, however, that when a patent has been lawfully acquired, any further conduct under the patent laws will not bring about any liability under the antitrust laws. Consequently, Xerox could not be held liable under the Sherman Act for its 1956 acquisition of certain patents for the process of plain paper copying and its subsequent refusal to license those patents. More specifically, despite its continuing obligations under two agreements with SCM to secure sublicensees, Xerox committed no antitrust violation when it turned down sublicensing requests from potential competitors such as IBM.

A unilateral refusal to license or sublicense a patent is not unlawful in all cases.[41] Rather, it's only illegal when the patent holder abuses his patent right by attempting to enlarge his monopoly beyond the scope of the patent granted him.[42] Put simply, "a patent holder is permitted to maintain his patent monopoly through conduct permissible under the patent laws."[43]

Where the patent holder merely exercises his "right to exclude others from making, using or selling the invention," by unilaterally refusing to license or sublicense his patent for the 20-year term, such conduct is expressly permitted by the U.S. patent law system.[44]

Nearly a decade later, Judge Newman upheld an Indiana District Court's finding of no antitrust violation under Fed. R. Civ. P. 12(b) (6) because Genentech did not plead facts which, if proven, would amount to a violation of Sections 1 and 2 of the Sherman Act. A university's exclusive licensing of its patented research on a human growth hormone patent did not constitute a conspiracy to exclude the Plaintiff from, or restrain trade in, the human growth hormone market. Rather, such exclusion was found to be a lawful incident of the right to exclude by the Patent Act.[45]

Termination or Sublicensing Agreements

In *Miller Insituform, Inc. v. Insituform of North America*, another incident of the right to exclude under the Patent Act was upheld. Here, a patentee's termination of a sublicensing agreement was found to be a mere exercise of the patentee's right to exclude others from the patented process and was, therefore, not a violation of Section 2 of the Sherman Antitrust Act. The Plaintiff alleged that Insituform canceled the sublicense because the defendant wanted to take over the sublicensee's exclusive territory and market through some of its other partially owned sublicensees and, thereby, control prices. In fact, Insituform terminated the sublicense on the ground that the Plaintiff failed to provide a balance sheet showing $500,000 net worth as required by the agreement.[46]

In contrast to the above decisions, in *Moog, Inc. v. Pegasus Laboratories*, a supplemental agreement between Moog and Bell was found to be laden with *per se* antitrust implications. The agreement was between parties to a patent interference proceeding. It concerned the cancellation of sublicense rights and was made conditional precedent to termination and, thus, was essential to the issuance of a patent that the patentee later sought to enforce.[47] Based on these facts alone, the

enjoin that sublicensee from using the mark or the right to enforce quality control. Consequently, trademark licensors frequently reserve the right to terminate the license if the licensee attempts to sublicense. *See* Roger M. Milgrim, Milgrim On Licensing Section 8.50.

36. *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F. 2d 1572, 1576 (Fed. Cir. 1990).

37. Steven S. Cheung, *Property Rights and Invention*, in Research in Law and Economics, Vol. 8 at 5, 6 (1986).

38. William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale Law Journal 267 n. 2 (1966).

39. *SCM v. Xerox*, 463 F. Supp. 983, 1012-1013 (D. Conn. 1978), *aff'd*, 645 F. 2d 1195 (2nd Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982).

40. 15 U.S.C. ss 1, 2 (1976).

41. In *Mannington Mills, Inc. v. Congoleum Industries, Inc.*, 610 F. 2d 1059, 203 U.S.P.Q. 81 (3rd Cir. 1979), the Defendant's refusal to license its know-how to the Plaintiff, despite the fact that it had licensed to others, did not sustain a compulsory license claim under a Sherman s. 2. The Court reversed summary judgment for the Defendant, however, on a different claim that its termination of other patent licenses to the Plaintiff at the behest of the competing licenses was an antitrust violation.

42. *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. 100, 118 n. 9, 89 S. Ct. 1562, 1571 n. 9, 23 L. Ed. 2d 129 (1969); *United States v. Singer Manufacturing*, 374 U.S. 174, 192-97, 83 S. Ct. 1773, 1782-85, 10 L. Ed. 2d 823 (1963); *United States v. Line Material*, 333 U.S. 287, 314-15, 68 S. Ct. 550, 564, 92 L. Ed. 701 (1948); *Hartford Empire Co. v. United States*, 323 U.S. 386, 406-407, 65 S. Ct. 373, 383-4, 89 L. Ed. 322 (1945); *United States v. Masonite*, 316 U.S. 265, 277, 62 S. Ct. 1070, 1077, 86 L. Ed. 1461 (1942).

43. *SCM v. Xerox*, 645 F. 2d 1195, 1204 (2nd Cir. 1981).

44. 35 U.S.C. s. 154 (1976); *Bement v. National Harrow*, 186 U.S. 70, 88-90, 22 s. Ct. 747, 754-755, 46 L. Ed. 1058 (1902).

45. *Genentech v. Eli Lilly*, 27 U.S.P.Q. 2d 1241 (Fed. Cir. 1993). Insufficient Pleadings Doom Biotech Firm's Conspiracy Claim, 65 Antitrust & Trade Regulation Reporter 163, July 29, 1993.

46. *Miller Insituform, Inc. v. Insituform of North America*, 830 F. 2d 606 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988).

47. *Moog, Inc. v. Pegasus Laboratories*, 376 F. Supp. 445, 183 U.S.P.Q. 225 (E.D. Michigan 1974); 521 F. 2d 501, 187 U.S.P.Q. 279 (6th Cir. (Michigan) 1975), *cert. denied*, 424 U.S. 968, 96 S. Ct. 1464, (1976).

Court found the agreement worthy of *per se* analysis. "If the agreement materially affects either the issuance or the utilization of a patent, it is intrinsically a matter of significance under the antitrust law. A patent is a strictly limited exemption from the prohibitions against anticompetitive conduct that would otherwise apply to the patentee's monopolistic practices. If a patent is improperly obtained or used, the anticompetitive activities undertaken on its authority may not be protected by the patent laws and may violate the antitrust laws. Thus, any agreement having a casual link with the termination of an interference (*i.e.* a nonincidental agreement) *per se* has antitrust implications (assuming of course that the termination materially affects the issuance of the patent)."[48]

Not long ago, a Michigan court, in keeping with the rationale of the cases cited above, held that a computer software manufacturer could not be compelled to license its proprietary software and its refusal to license software to competitors could not form the basis of an antitrust action.[49]

It should also be noted that a patentee is free to grant a license or sublicense to one party and then deny it to another for whatever reasons he may choose. This right also falls within the lawful parameters of the patent holder's right to exclude others and, thus, is not an antitrust violation.[50]

What a licensor cannot do, however, is extend enforcement of sublicensing restrictions for an indefinite period, even when licensing royalties are no longer due, and especially when the licensed patents have expired. In *U.S. v. Pilkington plc*,[51] the Department of Justice alleged that the Defendants Pilkington plc and Pilkington Holdings, Inc., Pilkington's 100%-owned American subsidiary, had violated Sections 1 and 2 of the Sherman Act. More specifically, the Defendants were accused of enforcing and maintaining agreements that unreasonably restrained interstate and foreign trade in the construction and operation of float-glass plants and the float-glass process technology.

The government argued that the restraints were unreasonable within the meaning of Section 1 of the Sherman Act because they were neither ancillary or reasonably necessary to any legitimate transaction or purpose. In addition, Pilkington was charged with monopolizing the world market for the design and construction of float-glass plants. According to the Department of Justice, this anticompetitive behavior had direct, substantial and reasonably foreseeable adverse effects on U.S. export trade and commerce. More precisely, Pilkington has curtailed the services, related equipment and materials for the construction of new float-glass plants throughout the world.

Pilkington was charged with having achieved its dominance in two ways: (a) without sufficient intellectual property rights, and (b) through a network of bilateral patent and intellectual property rights, know-how licenses and understandings with most of the other float-glass manufacturers around the world.

In the 1950s, Pilkington had created the first commercially successful float process for making sheet glass. To protect its valuable method, the company obtained worldwide patents. Pilkington began signing patent and know-how licensing agreements with its chief competitors. By 1995, 90% of the world's sheet glass was being manufactured via over 60 Pilkington float license agreements. Most of the licenses did not grant licensees the right to sublicense outside their original restricted territories now or at any time in the future.

In other words, even after the expiration of the float licenses and the patents, the licensees were unreasonably restrained from sublicensing individual parties to build new plants outside their licensed areas.

In order to ensure that the majority of present and former Pilkington licensees were no longer restrained from sublicensing sheet glass technology outside their respective territories, the Department of Justice issued a controversial Final Judgment that offered affirmative and injunctive relief to "any residual anticompetitive effects of the restrictive license agreements and other conduct challenged by the Complaint."[52] This judgment, in keeping with United States antitrust jurisdiction under the Foreign Trade Antitrust Improvements Act of 1982, eliminated the sublicensing restrictions that Pilkington placed on its U.S. licensees and hence allow them to sublicense any third party throughout the world, free of royalties.[53]

Pilkington's foreign licensees were also freed from Pilkington's unreasonable sublicensing restraints. Pilkington was prohibited from entering into, maintaining, enforcing or claiming a right under any agreement or understanding that in any way restrained a foreign licensee from sublicensing in North America. What's more, the Defendant was not allowed to charge U.S. licensees any fees for the sublicensing of float glass technology that it had disclosed to them.

In addition, Pilkington could not enforce any confidentiality claims for the sublicensing of such technology unless it had a good faith argument that each item or combination of items of such technology involved is a trade secret. By contrast, however, Pilkington was permitted to enforce confidentiality claims against foreign licensee's sublicensing in North America of float-glass technology not disclosed to any U.S. licensee.[54]

Another goal of the Final Judgment was to guarantee that U.S. firms with the appropriate expertise that were never Pilkington licensees, but were trying to enter the float-glass manufacturing market would be free to do so without

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48. *Moog, Inc. v. Pegasus Laboratories*, 376 F. Supp. 445, 449, 183 U.S.P.Q. 225 (E.D. Michigan 1974); *U.S. v. Line Material*, 333 U.S. 287, 309-10, 68 S. Ct. 550, 92 L. Ed. 701 (1948).

49. *Triam, Inc. v. Electronic Data Systems*, 902 F. Supp. 741 (E.D. Michigan, 1995).

50. *Minnesota Mining & Mfg. Co. v. Research Medical*, 679 F. Supp. 1037 (D. Utah 1987).

51. Willard K. Tom, *Competitive Impact Statement in United States v. Pilkington PLC and Pilkington Holdings, Inc.* in 404 PLI/Pat 491 (1995).

52. *Id.* at 7.

53. *Id.*

54. *Id.* at 9.

unreasonable restraint or interference. The government believed that the Final Judgment would remove the existing barriers to market entry and allow former Pilkington employees and its licensees to compete.

In turn, the combination of freeing existing manufacturers from sublicensing restraints and lowering the barriers to new market entrants would result in improved sheet glass processes at lower prices. Consumers would benefit and, thus, the purposes of the antitrust laws will have been realized.[55]

Royalties

Royalty differentials in sublicensing arrangements may also create antitrust hazards. Critical to a finding of an antitrust violation, however, is the plaintiff's proof that there has been an anticompetitive effect beyond that implicit in the patent grant. For example, in *USM Corp. v. Standard Pressed Steel,* the U.S. Court of Appeals considered whether SPS committed patent misuse by including a differential royalty schedule in the licensing agreement entered into as part of the settlement of an earlier suit. The agreement required USM to remit to SPS 25% of royalties it obtains by licensing SPS's patents.

Except that if USM should happen to sublicense any of four companies that SPS had previously licensed directly, USM must then remit 75% of the royalties obtained from the sublicenses. USM charged that SPS had set discriminatory royalty schedules, but there is no general principle of antitrust law that forbids charging different prices to different customers.[56]

In another situation, such behavior might be condemned as an attempt to monopolize or as an act of monopolization under Section 2 of the Sherman Act or a violation of the Rule of Reason under Section 1 of the same act. However, USM had made no effort to prove that competition in the manufacture or sale of the products made by SPS's licenses and sublicenses would be greater, but for the royalty differential. And it is highly unlikely that such a royalty differential would create a probable anticompetitive effect in a relevant market. In this case, a potential difference of 1% is too small to give rise to an inference of a significant competitive effect. More to the point is the fact that there is no antitrust prohibition against a patent owner's using price discrimination to maximize his income from the patent.[57]

In *Beckman Instruments v. Technical Development Corp.,*[58] the Plaintiff-Appellant Beckman Instruments charged that a sublicensing provision is an agreement with Defendant-Appellees Technical Development Corporation constituted patent misuse. Specifically, Beckman alleged that the total-sales royalty provision requiring payment of royalties beyond the expiration of some, but not all of the patents in a package licensing arrangement was illegal.

The District Court dismissed Beckman's claim that the sublicensing agreement was illegal and held that the charges of patent misuse failed to state a claim upon which relief could be granted. The Appellate Court affirmed the lower court's opinion when it ruled that a package license agreement, voluntarily entered into, which requires the payment of royalties beyond the expiration of some, but not all, of the licensed patents is valid. In the absence of improper conditioning, the provision, by itself, could not rise to the level of patent misuse. Both improper conditioning and improper extension of the patent monopoly to cover unpatented products is required for a patent misuse claim to succeed. In this case, however, it was not an improper extension to require royalties based on patents filed for after the license was entered into.[59]

Concerted Refusals To Deal

If a patentee extends his monopoly beyond that legally permitted by the Patent Act through concerted refusals to deal, there could also be antitrust violations. In *Moraine Product v. ICI America,* the Court held that a grant of a semiexclusive license without a right to sublicense is subject to the rule of reason.[60] In the absence of a *per se* violation of the Sherman Antitrust Act provision prohibiting restraints of trade or commerce, there must be an applied rule of reason analysis for determining whether there has been such a violation. In this case, the assignee of a patent covering a method for treating stomach gas with an anti-foam composition brought an action against other companies engaged in the business of making and selling deflatulents.

They alleged antitrust violations and unlawful interference with contractual relationships. More specifically, Moraine claimed that a license agreement between Plough and Atlas of January 1961 was illegal *per se*. Moreover, Moraine argued that even if the agreement was not unlawful *per se,* the evidence revealed that the defendants had conspired or combined to impose an unreasonable restraint on commerce.

In yet another case, a license that granted a particular sublicensee the right to sublicense and gave the sublicensee veto power over further licenses, no *per se* antitrust violation or misuse was found. There was only one competitor, who was party to the agreement, and acting alone, who refused to license the plaintiff. Apparently, there was no collusion found because one party communicated the request to the second and the second said "no." Both Plaintiff and Defendant ac-

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55. Pilkington has been cited as an example of a case in which the government has sought to remove restraints that have actually hampered innovation in a non-merger situation under a Sherman Act ss. 1 and 2 claim; Bryan R. Dunlop, *A Practical Guide To Innovation Markets,* 9 Sum Antitrust 21, 26 (1995).

56. *USM Corporation v. Standard Pressed Steel Co.,* 453 F. Supp. 743 (N.D. Ill. 1978); 514 F. Supp. 213 (N.D. 1981); 694 F. 2d 505 (7th Cir. 1982); *USM Corporation v. Standard Pressed Steel Co.,* 694 F. 2d 505, 511-12 (7th Cir. 1982); 15 U.S.C. 13(a).

57. *USM Corporation v. Standard Pressed Steel,* 694 F. 2d 505, 512-13 (7th Cir. 1982); *Dos Santos v. Columbus-Cuneo-Cabrini Medical Center,* 684 F. 2d 1346, 1352 (7th Cir. 1982); *Bela Seating v. Poloron Products,* 438 F. 733, 738 (7th Cir. 1971).

58. 433 F. 2d 55 (7th Cir. 1970).

59. *Id.* at 60-61.

60. *Moraine Products v. ICI America,* 538 F. 2d 134 (7th Cir.), *cert. denied,* 429 U.S. 941 (1976).

tively competed with one another for orders and the agreement was found not to violate Sections 1 or 2 under a Rule of Reason analysis.[61]

Despite an absence of antitrust violations in the previously discussed cases, in *International Wood Processors v. Power Dry*, an agreement between the licensor and licensee of a patented process to terminate a sublicense, so as to eliminate the sublicensee as a competitor, was found to be an antitrust violation. In other words, a patentee's termination of a license "in concert with competing licenses, is not entitled to an antitrust exemption." Such behavior was found to interfere with the goals of the antitrust laws. And though the company that terminated the patent sublicense may have done so unilaterally, this didn't preclude a finding of conspiracy to violate the antitrust laws. The Court found evidence that the nine defendants were involved in an ongoing conspiracy to restrain trade prior to the mailing of the letter that terminated the sublicensing agreement. The conspiracy was effectuated (a) by the withholding of technical information and know-how, and (b) a corporate restructuring for the purpose of securing a monopoly.[62]

The Plaintiff (International Wood Processors) charged that the Defendants, pursuant to a conspiracy to eliminate actual and potential competition in the market for a patented wood-drying machine, unlawfully terminated the sublicense and, thus, excluded International Wood as a competitor in the market for the new process. Testimony by the sublicensee's expert in accounting and finance forecasting regarding price and the prospective sales of the product was sufficient to show injury in fact.[63]

In order to have an antitrust conspiracy, the alleged conspirators must have independent economic interests. In *Copperweld Corporation v. Independence Tube*, the Supreme Court determined that a corporation and its wholly owned subsidiaries were, as a matter of law, legally incapable of conspiring for the purposes of Section 1 of the Sherman Act.

The Court reasoned that coordinated activity by parties who lack independent sources of economic interest do not warrant scrutiny because such actions failed to deprive the marketplace of the "independent centers of decision making that competition assumes and demands."[64]

While the Court in *Copperweld* expressly limited its ruling to the facts of the case, the lower courts have interpreted the Supreme Court's reasoning more broadly. For example, a nonexclusive sublicensee of patents for heating, ventilation and air-conditioning ductwork filed an antitrust conspiracy claim.

In its amended complaint against the patentholder (Shea) and ATS (sublicensee), Levi Case alleged (a) conspiracy to restrain trade in violation of Sherman Act Sections 1, (b) conspiracy to monopolize the relevant market in violation of Sherman Act Section 2, and (c) a unilateral attempt to monopolize the relevant market in violation of Section 2 of the Sherman Act, (against ATS only). Shea had conveyed an exclusive license of his patents and his only residual rights were to receive royalties and approve sublicenses.

The Court held that neither Shea nor ATS had an independent decisionmaking authority regarding the exploitation of the patent nor an independent source of economic power. Via the exclusive license, Shea could not compete in the manufacture of the ductwork covered by the patent. In sum, Shea and ATS, patent holder and sublicensee, were found to be legally incapable of entering into an antitrust conspiracy involving the subject patents.[65]

Where a company needs to give its customers a second source of supplies, antitrust questions have also come up. In one case, for example, the licensee was given an exclusive license (except for the patent owner and its subsidiaries), but without the right to grant sublicenses. The Plaintiff contended that the patent owner and the exclusive licensee exercised joint control over the grant of additional licenses. This control, in turn, resulted in the exclusive licensee having a veto power over the grant of additional licenses and that such concerted action between the patent owner and the exclusive licensee was a violation of the patent and antitrust laws. The Plaintiff further argued that the exclusive licensee and the patent owner had acted for the purposes of suppressing competition when they granted additional licenses. However, the facts revealed legitimate business reasons for these supplementary licenses — to give customers a second source of supplies. According to the Court, meeting consumer demands actually increased competition rather than restrained it.[66]

Patent Pools

The issue of patent pooling can also "raise eyebrows among U.S. antitrust regulators." For example, with a recent DVD (Digital Video Disk) agreement, questions arose as to whether and how a patent pool between two formerly competing groups of consumer electronics companies (Sony and Phillips at the helm of one group and Toshiba at the other) should be formed. More specifically, antitrust watchdogs were concerned that a pool involved in DVD Format Unification might be a closed one that excluded certain companies or technologies or that might apply discriminatory conditions to them. One of the tougher issues involved the intellectual property rights of MPEG-2, a critical enabling technology with a DVD Format. DVD Manufacturing, potentially the largest group of users of the MPEG-2 video didn't know how much of a royalty to pay or to whom. In response, a group outside MPEG had been trying to

61. *Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 579 (E.D. Pa.), *aff'd Mem*, 889 F. 2d 110 (Fed. Cir. 1989).
62. *International Wood Processing v. Power Dry*, 792 F. 2d 416 (4th Cir. 1986).
63. *Id.* at 416-418.
64. *Copperweld Corporation v. Independence Tube*, 467 U.S. 752, 771, 104 S. Ct. 2731.
65. *Levi Case* 431; *Patent Holder and Sublicenser Cannot Conspire Under Sherman Act*, 62 Antitrust & Trade Regulation Reporter, April 30, 1992.
66. *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550 (S.D.N.Y. 1967), *aff'd.*, 393 F. 2d 321 (2d Cir. 1968).

establish a licensing entity that would serve as a one-stop shop for the sublicensing of MPEG patents. Of great concern were the few holdouts, who had essential patents on the core MPEG patents and had not yet joined the consortium.[67]

Tie-In Agreements

An illegal tie-in is also an impermissible extension of the patent monopoly. In *Superior Clay Corp. v. Clay Sewer Pipe Ass'n.*, however, the Court held that the maintenance of a membership condition of a sublicense wasn't invalid or unenforceable because the membership clause didn't meet the criteria of an illegal tie-in. Robinson Clay Products Company (RCP) was the owner of certain patents applicable to the joints of clay pipes. In 1954, RCP granted an exclusive license for the patents to the Defendant. Paragraph 2 of the agreement read: "It is agreed between the parties hereof, by granting nonassignable sublicenses in writing to members in good standing in the Association as provided in its Articles of Incorporation and Code of Regulations so long as they remain in good standing." The Court determined that nothing in the maintenance of the membership clause violated the tie-in rule.[68] In other words, the patentee didn't condition his license so as to tie use of the patented device or processes to the use of other unpatented devices or processes.[69]

Division of Territories

Sublicensing restrictions usually found to be within the legal scope of the patent monopoly include the division of territories. 35 U.S.C. § 261 permits the grant of an exclusive right under a patent to the whole or part of the United States. "The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States." As early as 1852, this right to divide territories was upheld.[70] Over 100 years later, in *Miller Insituform, Inc. v. Insituform of North America*, territorial restraints in a sublicense were found to be lawful applications of rights derived from the patent grant.

The Insituform process was a patented prices for the rehabilitation of pipe lines. The patent was owned by Insituform International, N.V., a Netherlands Antilles Corporation. In 1980, Insituform International entered into a licensing agreement with INA, conveying to INA, the exclusive right to the patented process throughout the United States excepting California.

Subsequently, INA granted exclusive sublicenses to certain designated territories throughout the country. One of these sublicenses was granted to Miller Insituform for the areas of Kentucky, Tennessee, and designated regions of Ohio.[71]

Failure to Assign Sublicensing Rights

Antitrust issues may also arise when a patentee or assignee fails to include the right to sublicense in the bundle of rights given to an absolute exclusive patent licensee. The general rule is that an exclusive patent licensee may not sublicense unless expressly authorized to do so by the terms of the master license.[72]

"Patents shall have the attributes of personal property" and, therefore, the patent license is personal to the licensee and is not transferable unless the wording of the principal license specifically states so.[73] A 1976 Seventh Circuit decision illustrates this point. The Court held that the grant of an exclusive license absent a power to sublicense on the part of the licensor or licensee could be characterized as an antitrust violation subject to a rule-of-reason analysis.[74]

An especially risky scenario is one in which there is an exclusive license and the licensor and licensee compete with one another in the related patent's market.[75] In one case, a Second Circuit court found that a licensor, who sought to assert antitrust defenses and counterclaims in suit for wrongful termination of a patent licensing agreement based on the exclusive licensee's failure to use or to sublicense others to use, lacked standing to raise most of its arguments. It seems that the licensor was not within the "target area" of alleged anticompetitive behavior. In other words, it was not a competitor of the licensee in the seismic exploration market and, consequently, could not sustain its defenses that the licensee had (a) attempted to monopolize, (b) conspired to monopolize, and (c) illegally acquired an asset in violation of Section 7 of the Clayton Act. Additionally, neither could the licensor successfully uphold its antitrust counterclaims for conspiracy with intent to monopolize and to lessen competition in violation of Sherman Act Sections 1 and 2 and Sections 7 of the Clayton Act. All of the licensor's other antitrust claims also failed and for the very same reason.[76]

In the case of a semiexclusive license where the parties compete with one another in the sale of the licensed product, there can be serious antitrust implications. Without an explicit right to sublicense granted in the master li-

67. Junko Yoshida, *Intellectual Property Issues Rail DVD*, Electronic Engineering Times 14, September 28, 1995.

68. The court used the definition of tie-in as set forth in 40 American Jurisprudence 643, Patents, Section 145.

69. 215 N.E. 2d 437, 438-439 (1963).

70. *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852).

71. *Miller Insituform, Inc. v. Insituform of North America*, 605 F. Supp. 1125, *aff'd*, 830 F. 2d 606 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988).

72. Similarly, in the case of a trademark, the right of a licensee to sublicense is determined by whether there is an express grant to do so in the principal license; *See*, *Raufast S.A. v. Kicker's Pizazz, Ltd.*, 208 U.S.P.Q. 699 (E.D.N.Y. 1980) (A case in which an exclusive U.S. distributor had no authority to grant a license to another); *See also*, J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 18.14 [2] (3d ed.).

73. 35 U.S.C.A. § 261 (1972).

74. *Moraine Product v. ICI America, Inc.*, 538 F. 2d 134, 191 U.S.P.Q. 65 (7th Cir. 1976), *cert. denied*, 406 F. Supp. 726, 191 U.S.P.Q. 717 (1976); *Farmland Irrigation Co. v. Doppelmaire*, 308 P. 2d 732 (Cal. 1957); *Synergy Methods v. Kelly Energy Systems*, 695 F. Supp. 1362, 1366 (D.R.I.).

75. Dirk K. Barrett, Jr.; Practicing Law Institute, The Patent License: Standard Clauses and Variations 216-18 (1995); Drafting Patent Licensing Agreements 37 (Harry R. Mayers & Brian G. Brunsvold eds., 3d ed. 1991).

76. *Western Geophysical Co. of America, Inc. v. Bolt Associates, Inc.*, 584 F. 2d 1164, 1168, 220 U.S.P.Q. (2d Cir. 1978).

cense, a third party will be required to secure the consent of both the licensor and immediate licensee before selling the product.[77] This potentially dangerous antitrust problem can be, and usually is, avoided by the parties excluding sublicensing provisions in their nonexclusive patent licensing transaction. Such a preventive measure guarantees that the licensee and licensor won't become competitors.[78]

It's important to note that when patent holders or assignees have granted nonexclusive licenses, just as in an exclusive licensing scenario, an express right to sublicense must be present in the contract. More specifically, the licensees can't sublicense ''unless there is a manifest intent in the contract of the license that the licensee is to have the power to divide up his license into parts, and assign such parts in severalty, no such rights exist.''[79] In other words, a nonexclusive patent license carries with it an implied prohibition on sublicensing.[80]

While the general rule is that a licensee can't sublicense unless an agreement expressly authorizes the licensee to do so, Harold Einhorn has suggested that there might be exceptions to this rule. He maintains that, absent a definite sublicensing in the master license, the right to grant sublicenses should hinge on whether the principal license was transferable. If a master license is deemed transferable, then sublicensing is permissible. However, should the master license be nontransferable, then a licensee may not sublicense.[81]

Under special circumstances even a transferable patent license that had no sublicensing provisions was judged not to include sublicensing rights. In *Ozyagcilar v. Davis*, despite the fact that a nonexclusive patent license was transferable, the Court held that the patent license didn't include the right to sublicense. There were two reasons: (a) the master license covered interrelated processes that were not divisible, and (b) the licensor and licensee didn't initially intend to have sublicensing rights.[82]

Antitrust Problems Resulting From the Implementation of GATT-TRIPS

Antitrust problems could be also created by the lengthening of the patent terms via amendments to the U.S. patent law implementing GATT-TRIPS. Two potential areas of difficulty may involve licensing agreements. Some licensing agreements are written so that they terminate on the expiration date of the last to expire licensed patents. Licensors and licensees of such arrangements may be wrong in assuming that their licenses will automatically be extended to the new 10-year term.

I has been pointed out that there is a long line of case law dating back to the 19th Century that states that unless an agreement expressly provides for patent term extensions, the agreement will expire on the date the last patent would have expired.[83]

Furthermore, in still other existing license agreements, an expiration date might not even be mentioned and then the license will be interpreted as continuing until the expiration of the patent term. But with the extension of the patent term under GATT-TRIPS, it's not clear whether the 17- or 20-year term controls. Thus, without an explicitly drafted agreement, licensors of a patented product could be accused of antitrust violations if they license and/or sublicense their product beyond the term of their legal monopoly. In short, they would be sublicensing something to which they no longer had any intellectual property rights.

77. Einhorn 218.

78. Some nonexclusive licenses may contain preexisting cross-licensing obligations that mandate a limited right to sublicense.

79. *Brush Electric Co. v California Electric*, 52 F. 945, 964 (9th Cir. 1928); *Brooks v. Bryan*, 4F. CAS. 216 (C.C.D. Mass, 1943); *Rock-Ola Mfg. Corp. v Filben Mfg., 168 F. 2d 919, 78 U.S.P.Q. 175 (8th Cir. 1948); Federal Laboratories, Inc. v. Commissioner of Internal Revenue*, 73 U.S.P.Q. 453 (T.C. 1947)(The court held that the owner of a nonexclusive license may grant sublicenses only if such a right was expressly granted in the original license).

80. *E.I. Dupont de Nemours & Co., Inc. v. Shell Oil Co.*, 498 A. 2d 1108, 227 U.S.P.Q. 233 (Del. 1985); *Ozyagcilar v. Davis et al.*, 221 U.S.P.Q. 1064 (D.S.C. 1983).

81. Harold Einhorn, Patent Licensing Transactions s 2.05 (1994); Kenneth A. Plevan, *The Recent Flurry of Merger-and-Acquisition Activity Warrants a Close Look at the Laws That 'Govern the Sublicensing of Copyright, Patent and Trademark Rights.* The National Law Journal, March 20, 1995.

82. 221 U.S.P.Q. 1064 (D.S.C. 1983).

83. David S. Forman & Thomas W. Winland, *How Will Existing License Agreements Be Affected By Extended Patent Terms Under GATT?* 22 AIPLA Quarterly Journal 450 (1994); *Wilson v. Rosseau*, 45 U.S. (4. How.) 646 (1846).