

THE "DECENT PUBLIC BURIAL"* OF THE DOCTRINE OF PATENT LICENSEE ESTOPPEL

The congressional power to create a patent system is derived from Article I, Section 8, of the United States Constitution which authorizes Congress "To promote the Progress of Science and the useful Arts by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This clause has been interpreted as endowing Congress with the authority to promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their written works and discoveries. Congress has fulfilled this constitutional mandate by granting inventors a 17-year monopoly on the manufacture of their discoveries.¹ In order to capitalize on this limited monopoly, however, many inventors lacking capital contract with an established company granting it a license to utilize the new discovery in the manufacture of products. In return, the inventor receives a royalty on each such product produced or sold. In contract litigation concerning these patent-licensing agreements, frequent challenges by the licensee of the validity of the patent gave birth to the doctrine of licensee estoppel.

The doctrine, as first enunciated in *Kinsman v. Parkhurst*,² provides that a patent licensee is estopped from challenging the validity of the patent under which he holds the license. For over 100 years the doctrine was variously applied, resulting in confusion and conflict among the courts. This judicial disharmony was recently resolved however, when the United States Supreme Court in *Lear, Inc. v. Adkins*³ rejected the doctrine as being corrosive of the strong federal policy favoring the free competition of ideas. Thus, a licensee is no longer estopped from challenging the validity of the patent under which he is licensed. This comment will examine the reasoning behind the *Lear* case in the context of the history of the doctrine, and present some of the reasoning advanced over the past 114 years, both in favor of, and contrary to, licensee estoppel. In addition, the current patent policy considerations of the Court will be presented.

I. *Lear, Inc. v. Adkins*

In 1951 the respondent, John Adkins, an inventor and mechanical engineer, accepted a position with the petitioner, Lear, Inc., a man-

* Mr. Justice Frankfurter, dissenting in *MacGregor v. Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402 (1947), vigorously endorsed the doctrine of licensee estoppel. He also objected to the Court's slow erosion, as opposed to a single but complete abolition, of the doctrine. "If a doctrine that was vital law for more than ninety years will be found to have now been deprived of life, we ought at least to give it decent public burial." *Id.* at 416.

¹ 35 U.S.C. § 154 (1964).

² 59 U.S. (18 How.) 289 (1855).

³ 395 U.S. 653 (1969).

ufacturer of aviation equipment. A special condition of Adkins' employment was established in a rudimentary one-page employment contract which provided that all "vertical gyros become the property of Mr. John S. Adkins."⁴ The contract further provided that Adkins would exclusively license Lear as manufacturer of any new vertical gyroscopes which resulted from his experimentation in the field. In 1952 Mr. Adkins developed a more accurate and less expensive gyroscope essential to the advancement of jet aircraft technology. Lear adopted Adkins' ideas and commenced the manufacture of gyroscopes based on his concepts. Simultaneously the inventor applied for a patent. In 1955 Adkins entered into an agreement with Lear substantially the same as their original one, but with considerably more detail, and specifying the royalties that the inventor was to receive. After the Patent Office had twice rejected Adkins' applications, Lear announced in 1957 that it would no longer pay royalties (because Lear concluded, as a result of its own examination of the prior art, that Adkins' ideas were unpatentable) and in 1959 ceased to pay royalties. In 1960 the Patent Office issued Adkins a patent on his amended application. Adkins immediately brought suit for accrued royalties and argued that Lear, under the doctrine of licensee estoppel, could not challenge the validity of his patent.

In the California Superior Court the jury found for Adkins and awarded substantial damages. The trial judge, however, granted Lear's motion for judgment notwithstanding the verdict in regard to royalties on some of the gyroscopes.⁵ The California Court of Appeals held that Lear was within its contractual rights in terminating its royalty obligation and thus did not have to pay post-1959 royalties.⁶ The California Supreme Court rejected the intermediate court's conclusion that Lear had repudiated the licensing agreement, since Lear was still manufacturing Adkins' gyroscopes. Holding that the contract was still in effect, the supreme court found that the doctrine of licensee estoppel barred Lear from challenging the validity of the patent, and consequently reinstated the jury verdict.⁷

The United States Supreme Court granted certiorari and ultimately reversed the decision and remanded the case to the California Supreme Court. The Court held that a patent licensee is not estopped from challenging the validity of the patent under which he is licensed. In so doing the Court specifically overruled *Automatic Radio Mfg. Co.*

⁴ Id. at 657. It should be noted that this contract is contrary to the more common employer-employee agreements covering such matters. In the usual case, as a condition of employment the employer stipulates that all ideas, discoveries, inventions, whether patentable or not, that are the result of such employment, become the exclusive property of the employer, and upon termination of employment the employee cannot take with him any of the ideas, discoveries, or inventions including the "know-how" that the employee has acquired during his period of employment.

⁵ Id. at 660.

⁶ 52 Cal. Rptr. 795 (Dist. Ct. App. 1966).

⁷ 67 Cal. 2d 882, 435 P.2d 321, 64 Cal. Rptr. 545 (1967).

v. Hazeltine Research, Inc.,⁸ which held the doctrine of licensee estoppel to be the "general rule."⁹

The *Lear* decision was based upon the Court's determination that the doctrine of licensee estoppel violated the strong federal policy favoring the free competition of ideas.¹⁰ The public interest in the free competition of ideas was believed to outweigh the requirements of contract law¹¹ and the equities of the patent-licensor. Furthermore, the Court indicated that the doctrine had been all but completely emasculated until the decision in *Automatic Radio*. The Court reasoned that it is not inequitable to require the patent-licensor to defend his patent when the licensee places the question in issue, because the issuance of a patent is based upon a factual determination of the Patent Office, arrived at in an *ex parte* proceeding without the aid of argument. In addition, the Court noted the advantage to the patent owner of the presumption of validity raised by the patent,¹² and also rationalized that the licensee may be the only one with the economic incentive to challenge patentability.

II. THE HISTORY OF LICENSEE ESTOPPEL

The immediate significance of *Lear* is that it ends the 114 years of judicial confusion surrounding licensee estoppel. Of more lasting importance, however, is the patent policy determination made by the Court in this case. To fully appreciate the policy espoused by the *Lear* case, the history of licensee estoppel from *Kinsman* through *Lear* must be analyzed.

In *Kinsman v. Parkhurst*¹³ the United States Supreme Court held that a patent licensee was estopped from challenging the validity of the patent under which he held the license. The Court reasoned that since the licensee had received profits under the licensing agreement, and had been unable to show how he was affected by the invalidity of the patent, the validity was immaterial and he was estopped from challenging it.¹⁴ The Court analogized the situation to an agent who has collected a debt for his principal, and observed that the licensee has no more right to deny the patent-licensor his royalties by alleging patent invalidity than does the agent to deny the principal the amount collected by alleging that the debt was unjustly due.¹⁵ In analogizing the doctrine to the agent-principal relationship the court

⁸ 339 U.S. 827 (1950).

⁹ *Id.* at 836.

¹⁰ The Court had previously expressed this federal policy in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-38 (1964).

¹¹ Presumably, traditional contract principles would require the enforcement of the agreement on the basis of the benefit received by *Lear*, regardless of the underlying patent validity. 1 A. Corbin, *Contracts* § 127 (1963).

¹² 35 U.S.C. § 282 (1964).

¹³ 59 U.S. (18 How.) 289 (1855).

¹⁴ *Id.* at 293.

¹⁵ *Id.*

created some confusion, as it is generally accepted that licensee estoppel is based upon principles borrowed from the landlord-tenant relationship in property law.¹⁶ More specifically, in an action by the landlord for rent owed, the tenant cannot challenge the landlord's title to the property as a defense.

The cases decided after *Kinsman* exemplify the confusion surrounding the doctrine. In general the cases which rejected licensee estoppel assumed that a patent monopoly is a privilege and not a right, and that the disclosure of invalid patents is in the public interest. On the other hand, the cases which upheld the doctrine did so on the basis that the 17-year patent monopoly is essential to provide the incentive necessary for the continuous development of novel ideas, and that subversion of this limited monopoly is to be avoided. Underlying both concepts is the clear public interest in generating new and useful ideas. Thus, in licensee estoppel cases the central question facing the courts has been, by what means is the public interest most satisfactorily advanced.

The cases discussed below illustrate that courts' answers to this question generally have not been in agreement. *Kinsman*, which established the doctrine, was followed by *Eureka Co. v. Bailey Co.*,¹⁷ where the Court stated that the licensee had to overcome a very strong presumption of patent validity to avoid paying royalties. Eighteen years later, in *Dale Tile Mfg. Co. v. Hyatt*,¹⁸ the Court again gave implicit support to the doctrine when it affirmed a decision of a New York state court invoking licensee estoppel on the grounds that it involved state law. In two later cases, *United States v. Harvey Steel Co.*¹⁹ and *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*,²⁰ the Court firmly embraced and applied the doctrine of licensee estoppel. The policy underlying these cases is compatible with the policy of the patent laws to protect the inventor unless the intention to contract away his rights is expressly and unequivocally found.²¹ The Court's application of the doctrine as early as 1855 in *Kinsman* and as late as 1950 in *Automatic Radio* is misleading, however, since the development and application of licensee estoppel clearly was not consistent. Decisions of the Supreme Court following *Kinsman*, *Eureka*, and *Dale Tile*, tended to discredit the doctrine and forewarned of the later confusion and conflict. For example, in *St. Paul Plow Works v. Starling*,²² the Court did not question the lower court's admission and examination of the licen-

¹⁶ Treece, Licensee Estoppel in Patent and Trademark Cases, 53 Iowa L. Rev. 525, 526 (1967); 44 Harv. L. Rev. 135 (1930); Clark v. Adie, 2 App. Cas. 423, 435-36 (G.B. 1877).

¹⁷ 78 U.S. (11 Wall.) 488, 491-92 (1870).

¹⁸ 125 U.S. 46 (1888).

¹⁹ 196 U.S. 310 (1905).

²⁰ 339 U.S. 827 (1950).

²¹ Note, Rights of an Employer in Patents Obtained by His Employee, 36 Harv. L. Rev. 468 (1922).

²² 140 U.S. 184 (1891). The Court noted in *Lear* that this decision has often been erroneously interpreted as supporting the doctrine of licensee estoppel. 395 U.S. at 659.

see's evidence questioning the novelty and patentability of the invention, and refused to reverse the determination of patent validity. One year later the Court went even further, in *Pope Mfg. Co. v. Gormully*,²³ and found the licensee estoppel concept so inequitable that it refused to grant an injunction to enforce a clause within the licensing agreement in which the licensee promised never to contest the validity of the patent. The Court said that challenging the validity was not a private right of the individual, but one derived from the public policy to promote the challenging of invalid patents. The Court noted that it was as important to the public to keep competition unrepressed by worthless patents, as it was to protect the inventor of a truly valuable invention.²⁴

During the period between *Harvey Steel* (1905) and *Automatic Radio* (1950) and leading up to the decision in *Lear* the doctrine of licensee estoppel was frequently challenged and slowly eroded. In *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*,²⁵ the Court imposed a limitation on the doctrine by stating that, although an individual could not directly attack the validity of a patent, he could introduce evidence to narrow the claim made in the patent. In *St. Paul, Pope*, and *Westinghouse*, the Court took a cautious approach to the doctrine, apparently seeking to circumvent it and avoid direct confrontation. That approach was soon abandoned, however, and the Court began carving out significant exceptions to the doctrine.

In *Sola Elec. Co. v. Jefferson Elec. Co.*,²⁶ the Court examined licensee estoppel more closely, saying that where a license agreement includes a provision which, absent a valid patent (itself an exception to the antitrust laws) would be in restraint of trade (here price-fixing), licensee estoppel could not be used to preclude an investigation into the validity of a patent. Likewise in *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*²⁷ and *MacGregor v. Westinghouse Elec. & Mfg. Co.*,²⁸ the licensee was not estopped from challenging the validity of the patent where the licensing agreement contained a price-fixing clause. The Court noted that the licensee is often the party in the best position to promote the public interest by showing the invalidity of the licensed patent.²⁹

*Mercoird Corp. v. Mid-Continent Inv. Co.*³⁰ was another case in which a patent licensing agreement was found to have violated the policies of the patent and antitrust laws. The Court refused to enforce the agreement which sought to extend the usual monopolistic patent rights beyond their legitimate scope by including a "tie-in" clause. In

²³ 144 U.S. 224 (1892).

²⁴ *Id.* at 234.

²⁵ 266 U.S. 342, 351 (1924).

²⁶ 317 U.S. 173, 177 (1942).

²⁷ 329 U.S. 394 (1947).

²⁸ 329 U.S. 402 (1947).

²⁹ *Id.* at 401.

³⁰ 320 U.S. 661 (1944).

*Scott Paper Co. v. Marcalus Mfg. Co.*³¹ the Court established yet another exception to the doctrine, and rejected licenses granted under pending patent applications wherein the licensee agreed, on granting of the patent, not to contest its validity. There, the Court, finding licensee estoppel contrary to the policy of the patent laws, did not bar the defendant in an infringement suit from defending on the grounds that the infringing device was prior-art and an expired patent. Thus, in a number of cases in which the licensing agreement contained clauses which would result in the misuse of patent rights, and which would be contrary to patent and antitrust laws and policy, the doctrine of licensee estoppel was not invoked.

Despite this gradual decay, the doctrine suddenly was given new vitality in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*³² The case held that "[t]he general rule is that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract. . . . The general rule applies and petitioner may not, in this suit, challenge the validity of the licensed patents."³³ The Court unquestioningly accepted the doctrine of licensee estoppel as the "general rule" in the closing paragraph of its opinion without stating any reasons for so doing. The Court did, however, attempt to distinguish the case from the *Sola*, *Katzinger*, *MacGregor*, *Mercoid*, and *Scott* decisions, which were based on either patent misuse or contravention of public policy, and stated that "[t]here is no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy."³⁴

Automatic Radio added more doubt to the already uncertain status of the doctrine, as the Court seemed to ignore the holdings of previous cases rendered since *Harvey*, wherein exceptions to the doctrine were created, thus permitting judicial scrutiny into the validity of the patent. Although the trend in Supreme Court decisions had been to limit the scope of the doctrine, the *Automatic Radio* case was an exception to the trend and tended to expand the rights of the patent-licensor.³⁵

Though the doctrine of licensee estoppel was not an issue, its foundation was again weakened in *Sears, Roebuck & Co. v. Stifel Co.*³⁶ and *Compco Corp. v. Day-Brite Lighting, Inc.*,³⁷ where the Court enunciated the strong federal policy favoring free competition of ideas. Using similar reasoning the Court in *Brulotte v. Thys Co.*³⁸ condemned as unlawful the forced payments of royalties beyond the expiration date of the patent. The Court reasoned that to enforce such an agree-

³¹ 326 U.S. 249 (1945).

³² 339 U.S. 827 (1950).

³³ *Id.* at 836.

³⁴ *Id.*

³⁵ 17 Brooklyn L. Rev. 155, 158 (1951).

³⁶ 376 U.S. 225 (1964).

³⁷ 376 U.S. 234 (1964).

³⁸ 379 U.S. 29 (1964).

ment between the parties would effectively extend the patent monopoly beyond the 17-year limit from the date of issuance, and thus contravene the federal policy recognized in *Sears and Compco*.

In *Lear* the ambiguity surrounding the doctrine was finally resolved. The Court stated: "We are satisfied that *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.* . . . itself the product of a clouded history, should no longer be regarded as sound law with respect to its 'estoppel' holding, and that holding is now overruled."³⁹ Thus, the Court held that *Lear*, the licensee, must be allowed to raise the question of patent validity.

When confronted with the conflicting demands of contract law and federal patent law, the Supreme Court sought to develop an intermediate position. However, rather than a realistic compromise there has been continuing confusion and inconsistency in the decisions.⁴⁰ The state courts and lower federal courts were likewise unable to resolve the conflicting claims.⁴¹ The conflicting viewpoints, though not resolved, have been silenced by the decision in *Lear*, but an examination of the policy arguments that fostered more than 100 years of ambiguity will reveal the current patent policy considerations of the Court.

III. POLICIES UNDERLYING THE DOCTRINE OF LICENSEE ESTOPPEL

Although many varied arguments have been advanced justifying the existence of the doctrine of licensee estoppel, these arguments, which tend to be related and to overlap, fall into three general areas: (1) preservation of the doctrine to foster the development of the arts; (2) protection of the basic principles of the law of contracts; and (3) prevention of the undesirable consequences resulting from the licensing of ideas as trade secrets.

The doctrine has been considered essential to the promotion and enforcement of the policy of the patent clause of the Constitution, that

³⁹ 395 U.S. at 671.

⁴⁰ *Id.* at 668.

⁴¹ The following courts have recognized the doctrine of licensee estoppel: *Bowers Mfg. Co. v. All-Steel Equip., Inc.*, 275 F.2d 809 (9th Cir. 1960), cert. denied, 363 U.S. 812 (1960); *Hall Laboratories, Inc. v. National Aluminate Corp.*, 244 F.2d 303 (3d Cir. 1955), cert. denied, 350 U.S. 932 (1956); *Buckingham Prods. Co. v. McAleer Mfg. Co.*, 108 F.2d 192 (6th Cir. 1939); *Eastern States Petroleum Co. v. Universal Oil Prods. Co.*, 22 Del. Ch. 333, 2 A.2d 138 (1938). The following courts have not recognized the doctrine of licensee estoppel: *Clapper v. Original Tractor Cab Co.*, 270 F.2d 616, 629 (7th Cir. 1959); *National Transformer Corp. v. France Mfg. Co.*, 215 F.2d 343, 361-62 (6th Cir. 1954); *Miehle Printing Press & Mfg. Co. v. Publication Corp.*, 166 F.2d 615, 618 (7th Cir. 1948); *Viki Hosiery Corp. v. Margulies*, 164 F. Supp. 738, 740 (E.D. Pa. 1958); *Pleatmaster, Inc. v. Consolidated Trimming Corp.*, 156 N.Y.S.2d 662, 666 (Sup. Ct. 1956); *Crew v. Flanagan*, 242 Minn. 549, 558, 65 N.W.2d 878, 884 (1954). *Elgin Nat'l Watch Co. v. Bulova Watch Co.*, 281 App. Div. 219, 118 N.Y.S.2d 197 (1953), illustrates one of the non sequiturs created by the doctrine. This case held that "where the licensee does not use the invention, invalidity of the patent is not a defense to a suit for minimum royalties." The implication is that if the licensee had used or manufactured the patented article, he would have been permitted to raise invalidity of the patent as a defense. This would induce production solely to escape liability for minimum royalties—such manufacture could be wasteful and economically unsound.

is, to promote the progress of science and the useful arts. That policy is frustrated when men of ability who have employed their time in this manner for the benefit of the community are deprived of the reward for their ingenuity and labor.⁴² The public is benefitted—even if the royalties paid to the patentee-licensor are reflected in increased prices paid by the public for the product—because there is made available, for a reasonable price, a product which it otherwise would not have. Furthermore, without the doctrine the system of licensing patents would be seriously impaired because the inventor would not know until after long and costly litigation whether he could collect his agreed-upon royalties from the licensor.

The possible consequences of the impairment of the patent licensing system by the abolishment of the doctrine of licensee estoppel could be detrimental to the patent-licensor and, less directly, to the public. Abolition would tend to defeat the patent policy favoring the promotion of free enterprise and the free competition of ideas, and would not only discourage inventors from attempting to discover new and useful ideas, but also negatively affect the quality of inventions by diminishing the protection provided the inventor's limited monopoly by patent estoppel.

Loss of this protection also adversely affects the bargaining position of the patent-licensor. That is to say, the Supreme Court in *Lear* has effectively removed one aspect implicit in the licensee-licensor bargaining relationship—the inability of the licensee to challenge the validity of the licensor's patent. Hence, as a result of *Lear* the inventor may now demand higher royalties to compensate for the risk that invalidity of the patent might defeat the licensing agreement. Or the licensor may demand a clause in the agreement providing that, should the licensee challenge the validity of the patent and lose, he would compensate the licensor for attorney's fees and other legal costs. Without the doctrine such a clause would be necessary because every licensee or assignee unsatisfied with his license agreement would be tempted to challenge the validity of the patent to void the agreement.

Another argument advanced to justify the doctrine of licensee estoppel is that it is consistent with basic principles of contract law. It has been stated that contract law is to be applied to patent agreements:

Patent licenses have no statutory basis and rights under them arise from contract rather than from the fact that patent rights are involved; whatever rights parties have under a license contract arise from the contract.⁴³

Patent agreements include licenses "under patents that may issue on the application . . ."⁴⁴ There is a public policy favoring the enforcement of contracts, and maintenance of the doctrine of licensee estoppel is

⁴² *Stanley v. Columbia Broadcasting Sys.*, 35 Cal. 2d 653, 673, 221 P.2d 73, 84 (1950) (dissenting opinion).

⁴³ A. Deller, *Walker on Patents* § 380 (2d ed. 1965).

⁴⁴ *Id.* § 415.

necessary to uphold and preserve this policy and the stability of contracts. Under ordinary contract principles the fact that some benefit is received from the contract is enough to require its enforcement, regardless of the validity of the underlying patent.⁴⁵ Thus, it has been concluded that "[a]s long as the licensee continues to enjoy the benefit of the exclusive right, he must pay the royalty which he promised to pay, and he cannot escape from so doing by offering to prove the patent to be void."⁴⁶

If a potential licensee desires to obtain a license for a patent he must deal directly with the patentee, in which case, through negotiations, the licensee gets exactly what he bargains for—the right to use the invention. There is no warranty of validity of the patent implied in any license given thereunder, and a licensee may not dispute the validity of the patent in a suit for royalties.⁴⁷ In the *Lear* case the licensee took a known risk. Lear agreed to pay royalties on an invention that it knew had not been patented. Moreover, Lear had no reason to believe that the doctrine of licensee estoppel, being the "general rule," was not still in full force and effect. In addition, as there was no agreement not to manufacture, there was no reason for Lear to conclude that its license agreement with Adkins qualified under one of the restraint of trade exceptions to the general rule carved out in *Sola*, *Katzinger*, *MacGregor*, or *Scott*. Furthermore, the agreement to pay royalties on a valid patent (and there is a presumption of validity)⁴⁸ if the licensee manufactured clearly would not have been a restraint of trade. Thus, knowledgeable of all the risks, and with the same degree of freedom to contract as Adkins, Lear entered into a contract, perhaps waiving its rights to contest these issues, but at least, under any doctrine of estoppel, not retaining the ability to repudiate the contract at will. Viewed in the context of the *Lear* case, the argument that retaining the doctrine of licensee estoppel is required to promote the basic public interest in maintaining the stability of contracts is persuasive. Thus, without the doctrine of licensee estoppel it may be argued that fundamental reliance by the parties is not possible in patent agreements.

The third reason for preserving the licensee estoppel doctrine is that its abolition may so weaken the patent licensing system as to encourage the use of the alternative protective device of licensing discoveries as trade secrets. A trade secret is a secret formula or process not patented, but known only to certain individuals using it.⁴⁹ This alternative method of licensing seriously conflicts with the policy behind the patent system of encouraging new discoveries and ideas, and making them available to the public. The licensing of trade secrets

⁴⁵ Id. § 403.

⁴⁶ Id.

⁴⁷ Id.

⁴⁸ 35 U.S.C. § 282 (1964).

⁴⁹ *United States ex rel. Norwegian Nitrogen Prods. Co. v. United States Tariff Comm.*, 6 F.2d 491, 495 (D.C. Cir. 1925).

tends to abrogate the policy by expressly denying such information to the public.

The law protects, as being a form of private property, ideas developed out of individual initiative and imagination.⁵⁰ The California Supreme Court in *Desny v. Wilder*⁵¹ quoted as an "accurate statement of the law" Mr. Justice Brandeis' statement that "[a]n essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute"⁵² Thus it has been established that ideas are individual property and may be excluded from the public knowledge. However, the question remains whether they may be the subject of a licensing agreement or contract. The court in at least one jurisdiction has stated that "an idea, if valuable, may be the subject of contract"⁵³ Nevertheless, there are persuasive reasons for holding to the contrary. For example, agreements and contracts which tend to create monopolies are illegal, and it is immaterial whether the monopolistic effect is achieved implicitly or explicitly.⁵⁴ Even if the agreement or contract does not violate a specific antitrust law, courts of equity may refuse to enforce the agreement or contract if it restrains competition contrary to the public interest.⁵⁵ Furthermore, in *United States v. Besser Mfg. Co.*,⁵⁶ the district court held that the provisions of a patent licensing agreement gave the defendants the power to restrain competition and were intended to eliminate competition, and therefore the agreement was illegal. It may be argued that *Besser* is authority for the position that contracts involving trade secrets in restraint of trade also should be prohibited on the basis that the degree of public interest involved in both situations is equal, and that preservation of the stability of a trade secret contract would not seem to outweigh that of a patent agreement. Thus, while trade secret agreements are not per se illegal, it is clear that there is a strong countervailing policy.⁵⁷

The Court in *Lea* raised this question and intimated that there are some doubts as to the acceptability of licensing trade secrets. "Adkins' claim . . . raises the question whether, and to what extent, the States may protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties."⁵⁸ Looking to the future the Court added:

⁵⁰ *Stanley v. Columbia Broadcasting Sys.*, 35 Cal. 2d 653, 673, 221 P.2d 73, 84 (1950). Accord, Cal. Civ. Code § 980(b) (West 1954), which provides that "the inventor or proprietor of any invention or design . . . has an exclusive ownership therein"

⁵¹ 46 Cal. 2d 715, 299 P.2d 257 (1956).

⁵² *International News Serv. v. Associated Press*, 248 U.S. 215, 250 (1918) (dissenting opinion), quoted in 46 Cal. 2d at 731, 299 P.2d at 265.

⁵³ *Weitzenkorn v. Lesser*, 40 Cal. 2d 778, 791-92, 256 P.2d 947, 957 (1953).

⁵⁴ *International Salt Co. v. United States* 332 U.S. 392, 396 (1947).

⁵⁵ *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 492 (1942), held that under such circumstances courts may appropriately withhold their aid.

⁵⁶ 96 F. Supp. 304 (E.D. Mich. 1951), aff'd, 343 U.S. 444 (1952).

⁵⁷ *Lea, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

⁵⁸ *Id.* at 674.

[O]ur decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this re-evaluation may revolutionize the law of any particular state in this regard . . . [I]ndeed, on remand, the California courts may well reconcile the competing demands of patent and contract law in a way which would not warrant further review in this Court.⁵⁹

Mr. Justice Douglas, dissenting in *Lear* on the basis of his opinions in *Sears* and *Compco*, observed that the only authorized monopolies were those obtained from the Patent Office under the exacting standards of the patent laws. He stated:

One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them, in return for contractual payments run counter to the plan of our patent laws⁶⁰

It is probable that abolition of the patent licensee estoppel doctrine will result in the more frequent licensing of ideas as trade secrets. To the extent that such licensing operates to chill competition and the free exchange of ideas, the continued existence of licensee estoppel is desirable. Moreover, considering the unsettled nature of the law regarding trade secrets, the enforceability of such agreements is in doubt, thus seriously weakening the reliance of the parties on the contract.⁶¹

IV. THE POLICIES UNDERLYING THE ABOLITION OF LICENSEE ESTOPPEL

The holding in *Lear* to abolish licensee estoppel may be supported on several grounds. Perhaps most significant is the predominance of the public interest in the free competition of ideas over the private property interest of the patentee-inventor in his idea.⁶² This predominance is clear from the fact that the patent grants only a limited monopoly of specific duration. Recognizing this priority of interests, abolition of licensee estoppel is in the public interest to the extent that it encourages the challenging of invalid patents, thus preserving the free exchange of ideas which are not the proper basis of valid patents.⁶³

⁵⁹ *Id.* at 675.

⁶⁰ *Id.* at 677.

⁶¹ *Treese, Licensee Estoppel in Patent and Trademark Cases*, 53 *Iowa L. Rev.* 525, 530 (1967).

⁶² *Mercoide Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 837 (1950) (dissenting opinion). The dissenter, Justice Douglas, also noted that *Katzinger*, *MacGregor*, and *Scott* "put the protection of the public interest in free enterprise above reward to the patentee." *Id.* at 839.

⁶³ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Aside from preservation of this basic policy, the public also benefit as consumers in that the additional cost of the patent license will no longer be a component of the price of the product.⁶⁴

It is established that the promotion of science and the useful arts, a primary objective of the patent laws, is frustrated by licensing provisions which prevent the parties from challenging the validity of the patent. Equally clear is that such provisions, which usually require the licensee to cease manufacturing the product if he repudiates the agreement, are inconsistent with the policy of the Sherman Act of preserving free competition. Similarly, the doctrine of licensee estoppel violates these policies. Thus, the licensee operating under an invalid patent has no alternative but to cease manufacturing the product or continue manufacturing under the invalid patent—neither of which are in the public interest.

If the license agreement is based on an application for a patent (as in *Lear*) rather than on an issued patent, the doctrine of licensee estoppel effectively extends the patent monopoly beyond 17 years, in contravention of the patent and antitrust laws.⁶⁵ For example, Adkins had perfected his invention and licensed Lear to use it at least five years before he was issued a patent. That patent, of course, entitled him to a 17-year monopoly; thus, had he been able to rely on licensee estoppel, he would have been allowed a monopoly of 22 years duration, during which time the licensee would have been estopped from contesting the validity of the patent.

Another argument against the doctrine of licensee estoppel is the fact that the Patent Office utilizes an *ex parte* administrative procedure in deciding whether to grant patents, whereas judicial scrutiny of the validity of patents would better serve the public interest, because courts require a higher standard for patentability and have greater access to the evidence of prior-art than does the Patent Office.⁶⁶ Important too is the adversary nature of judicial proceedings which creates a greater depth of analysis.

Finally, the patent-licensor, absent the doctrine of licensee estoppel, is not without other remedies to protect both his patent and his benefits from the licensing agreement. The licensor may bring an action for the enforcement of the agreement (that is, for royalties) or he may sue for infringement of patent rights. Either of these remedies favors the patent-licensor because the licensee runs the risk not only of actual damages, but of punitive damages as well, both of which may exceed the royalties.

⁶⁴ The United States, in its brief as amicus curiae, contended that royalties paid on invalid patents are passed on by price increases to the consumer; and if the consumer is the United States, the royalty payments are borne by the taxpayer. Possibly this argument is fallacious. Indeed there is no evidence that Lear reduced its prices upon termination of payment of royalties in 1959. Royalties saved in the future by proof of invalidity will most likely end up in corporate coffers rather than in consumers' pockets. Brief for the United States as Amicus Curiae at 2, 6, & 9, *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

⁶⁵ See *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

⁶⁶ *Graham v. John Deere Co.*, 383 U.S. 1 (1966).

CONCLUSION

On remand in *Lear*, the California Supreme Court will have to decide whether state courts can protect the owners of unpatented inventions (in effect granting them a monopoly) on the basis of contract law without violating federal policy expressed in the patent and antitrust laws.

Should Adkins' patent be found valid, it is likely that the original jury verdict of nine years ago will be reinstated. However, should the patent be found invalid, it would not necessarily follow that the license agreement should be found void, because Adkins' "know-how" (that is, his ability to implement his invention to enable Lear to manufacture), which was developed simultaneously with the gyroscope and enabled Lear to put his ideas into practice, could be considered valuable and sufficient consideration. In addition it could be ruled that both parties' lack of knowledge as to the applicability of the doctrine of licensee estoppel was a mutual mistake, thus leaving the contract in tact.⁶⁷ Furthermore, it is possible that the good faith of the parties will be considered; thus, if Lear was looking for a way out of its contractual obligation and was merely using patent validity as a vehicle, this could be a lack of good faith which would effect the contract's validity.

One final argument which Adkins advanced and the Court rejected was that the decision in *Lear* should not be retroactive; that is, all licensees who bound themselves to a patent license prior to the time the *Lear* decision was handed down should not be able to challenge the validity of the patents under which they hold licenses. The Court felt that the estoppel principle had been so eroded prior to its decision in *Lear* that no patent-licensor could have relied on the doctrine's vitality in bargaining with the licensee, and hence no serious injury would be incurred by making the decision retroactive.⁶⁸

One troublesome aspect of the *Lear* case remains, that is, the correct decision appears to have been made at the expense of Adkins.⁶⁹ The Court in *Lear* seemed to recognize that while the decision furthered the public policy supporting the free competition of ideas and the promotion of the useful arts, nonetheless, Adkins suffered an injustice. The Court noted that from the outset Lear gained immediate access to ideas (in return for its promise to pay satisfactory compensation) that it would not otherwise have gained until the Patent Office published the details in 1960. Thus, during the lengthy period in which Adkins was attempting to obtain a patent, Lear gained an important benefit (and an 8-year headstart on the rest of the jet air-

⁶⁷ A. Corbin, Contracts § 608 (1963).

⁶⁸ 395 U.S. at 674 n. 19 (1969).

⁶⁹ The "decent public burial" of the doctrine of licensee estoppel may not be totally at the expense of Adkins. On remand that patent may be determined valid and the original jury verdict reinstated, but to the extent that 8 years of litigation has drawn upon the time, resources and energy of Adkins, it was at his expense.

craft industry) not generally obtained by the typical licensee.⁷⁰ The Court again implied this when it stated that "the equities supporting Adkins' position are somewhat more appealing than those supporting the typical licensor."⁷¹ However, despite the inequitable nature of the result, the decision has had the salutary effect of settling the confusion and conflict among state and federal courts concerning the status of the doctrine of licensee estoppel.

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⁷⁰ 395 U.S. at 671 (1969).

⁷¹ Id. at 672-73.