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PATENT LICENSE AGREEMENTS

LAW AND FORMS

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CHAPTER 1

INTRODUCTION

§1. Prefatory

To provide a background for a discussion of patent license agreements, the present chapter outlines briefly general patent, license, misuse and antitrust considerations. This background material is followed by a patent license checklist and a discussion of preliminary formal license provisions.

Although outside the scope of this book, the tax aspects of licensing should also be considered by the contracting parties.[1]

§2. General Patent Considerations

Two basic topics deserve initial attention: (1) the classes of inventions that are patentable, and (2) the patentee's right in his invention.

There are three statutory classes of patentable inventions or discoveries; and utility, plant and design patents are granted on such inventions. More specifically, a utility patent may be obtained on any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. [35 U.S.C. §101 (1952)]; a plant patent on any distinct and new variety of asexually reproduced plant, including cultivated sports, mutants, hybrids, and newly found seedlings, other than a tuber-propogated plant or a plant found in an uncultivated state [35 U.S.C. §161 (1952; 1954)]; and a design patent on any new, original

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[1]See: Patent, Trademark & Copyright Tax Guide, The Patent Law Association of Chicago, 1965, and 1972 Supplement; Gitlin and Woodward, Tax Aspects of Patents, Copyrights & Trademarks, Practising Law Institute, 1960, and current supplement.

§3. General License Considerations

§3A. Introductory

The subjects covered in the next three sections include how a patent license may be granted, who may grant it, and when it may be granted.[1]

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[1]Also see Deller, Ellis Patent Licenses, Baker, Voorhis & Co.,Inc., New York, N. Y. 1958.

§3C. Who May Grant a License

A patentee himself, or the owner of the entire right, title and interest in a patent, may of course grant a license under the patent. Also, an owner in common or a joint owner of an undivided interest in a patent may, without the consent of his co-owners, grant a valid license under the patent.[1] And an agreement between two co-owners that neither would dispose of his interest without the written consent of the other does not affect the validity of a license granted by one owner, in the absence of knowledge of the restriction by the licensee.[2] An agent who acts within the scope of his authority may likewise grant a valid license.[3] With reference to authority of a corporate officer, entering into or cancelling a license agreement is not so unusual as to take it outside of the usual powers of the president of a corporation.[4]

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[1]Paulus v. M. M. Buck Mfg. Co., 129 F 594, 595 (CA 8, 1904); Blackledge v. Weir & Craig Mfg. Co., 108 F 71 (CA 7, 1901); LaLance & Grosjean Mfg. Co. v. National Enameling & Stamping Co., 108 F 77 (SDNY, 1901).

[2]Talbot v. Quaker State Oil Refining Company, 104 F 2d 967 (CA 3, 1939).

[3]Union Switch & Signal Co. v. Johnson Railroad Signal Co., 61 F 940 (CA 3, 1894). Also see Chauche v. Pare, 75 F 283 (CA 9, 1896).

[4]Kraus v. General Motors Corporation, 120 F 2d 109, 112 (CA 2, 1941); Bijur Motor Lighting Co. v. Eclipse Mach. Co. 237 F 89 (WDNY, 1916), affirmed, 243 F 600 (CA 2, 1917).

§3E. Compulsory Licensing

As a general rule, a patent owner is not under any duty either to use the patented invention itself or to grant licenses to others to use the invention.[1] However, in certain special circumstances, the legislature and the courts have deemed restricted exploitation to be unacceptable, and have adopted compulsory licensing, or its equivalent, as a means of preventing, eliminating or alleviating restricted exploitation.[2] Forcing a patent owner to grant licenses is compulsory licensing; denying a patent owner injunctive relief in cases of infringement is equivalent to compulsory licensing.

Although there is no general statutory authority for compulsory licensing of patents, there are a number of special statutes that have the effect of, or specifically provide for, compulsory licensing. For example, a patent owner is restricted to a suit for reasonable compensation in respect to patent infringement by or for the government,[3] patent infringement by the Tennessee Valley Authority,[4] and patent infringement in connection with the furnishing of assistance under the International Development, Peace and Security Act.[5] The Atomic Energy Act,[6] the Air Pollution Control Act[7] and the Plant Variety Protection Act[8] authorize compulsory licensing under prescribed circumstances. Other statutes provide for compulsory licensing of patents

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[1]Special Equipment Co v. Coe, 324 US 370 (64 USPQ 525)(1945); Continental Paper Bag Co v. Eastern Paper Bag Co, 210 US 405 (1908); Sylvania Industrial Corp v. Visking Corp, 132 F 2d 947 (56 USPQ 190) (CA 4, 1943).

[2]For general discussions of compulsory licensing, consult: Mirabito, Compulsory Patent Licensing for the United States: A Current Proposal, 57 JPOS 404 (1975); Sease, Common Sense, Nonsense and the Compulsory License, 55 JPOS 233 (1973); Gerber and Kitson, Compulsory Licensing of Patents Under the Clean Air Act of 1970, 54 JPOS 650 (1972); Cantor, Evolution Toward Compulsory Licensing?, 35 JPOS 372 (1953).

[3]28 USC 1498.

[4]16 USC 831r.

[5]22 USC 2356(a).

[6]42 USC 2183, 2188.

[7]42 USC 1857h-6.

[8]7 USC 2404.

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§3F. Implied Licenses

In general, a party may acquire an implied license under the patent of another as a result of acquiescence of the patent owner--for example, where the inventor fails to take any action when he knows that his invention is being copied and used.[1] Other more specific relationships that can give rise to implied licenses are discussed below.

Employer-Employee Relationship: One employed to make an invention, who succeeds, during his term of service, in accomplishing that task, is bound to assign to his employer any patent obtained. On the other hand, if the employment be general, the employee is not required to assign to his employer a patent obtained on an invention, in the absence of express agreement to that effect. In the circumstance of general employment, however, the employer may acquire an implied license or shop right under a patent obtained by the employee: Where an employee, during his hours of employment, working with his employer's materials and equipment, conceives and perfects an invention for which he obtains a patent, usually he must accord his employer a nonexclusive right to practice the invention.[2]

Business Relationship: When two business concerns work closely together to develop and market devices ultimately patented by one of the concerns, and the concerns act and operate as if the patents were obtained for their mutual benefit, the nonpatent-owner concern acquires an implied license to manufacture and sell the patented device after the business relationship between the concerns is terminated.[3] Under certain circumstances, the sale of engineering drawings showing a patented invention

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[1]Kierulff v. Metropolitan Stevedore Co, 315 F 2d 839 (137 USPQ 195) (CA 9, 1963).

[2]United States v. Dubilier Condenser Corp, 289 US 178, 187-9 (1933).

[3]Graham-White Sales Corp v. Prime Mfg Co, 237 F Supp 694 (144 USPQ 711)(ED WI, 1964), affirmed per curiam, 343 F 2d 534 (145 USPQ 5) (CA 7, 1965). Also see GAF Corp v. Amchem Products Inc, 399 F Supp 647 (188 USPQ 205)(ED PA, 1975).

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not carry with it an implied license to use the article in a combination covered by another set of claims.[11] However, if the patented article has no practical use except in combination with some subordinate part covered by another patent of the vendor, the right to use the latter in cooperation with the former might be implied from circumstances.[12] The sale of a patented device with an implied license to use the device in a patented method does not give the purchaser an implied license to practice the patented method with devices not purchased from the patent owner.[13]

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[11]Priebe & Sons Co v. Hunt, 188 F 2d 880 (89 USPQ 299)(CA 8, 1951); Hunt v. Armour & Co, 185 F 2d 722 (88 USPQ 53)(CA 7, 1950); Stuckenborg v. United States, 372 F 2d 498 (153 USPQ 292)(Ct Cls, 1967).

[12]Edison Electric Light Co v. Peninsular Light Co, 101 F 831 (CA 6, 1900).

[13]Federal Sign & Signal Corp v. Bangor Punta Inc, 357 F Supp 1222 (177 USPQ 737)(SD NY, 1973).

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§4. General Misuse and Antitrust Considerations

Patent agreements are subject to both the patent misuse doctrine and the antitrust laws.[1] Under the Patent Code, a patent owner is given the right to exclude others from making, using or selling the patented invention [35 U.S.C. §154 (1952)], and a patent owner is authorized to transfer by assignment all rights in the patent or to convey an exclusive right under the patent to the whole or any specified part of the United States. [35 U.S.C. §261 (1952).] As a general proposition, activity within the scope of the patent grant is protected under the patent laws; activity outside the scope of the patent grant is unprotected. In the latter respect, the courts have evolved the doctrine that a patent owner who engages in anti-competitive activity that ostensibly involves a patent but is outside the scope of the grant is guilty of misuse of the patent.[2] The judicial view underlying this doctrine is that the unprotected activity serves to extend unjustly the scope of the limited patent monopoly. In the application of the doctrine, a patent owner is barred from enforcing a license agreement containing a provision that improperly extends the scope of the licensed patent,[3] and from obtaining relief for either contributory or direct infringement of the patent whose scope has been so extended.[4]

The principal substantive provisions of the antitrust laws that concern patent activities are Sections 1 and 2 of the Sherman Act, Sections 3 and 7 of the Clayton Act, and Section 5 of the Federal Trade Commission Act. Section 1 of the Sherman Act declares every contract, combination or conspiracy, in restraint of interstate or foreign trade or commerce to be illegal. [15 U.S.C. §1]. Section 2 specifies that every person who shall monopolize, or attempt to monopolize, or con-

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[1]Also see Nordhaus, Patent-Antitrust Law, Jural Publishing Company, Chicago, Ill., 2nd edition, 1972.
[2]Morton Salt Co. v. Suppiger, 314 US 488 (1942); Motion Pictures Patents Co. v. Universal Film Mfg. Co., 243 US 502 (1917).
[3]Radio Corporation of America v. Lord, 28 F 2d 257 (CA 3, 1928).
[4]Mercoid Corp. v. Mid-Continent Investment Co., 320 US 661 (1944).

ion. For example, if a restriction benefits the licensee only, or is demanded by the latter, the validity of the restriction cannot be premised upon the patent laws, because the restriction is not related to a patent owned by the party imposing, or benefiting from, the restriction. As another example, even though a restriction might ordinarily be within the scope of the patent laws, when the restrictive license agreement is entered into for an unlawful purpose, the legality of the agreement usually will not successfully withstand attack under the antitrust laws. An unlawful purpose is evidenced if the license agreement is found to be part of a general plan to restrain or monopolize trade or if, in any other respects, the purpose of the agreement is to evade the prohibitions of the antitrust laws. In sum, although a particular restriction in a patent license agreement may be valid under ordinary circumstances, such restriction will not necessarily be held valid under all circumstances. The specific setting in which it arises must always be considered.

§5. Patent License Checklist

A systematic use of the following checklist during negotiations and preparation of a patent license agreement will reduce the possibility of important negotiable matters being overlooked.

I. Preliminary Formal Provisions
- A. Heading (§6A)
  - 1. Parties
    - a. Identification
    - b. Capacity or corporate authority
  - 2. Effective date of agreement
  - 3. Place where agreement made
- B. Recitals (§6B)
  - 1. Licensed subject matter
    - a. Patents and applications
    - b. Know-how
  - 2. General rights licensed (See II)
  - 3. Warranties (See IV-B)
  - 4. Definition of terms
  - 5. Background of agreement
    - a. Prior relationship between parties
    - b. Prior agreements
      - (1) Cancelled
      - (2) Suspended
      - (3) Incorporated by reference
      - (4) Dominating present agreement

II. Grant of Patent Rights
- A. Package licensing problems (§10)
- B. Exclusive (or nonexclusive) (§11)
  - 1. Subject to rights of licensor
  - 2. Subject to prior or future licenses
- C. General limitations
  - 1. Make, use, sell or lease (§12A)
  - 2. Resale (§12B)
  - 3. Have made (§12C)
  - 4. Less than all claims (§12D)
  - 5. Sale of components (§12E)
- D. Territorial limitations (§13)
  - 1. Geographical
  - 2. Plant location

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b. Supplies or raw materials used
   (1) Volume basis
   (2) Cost basis
c. Use Compensation received by licensee
d. Net sales of licensee
   (1) All articles or patented only
   (2) Definition of "sold"
   (3) Definition of "net sales"
   (4) Effect of credit losses
   (5) Sales to affiliates
e. Profits of licensee

3. Related matters
   a. Allowance for royalties payable to others
   b. Exemption on sales to other licensees
   c. Interest on overdue payments
   d. Effect of Termination on obligation to pay accrued royalties
4. Minimum payments (§21)
   a. Supplementary initial payment
      (1) Independent of future royalties
      (2) Credited against future royalties
   b. Minimum royalties
      (1) Payment mandatory
         (a) In advance of each royalty period
         (b) At end of each royalty period
      (2) Payment optional
         (a) To retain exclusiveness
         (b) To maintain license
      (3) In satisfaction of duty to exploit
      (4) Carry over of payments from one period to another
5. Maximum payments (§21)
   a. In each year
   b. In total
6. Accounting matters (§22)
   a. Time and content of royalty reports
   b. Time of royalty payments
   c. Maintenance of records

F. Admission of infringement (§28)
   1. Scope of clause
      a. General admission
      b. Specific to identified devices
   2. Agreement not to contest scope of claims
G. Invalidity of licensed patent (§29)
   1. Claims invalidated
      a. Right to terminate agreement
      b. Effect on royalty payments
   2. Claims construed: effect on royalty payments
H. Enforcement of licensed patent (§30)
   1. Right or obligation of
      a. Licensor
      b. Licensee
      c. Parties jointly
   2. Allocation of expenses and recoveries
   3. Inaction or default by one party
      a. Enforcement by other party
      b. Termination of agreement by other party
      c. Cancellation of exclusiveness by licensor
      d. Cessation of royalty payments by licensee
I. Know-how and technical assistance (§31)
   1. Furnishing of information
      a. Present; future
      b. Written material only
      c. Only information licensor has right to divulge
      d. Maintenance of secrecy
         (1) Restrictions on use
         (2) Agreements with employees
         (3) Indemnification for breach
      e. Termination of license
         (1) Return of tangible material
         (2) Continuance of secrecy
   2. Visitation rights of licensee and training of licensee's personnel
      a. Time limitations
      b. Expenses of training

L. Defense of infringement suits (§34)
   1. By licensor
      a. Defend only; indemnify also
      b. Licensee; licensee's customers
      c. Liability dependent on
         (1) Prompt notification
         (2) Cooperation
      d. Liability limited to
         (1) Arbitrary amount
         (2) Compensation received from licensee
   2. By licensee
      a. Expenses offset against royalties payable licensor
      b. Liability of licensor limited to cooperation
   3. By parties jointly
      a. Allocation of expenses
      b. Responsibility for conduct of defense

M. Improvements (§35)
   1. By licensor; inclusion in license
      a. Automatically
      b. At option of licensee
   2. By licensee
      a. Inclusion in primary license for royalty purposes
      b. License to licensor
      c. Assignment to licensor
   3. By parties jointly
      a. Joint ownership maintained
      b. Allocation of patent prosecution expenses
      c. Inclusion in primary license for royalty purposes
   4. Related matters
      a. Definition of "improvement"
      b. Invention agreements with key employees

3. Manner of effecting
   a. Notice of default
   b. Period to remedy
   c. Notice of termination
4. Preservation of other rights and remedies at law and in equity

C. Post-termination (§40)
1. Right of licensee
   a. Sale of products on hand
   b. Limitation in time or units
2. Obligations of licensee
   a. Payment of accrued royalties
   b. Payment of royalties on authorized post-termination sales
   c. Return of know-how in tangible form
   d. Continued maintenance of know-how secret
3. Rights of licensor
   a. Purchase of licensee's products on hand
   b. Examination of licensee's books and records

D. Impossibility of performance (§41)
1. Obligations suspended
2. Right to terminate after prescribed period

E. Severability of provisions (§42)

F. Arbitration (§43)
1. Arbitrable disputes
   a. All disputes
   b. Specific disputes only
2. Optional or exclusive remedy
3. Arbitrators
   a. Number
   b. Manner of selection
4. Place of hearing
5. Majority or unanimous award
6. Governing rules

G. Limitation on effect of waiver (§44)

B. Sublicense (§54)
   1. Authorization of sublicense in primary license
   2. Term
      a. Dependent on continuance of primary license
      b. Independent
   3. Primary licensor as party to sublicense
C. Cross license (§55)
   1. Reciprocal licenses terminable independantly
   2. Risk of restrictions
D. Settlement of interference (§56)
   1. Disposition of pending or prospective interference without right of appeal
      a. By attorneys for parties
      b. By arbitration
      c. By Patent Office
   2. Filing of settlement agreement in Patent Office
E. Settlement of infringement disputes and litigation (§57)
   1. License agreement
   2. Agreement to cease infringement
      a. Acknowledgment of validity
      b. Right to dispose of stock on hand
      c. Damages for past infringement
      d. Enforceability
   3. Dismissal of pending suit
F. Foreign licensee (§58)
   1. Definition of licensed subject matter
      a. Exclusion of information prohibited by government
      b. Modifications by licensee to meet local standards
   2. Monetary consideration
      a. Payment in U. S. dollars
         (1) Exchange rate
         (2) Alternative payment terms
      b. Payment of taxes
      c. Evidence of licensee's financial responsibility

§6. Preliminary Formal License Provisions

A formal license agreement usually commences with a preamble comprised of a heading and a series of recitals.

§6A. Heading

The first paragraph of a license agreement normally sets forth the fact that an agreement has been made and identifies the parties to the agreement. Generally, the parties are designated in the heading by their legal names followed by a notation to the effect that they will be identified in subsequent paragraphs of the agreement by specified shorter terms or symbols--for example, by their initials, or by abbreviated forms of their full names, or by the terms "Licensor" and "Licensee", or rarely by the terms "Party of the First Part" and "Party of the Second Part". Although not a direct part of the written agreement, one party should always satisfy itself that the other party has the legal capacity or authority to enter into the agreement.

If the effective date of the agreement is not set forth in a subsequent clause, the effective date (or the date upon which the parties sign the agreement, when the date of the signature is to be the effective date) may be specified in the heading. Also, the place where the agreement has been made may be designated in the heading.

§6B. Recitals

The heading of a license agreement is usually followed by recitals that describe the subject matter of the license. Licensed patent rights may be expressed in general terms of the licensor's patents (not enumerated) covering or relating to designated equipment, processes or fields of activity.[1] Or, licensed patent rights may be recited in specific terms of identified patents or patent applications. A patent may be identified by patent number and date of grant, while a patent application may be identified by serial number and filing date. Either a patent or an application may be further identified by the title of the invention and the name of the inventor. When numerous patents or patent applications are involved, they may be listed in an attached schedule that is incorporated by reference in the preamble. A patent application in process but not yet filed may be identified by the title of the invention and the docket number of the licensor's attorney.

The general rights being licensed, not uncommonly, are also specified in the recitals. Whether the license is exclusive or nonexclusive, the territorial extent of the license, and the class of devices being licensed are matters frequently mentioned. The nature and designation of the licensed rights will be discussed in detail in connection with the "granting" clause. [Chapter 2.] When the recitals are ambiguous and the operative part of the agreement is free from doubt, the operative part will prevail.[2] Nevertheless, care should be exercised that the recitals are not in conflict with the granting or other clauses.

The recitals may further include: a definition of shorthand terms such as "Licensed Patent Rights", "Licensed Devices" and "Licensed Territory" used throughout the agreement; a specification of warranties by the licensor of ownership of the licensed subject matter and of the right to grant licenses and

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[1]Cooke, Defined Field License, 39 JPOS 635 (1957); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F 2d 252 (CA 7, 1960).
[2]Crowell v. Gould, 96 F 2d 569 (CADC, 1938).

FORM 6B.02 NONEXCLUSIVE LICENSE OF PATENT; WARRANTIES BY LICENSOR

WHEREAS, ABC represents and warrants that it is the owner of all right, title and interest in and to United States Letters Patent No.8,765,432 granted June 4, 1999, for Automatic Transmissions;

WHEREAS, ABC represents and warrants that it has the right to grant nonexclusive licenses and releases for past infringement under said patent; and

WHEREAS, XYZ is desirous of obtaining a nonexclusive license and a release for past infringement under said patent;

NOW, THEREFORE, in consideration of the premises and the mutual covenants of this Agreement, the parties hereto have agreed as follows:

FORM 6B.03 EXCLUSIVE LICENSE; PATENT APPLICATION

WHEREAS, ABC has heretofore made a certain invention in Automatic Transmissions for which he has made application for Letters Patent of the United States under Serial No.999,999, filed June 4,1998, and of which invention and application and all rights in and thereto he represents that he is the sole owner;

WHEREAS, XYZ is desirous of acquiring exclusive rights in and to the said invention throughout the United States and foreign countries; and

WHEREAS, ABC is willing to grant said rights upon the terms and conditions hereinafter recited;

NOW, THEREFORE, in consideration of the premises and the mutual covenants of this Agreement, the parties hereto have agreed as follows:

FORM 6B.04 NONEXCLUSIVE LICENSE; PATENTS AND PATENT APPLICATIONS; DEFINITION OF TERMS

WHEREAS, ABC is the owner, by assignment, of the entire right, title and interest in and to the United States Letters Patents and applications for United States Letters Patents identified in Schedule A and hereinafter referred to as "ABC's Patent Rights";

ties hereto did enter into a certain agreement relating to the manufacture, use and sale by XYZ of Automatic Transmissions;

WHEREAS, it is the desire of the parties hereto that such agreement shall be set aside during the life of the present Agreement;

Operative Paragraph to Accompany Foregoing Recitals

The parties hereto agree that the operation of the former agreement between them, dated June 1, 1999, shall be suspended, and that said agreement shall be without force and effect during the life of this present Agreement, but that upon the termination of this Agreement, the operation of said agreement of June 1, 1999 shall again automatically come into effect, unless the termination of the present Agreement is for a default on the part of XYZ which would have entitled ABC to terminate said agreement of June 1, 1999.

FORM 6B.08 PARTIAL RECITALS; PRIOR AGREEMENT CANCELLED

WHEREAS, the parties have heretofore entered an agreement, dated July 1, 1999, in which ABC granted XYZ a nonexclusive license under United States Letters Patent No.8,765,432 issued June 4, 1999, for Automatic Transmissions, a copy of which license agreement is attached hereto and marked Exhibit A;

WHEREAS it is the desire of the parties to cancel said agreement of July 1, 1999, and enter into the present Agreement;

Operative Paragraph to Accompany Foregoing Recitals

The parties hereto mutually agree that said agreement of July 1, 1999 shall be and is hereby cancelled.

FORM 6B.09 EXCLUSIVE LICENSE SUBJECT TO OUTSTANDING LICENSE; PATENTS AND PATENT APPLICATIONS; WARRANTIES BY LICENSOR

WHEREAS, ABC warrants that it is the sole owner,

CHAPTER 2

GRANT OF PATENT RIGHTS

§9. Prefatory

Discussed in the present chapter are package licensing, exclusive and nonexclusive licenses, and various types of license limitations and restrictions directly affecting the primary grant of rights.

In general, the scope of the principal patent rights being licensed is defined in a main granting clause. This clause usually follows the preliminary formal license provisions and commences the operative part of the agreement. From the standpoint of contract interpretation, the granting clause will prevail over other clauses of the license agreement.[1]

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[1]Storm v. United States, 243 F 2d 708 (CA 5, 1957).

the quality of the patents.[4]

A package license wherein the same royalty rate is maintained throughout the term of the license agreement raises one additional problem. Several courts have concluded that such a license which extends to the expiration of the last to expire of the licensed patents, or which has no expiration date, constitutes patent misuse for it requires the payment of royalties under patents that expire during the term of the license agreement.[5]

The foregoing cases clearly indicate that the licensing of a group of patents must be approached with extreme caution. With the possible exception of blocking patents, a licensee must be allowed to obtain a license solely under those patents of the group that it may desire. To avoid a charge of economic coercion when offering a license under less than the entire

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[4]American Securit Co. v. Shatterproof Glass Corp., 154 F Supp 890 (D Del, 1957), further proceedings, 166 F Supp 813 (D Del, 1958), affirmed, 268 F 2d 769 (CA 3, 1959); Hazeltine Research v. Zenith Radio Corp., 388 F 2d 25 (CA 7, 1967). Compare: Mobil Oil Corp. v. W. R. Grace & Co., 180 USPQ 418, 447-448 (D. Conn., 1973); North American Philips Co. v. Stewart Engineering Co., 319 F Supp. 335, 350 (ND Cal. 1970). Also see Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F Supp 1, 49 (D Md, 1963), affirmed, 327 F 2d 497 (CA 4, 1964).

[5]American Securit Co. v. Shatterproof Glass Corp., 268 F 2d 769, 777 (CA 3, 1959); Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 151 USPQ 305 (CA 6, 1966). Compare Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F 2d 252 (CA 7, 1960). Contra: McCullough Tool Co. v. Well Surveys, Inc., 343 F 2d 381 (CA 10, 1965). Also see: Brulotte v. Thys Co., 379 US 29 (1964); Compton v. Metal Products, Inc., 453 F 2d 38 (CA 4, 1971); Pipkin v. FMC Corp., 166 USPQ 67 (CA 5, 1970); Beckman Instruments, Inc. v. Technical Development Corp., 433 F 2d 55 (CA 7, 1970); Well Surveys, Inc. v. Perfo-Log, Inc., 396 F 2d 15 (CA 10, 1968); Hensley Equipment Co. v. Esco Corp., 383 F 2d 252 (CA 5, 1967); Baker-Cammack Hosiery Mills v. Davis Co., 181 F 2d 550, 573 (CA 4, 1950); Mobil Oil Corp. v. W. R. Grace & Co., 180 USPQ 418, 447 (D. Conn., 1973); Congoleum Industries, Inc. v. Armstrong Cork Co., 180 USPQ 264, 271-272 (ED Pa, 1973); Malco Manufacturing Company v. National Connector Corporation, 151 USPQ 255 (D. Minn, 1966); Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F Supp 1, 47 (D Md, 1963), affirmed, 327 F 2d 497 (CA 4, 1964); Carter Products v. Colgate-Palmolive Company, 164 F Supp 503 (D Md, 1958), affirmed on other grounds, 269 F 2d 299 (CA 4, 1959); Perbal v. Dazor Mfg. Corp., 161 USPQ 169, 178-179 (Mo Sup Ct, 1968).

§11. Exclusive and Nonexclusive Licenses

Exclusive licenses are specifically authorized by the patent laws.[1] In accordance with the spirit of the patent laws, judicial opinion is uniform that the grant of an exclusive license, standing alone, does not come within the prohibitions of the anti-trust laws.[2] It has also been held that one joint owner of a patent may properly grant an exclusive license to its co-owner.[3]

In the absence of express provisions to the contrary, the grant of an exclusive license impliedly precludes the licensor and its successors from competing with the licensee in respect to the licensed invention.[4] Consistent with this implied condition, a licensor may expressly agree not to promote or use the *licensed invention* in violation

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[1]"Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. 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 patent, to the whole or any specified part of the United States." 35 USC §261 (1952)

[2]Bement v. National Harrow Co, 186 US 70 (1902); Compton v. Metal Products Inc, 453 F 2d 38 (172 USPQ 263)(CA 4, 1971); Brownell v. Ketcham Wire & Mfg Co, 211 F 2d 121 (100 USPQ 338)(CA 9, 1954); Flexwood Co v. Faussner & Co, 145 F 2d 528 (64 USPQ 261)(CA 7, 1944); Becton, Dickinson & Co v. Eisel & Co, 86 F 2d 267 (32 USPQ 172)(CA 6, 1936); United States v. E I du Pont De Nemours & Co, 118 F Supp 41 (99 USPQ 462)(D DE, 1953), affirmed on other grounds, 351 US 377 (1956); United States v. Parker-Rust-Proof Co, 61 F Supp 805 (65 USPQ 563)(ED MI, 1945).

[3]Rail Trailer Co v. ACF Industries Inc, 358 F 2d 15 (149 USPQ 86)(CA 7, 1966).

[4]Cutter Laboratories Inc v. Lyophile-Cryochem Corp, 179 F 2d 80 (84 USPQ 54)(CA 9, 1949); Brush Electric Co v. California Electric Light Co, 52 F 945 (CA 9, 1892); Blohm & Voss AG v. Prudential-Grace Lines Inc, 346 F Supp 1116, 1134 (174 USPQ 484, 499)(D MD, 1972), reversed on other grounds, 489 F 2d 231 (180 USPQ 165)(CA 4, 1973); Benger Labs Ltd v. R K Laros Co, 209 F Supp 639, 648 (135 USPQ 11, 18)(ED PA, 1962), affirmed per curiam, 317 F 2d 455 (137 USPQ 693)(CA 3, 1963); New York Phonograph Co v. Edison, 136 F 600 (SD NY, 1905), affirmed per curiam, 144 F 404 (CA 2, 1906); Research Frontiers Inc v. Marks Polarized Corp, 290 F Supp 725 (160 USPQ 575)(ED NY, 1968); New England Phonograph Co v. Edison, 110 F 26 (D NJ, 1901); Pratt & Whitney Co Inc v. United States, 153 F Supp 409 (114 USPQ 246)(Ct Cls, 1957).

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An exclusive licensee need not be the sole party authorized to practice the licensed invention. An exclusive license may be granted subject to the right of use of the licensed invention by the licensor, subject to a prior nonexclusive license, or subject to a future nonexclusive license.[10]

A nonexclusive license has attributes quite distinct from an exclusive license. In the absence of express provisions to the contrary, a nonexclusive licensor may practice the invention himself and may properly authorize others to practice the invention. A nonexclusive license does not have any statutory basis and constitutes merely a waiver of infringement suit or covenant not to sue under the licensed patent.[11]

United States v. Crown Zellerback Corp, 141 F Supp 118 (110 USPQ 399)(ND IL, 1956); H-P-M Development Corp v. Watson-Stillman Co, 71 F Supp 906 (73 USPQ 97)(D NJ, 1947).

[10]Moraine Products v. ICI America Inc, 191 USPQ 65, 73 (CA 7, 1976); Ackerman v. Hook, 183 F 2d 11 (86 USPQ 1)(CA 3, 1950); Mechanical Ice Tray Corp v. General Motors Corp, 144 F 2d 720 (62 USPQ 397)(CA 2, 1944); Paul E Hawkinson Co v. Carnell, 112 F 2d 396, 398 (45 USPQ 536, 537)(CA 3, 1940); Willis Bros Inc v. Ocean Scallops Inc, 356 F Supp 1151, 1156 (176 USPQ 53, 56)(ED NC, 1972); Sta-Fresh Products Inc v. Avoset Inc, 46 F Supp 447 (54 USPQ 180)(ED PA, 1942), affirmed per curiam, 134 F 2d 334 (56 USPQ 592)(CA 3, 1943); Guardino Tank Processing Corp v. Olsson, 81 USPQ 318 (NY Sup Ct, 1949).

[11]"[T]he license transfers only the invention and does not affect the monopoly otherwise than by estopping the licensor from exercising his prohibitory powers in derogation of the privileges conferred by him upon the licensee." L L Brown Paper Co v. Hydroiloid Inc, 32 F Supp 857, 868 (44 USPQ 655, 666)(SD NY, 1939), affirmed, 118 F 2d 674 (41 USPQ 1)(CA 2, 1941). "In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly." Western Electric Co v. Pacent Reproducer Corp, 42 F 2d 116, 118 (5 USPQ 105, 106)(CA 2, 1930).

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FORM 11.05 EXCLUSIVE LICENSE SUBJECT TO OUTSTANDING LICENSE

ABC hereby grants to XYZ an exclusive license, subject only to the existing license to MNO Manufacturing Company set forth in Exhibit B, to make, have made for it, use and sell throughout the United States and its territories, automatic transmissions embodying the inventions covered by ABC's Patent Rights identified in Exhibit A.

Termination of Outstanding License

In the event ABC shall terminate the outstanding agreement with MNO Manufacturing Company, it shall first grant to XYZ an opportunity to obtain a license in the fields covered by said outstanding agreement on terms which shall be mutually satisfactory to the parties. In the event XYZ does not wish to take advantage of the opportunity, ABC shall have the right to grant substitute licenses to other parties in the same fields as the outstanding license, subject only to the condition that the terms and obligations in such substitute licenses shall be no more favorable than those hereby granted to XYZ.

FORM 11.06 EXCLUSIVE LICENSE SUBJECT TO PRIOR OPTIONS AND LICENSES

ABC hereby grants to XYZ an exclusive license (subject to the provisions of the next paragraph) to make, use and sell Licensed Devices throughout the Licensed Territory.

This License Agreement is subject to all terms and conditions of any options and license agreements heretofore executed by ABC and which may be now outstanding, and which in any way impair or affect the license herein granted. ABC shall, at the time of execution of this Agreement, deliver to XYZ certified copies of all such options and agreements; and ABC covenants that the copies of options and agreements so delivered shall be all of such options and agreements outstanding at the time of execution of this Agreement which in any way impair or affect the license herein granted.

§12. General Limitations

Before looking at specific types of license limitations, two ancillary matters will be briefly noted: the licensee's obligation not to exceed his limited license; and the licensor's remedies for unauthorized activities of the licensee.

In a number of cases, courts have upheld the validity of an express negative covenant to the effect that the licensee will not operate under the licensed patent outside the scope of his limited authorization.[1] Moreover, a few courts have held that a negative covenant of this type may be implied.[2] However, a few courts have held that such covenant may not be implied at least when the license agreement contains an express integration clause.[3]

If the licensee exceeds his license rights, the licensor may sue for patent infringement in respect to the unauthorized activities.[4] When there is an express or implied negative covenant of the type indicated above, the licensor may treat the unauthorized activities as a breach of contract[5] and

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[1]Bement v. National Harrow Co, 186 US 70, 94 (1902); Dunlop Co Ltd v. Kelsey-Hayes Co, 484 F 2d 407, 417-8 (179 USPQ 129)(CA 6, 1973); Reliance Molded Plastics Inc v. Jiffy Products, 215 F Supp 402 (137 USPQ 134)(D NJ, 1963), affirmed per curiam, 337 F 2d 857 (143 USPQ 312)(CA 3, 1964); Campbell v. Mueller, 159 F 2d 803 (72 USPQ 295)(CA 6, 1947); Sinko Tool & Mfg Co v. Casco Products Co, 89 F 2d 916 (32 USPQ 618)(CA 7, 1937); Harte & Co Inc v. L E Carpenter & Co, 138 USPQ 578, 582, 583 (SD NY, 1963).

[2]Shaw v. E I duPont de Nemours & Co, 152 USPQ 364 (VT Sup Ct, 1966), on rehearing, 152 USPQ 723 (VT Sup Ct, 1967); Eureka v. Henney Motor Co, 91 F 2d 708 (34 USPQ 274)(CA 3, 1973); Aktiebolaget Bofors v. United States, 194 F 2d 145 (91 USPQ 285)(CA DC, 1951); Cassidy v. Evan L Reed Mfg Co, 293 F 797 (ED IL, 1923).

[3]B & J Mfg Co v. Hennessy Industries Inc, 194 USPQ 496 (ND IL, 1976). Also see: Florida Canada Corp v. Union Carbide & Carbon Corp, 280 F 2d 193 (126 USPQ 163)(CA 6, 1960); Automatic Radio Mfg Co v. Hazeltine Research Inc, 339 US 827, 836 (85 USPQ 378, 379) (1950).

[4]Sinko Tool & Mfg Co v. Casco Products Co, fn 1; Radio-Craft Co v. Westinghouse Electric & Mfg Co, 7 F 2d 432 (CA 3, 1925); B & J Mfg Co v. Hennessy Industries Inc, fn 3; Aspinwall Mfg Co v. Gill, 32 F 697 (D NJ, 1887).

[5]Shaw v. E I duPont De Nemours & Co, fn 2.

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§12A. Make, Use, Sell and/or Lease

Aside from a process patent, the patent right [see §2] is concerned with the manufacture, use and sale of the patented device or product. And, this patent right is divisible. "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee." [1] Accordingly, a patent owner may authorize another to make and use patented articles,[2] but withhold his right to sell them. If the licensee does sell them, he infringes the right of the patentee.[3] Similarly, a patent owner may authorize another to make and lease patented devices, but withhold his right to sell them.[4] Likewise, if a party has made patented devices without authority, or has purchased the devices from one not having authority to sell them, the patent owner may properly give that party a limited license to use and/or sell such devices. In the absence of such a license, the patent owner not only may recover damages from the manufacturer for making and selling infringing devices, but also may obtain an injunction against the purchaser prohibiting future use of the infringing devices.[5]

One court has held that a process patent confers only the right to exclude others from using the process, and not the right to exclude others (including process licensees) from selling unpatented products made by the process.[6]

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[1]Adams v. Burke, 84 US 453, 456 (1873).
[2]A license to "use" implies the right to make for use where the license to use would otherwise not benefit the licensee. Illingworth v. Spaulding, 43 F 827 (D NJ, 1890).
[3]United States v. General Electric Co, 272 US 476, 490 (1926).
[4]Kirby v. United States, 297 F 2d 466 (132 USPQ 84)(CA 5, 1961).
[5]Birdsell v. Shaliol, 112 US 485 (1884).
[6]United States v. Studiengesellschaft Kohle MBH, 426 F Supp 143 (193 USPQ 605)(DC DC, 1976). Compare Ethyl Corp v. Hercules Powder Co, 232 F Supp 453 (139 USPQ 471)(D DE, 1963).

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§12B. Resale

A patent owner will frequently sell its patented products to distributors and/or retailers for resale. sometimes, the initial sales are made under an agreement that purports to grant the distributor an express license to sell.

In general, the first authorized sale of a patented product frees the product from the scope of the patent monopoly.[1] Hence, the purchaser of patented products from the patent owner does not require a license to resell the products. Moreover, the imposition of resale restrictions upon the purchaser ordinarily constitutes patent misuse and may constitute an antitrust violation.[2]

Also, it is substantially settled that a contract clause prohibiting a distributor of patented products from manufacturing or distributing competing products constitutes patent misuse.[3]

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[1]Western Electric Co Inc v. Milgo Electronic Corp, 190 USPQ 546, 549 (SD FL, 1976).

[2]Ansul Co v. Uniroyal Inc, 448 F 2d 872, 879-81 (169 USPQ 759, 763-5)(CA 2, 1971); Hensley Equipment Co Inc v. Esco Corp, 383 F 2d 252 (155 USPQ 183)(CA 5, 1967); American Industrial Fastener Corp v. Flushing Enterprises, 362 F Supp 32 (179 USPQ 722)(ND OH, 1973). Compare: Tripoli Co v. Wella Corp, 425 F 2d 932 (CA 3, 1970); Carter-Wallace Inc v. United States, 449 F 2d 1374, 1377-82 (171 USPQ 359, 361-5 (Ct Cls, 1971). Also see: United States v. Arnold, Schwinn & Co, 388 US 365 (1967); United States v. Glaxo Group Ltd, 302 F Supp 1 (162 USPQ 513)(D DC, 1969), 163 USPQ 668 (D DC, 1969), further proceedings, 328 F Supp 709 (170 USPQ 447)(D DC, 1971), 410 US 52 (176 USPQ 289)(1973).

[3]Berlenbach v. Anderson and Thompson Ski Co, 329 F 2d 782 (141 USPQ 84)(CA 9, 1964); F C Russell Co v. Consumer Insulation Co, 226 F 2d 373 (107 USPQ 131)(CA 3, 1955); F C Russell Co v. Comfort Equipment Corp, 194 F 2d 592 (93 USPQ 119)(CA 7, 1952); Krampe v. Ideal Industries Inc, 347 F Supp 1384 (175 USPQ 688)(ND IL, 1972); Dubuit v. Harwell Enterprises Inc, 336 F Supp 1184 (171 USPQ 550) (WD NC, 1971).

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§12C. Have Made

Ordinarily, a licensee has an implied right to have others make licensed devices or materials for it.[1] However, this implied right may be completely or partially nullified by express language.[2] In this connection, it has been held that under an "indivisible" license the licensee is without authority to contract with another to manufacture licensed devices for it.[3] Similarly, it has been held that a license granting the right to manufacture and sell "the apparatus of the licensee's manufacture" does not authorize the licensee to have the apparatus manufactured for it by others but requires manufacture to be in the licensee's own plant and by its own employees.[4]

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[1]Heywood-Wakefield Company v. Small, 96 F 2d 496 (CA 1, 1938); Johnson Railroad Signal Co. v. Union Switch & Signal Co., 55 F 487 (CA 3, 1893); Harshberger v. Tarrson, 87 F Supp 43 (ND Ill, 1949), affirmed, 184 F 2d 628 (CA 7, 1950); I. F. Laucks, Inc. v. Balfour Guthrie & Co., Limited 35 USPQ 206, 215 (WD Wash, 1937); Marconi Wireless Telegraph Co. v. Simon, 227 F 906, 910 (SDNY, 1915), reversed on other grounds and remanded, 246 US 46 (1918).

[2]See Blohm & Voss AG v Prudential-Grace Lines, Inc., 174 USPQ 484, 498 (D Md, 1972), reversed on other grounds, 489 F 2d 231 (CA 4, 1973).

[3]Rock-Ola Mfg. Corp. v. Filben Mfg. Co., 168 F 2d 919 (CA 8, 1948).

[4]Westinghouse Electric Co. v. Tri-City Radio Electric Supply Co., 23 F 2d 628, 631 (CA 8, 1927); Radio-Craft Co. v. Westinghouse Electric & Mfg. Co., 7 F 2d 432, 434 (CA 3, 1925). Contra: Westinghouse Electric & Mfg. Co. v. Cutting & Washington Radio Corporation, 294 F. 671 (CA 2, 1923). Also see Reynolds Spring Company v. L. A. Young Industries, Inc., 101 F 2d 257 (CA 6, 1939).

§12D. Less Than All Claims

Ordinarily, a license may be granted under less than all of the claims of a patent.[1] Such occasion might arise when a patent contains one set of claims directed to a process and another set of claims directed to apparatus, and the licensee is to acquire rights under either one set of claims or the other but not both. Likewise, a licensor may license one group of manufacturers under "process" claims of a patent and license another group of manufacturers under "product" claims of the same patent.[2] As a matter of construction, a license "to manufacture and sell and to use in accordance with any system claim" certain valves covered by article claims is not limited to the system claims but extends to the article claims as well.[3]

FORM 12D.01 EXCLUSIVE LICENSE; LESS THAN ALL CLAIMS

ABC hereby grants to XYZ the exclusive right and license to make, have made, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by claims 1-5 inclusive (and no other claims) of said Letters Patent 8,765,432.

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[1]"Each claim is, in effect, a separate and distinct patent; and the right to use one patent does not carry with it the right to use the others without a further license." United Nickel Co. v. California Electrical Works, 25 F 475 (D Cal., 1885).
[2]SMC Corp. v. Radio Corp. of America, 167 USPQ 196, 214 (SDNY, 1970).
[3]U. S. Industries, Inc. v. Camco, Inc., 277 F 2d 292 (CA 5, 1960).

§12E. Sale of Components

The right of a licensee to make and sell components of licensed devices may be restricted by implication or express provision. For example, when an agreement speaks in terms of complete licensed devices only, at least one court has held that the licensee does not have the right to sell components to other manufacturers.[1] Also, another court has held that it is not patent misuse to restrict a licensee's sales of components, especially adapted for fabrication into patented devices, to other licensees.[2]

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[1]Eureka Co. v. Henney Motor Co., 91 F 2d 708 (CA 3, 1937).
[2]White v. Tak Trak, Inc., 140 USPQ 156, 165 (SD Cal, 1963).

§13. Territorial Limitations

In the absence of a contract provision or conduct to the contrary, a license under a specified United States patent is implicitly coextensive in territory with the patent and does not extend beyond the territorial limits of the United States.[1] However, a license granted primarily in terms of subject matter--for example, a license to manufacture products in a specified field under patents that are not specifically identified--may constitute a worldwide license in the absence of any designation to the contrary.[2] To remove all doubt concerning the territorial extent of a license, the licensed territory should be expressly set forth in the written agreement.

A license to make, use and sell a patented product, or use a patented process, may properly be granted either in the entire territory in which patents are owned by the licensor, or in some subdivision thereof. The Patent Code specifically provides that a party may "convey an exclusive right under his application for patent, or patent, to the whole or any specified part of the United States." [35 USC §261 (1952).] And, a number of courts have, expressly or impliedly, approved the transfer of patent rights that have been limited territorially, for example:

(1) by country;[3]

(2) by state;[4]

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[1]Cold Metal Process Co v. United Engineering & Foundry Co, 235 F 2d 224, 229 (110 USPQ 332, 336)(CA 3, 1956), 107 F 2d 27, 31 (42 USPQ 165, 170)(CA 3, 1939).

[2]American Cyanamid Co v. Ellis-Foster Co, 190 F Supp 277 (128 USPQ 34) (D NJ, 1960), affirmed, 298 F 2d 244 (132 USPQ 302)(CA 3, 1962).

[3]Brownell v. Ketcham Wire & Mfg Co, 211 F 2d 121 (100 USPQ 338)(CA 9, 1954); Becton, Dickinson & Co v. Eisele & Co, 86 F 2d 267 (32 USPQ 172)(CA 6, 1936); Blohm & Voss AG v. Prudential-Grace Lines Inc, 346 F Supp 1116, 1132-7 (174 USPQ 484, 497-501)(D MD, 1972), reversed on other grounds, 489 F 2d 231 (180 USPQ 165)(CA 4, 1973); Elliott Co v. Lagonda Mfg Co, 205 F 152 (WD PA, 1913), affirmed, 214 F 578 (CA 3, 1914).

[4]Keeler v. Standard Folding Bed Co, 157 US 659 (1895); Industrial Ma-

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cense to manufacture patented products at a specified factory may properly be accompanied by an express covenant that the licensee will not manufacture the patented products at any other place.[12]

Cases ¶69,595 (ND IL, 1959); United States v. L D Caulk Co, 126 F Supp 693 (103 USPQ 372)(D DE, 1954); Osmose Wood Preserving Co of Canada v. Osmose Wood Preserving Co of America, 74 F Supp 435 (75 USPQ 72)(WD NY, 1947). Compare Mettalurgical International v. Kawecki Industries, 171 USPQ 348 (ED PA, 1971).

[12]Cassidy v. Evan L Reed Mfg Co, 293 F 797 (ED IL, 1923).

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§14. Quantity Limitations

A quantity or quota provision in a patent license agreement may relate (1) to the minimum number of patented devices or articles that the licensee must make, (2) to the maximum number of patented products that the licensee may make, or (3) to the maximum number of unpatented items that may be produced by the licensee by a patented machine or process. A minimum quota provision, which may be used to insure exploitation by the licensee, will be considered in Section 32, while the two types of maximum quota provisions will be discussed below.

A license limited in respect to the maximum number of patented products that may be made by the licensee operates within the scope of the patent grant and serves to accord the licensee immunity from infringement liability. However, such immunity extends solely to products produced by the licensee within the authorized number; patented products produced in excess of the licensed number are infringing products.[1] Also, it appears that maximum quotas, at least to the extent that they are confined to the production of patented products, may properly be based on a percentage of either industry sales or the licensor's sales.[2]

A restriction on the total number of unpatented items that may be made by a licensee is clearly objectionable. But, a limitation in a patent license agreement concerning the number of unpatented products that the licensee may produce *by a patented machine or process* is in a different category. So long as the licensee is free to make any number of unpatented items by processes or machines other than those licensed, the quota limitation solely restricts the extent of use of the patented machine or process and, therefore,

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[1]Aspinwall Manufacturing Co. v. Gill, 32 F 697 (DNJ, 1887).
[2]United States v. E. I. Du Pont De Nemours & Co., 118 F Supp 41,226 (D Del, 1953), affirmed on other grounds, 351 US 377 (1956); United States v. General Electric Co., 82 F Supp 753, 876 (DNJ, 1949). Also see: Goshem Rubber Works v. Single Tube Automobile & Bicycle Tire Co., 166 F 431 (CA 7, 1908); Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co., 154 F 358 (CA 7, 1907).

§15. Style, Use and Customer Limitations

Most products and devices are adapted to be made in a variety of styles, used in diverse fields, used in different territories, sold in combination with other products or devices, and sold through various trade channels. Not uncommonly, a licensor finds it desirable to limit the scope of the license in one or more of these areas. Frequently, limitations of this type are generically referred to as "field-of-use" limitations.[1]

Usually, a product patent covers a variety of species, types or styles of a particular product, and a process patent covers the processing or making of a variety of species, types or styles of a particular product. In general, the owner of the patent may grant a license limited in respect to the styles or classes of a patented product that are authorized to be made and used or sold, or the styles or classes of a product that are authorized to be made or processed by a patented process. Simple style limitations have received judicial approval.[2] Additionally, it appears that the licensor may exact a covenant from the licensee that it will not make any styles of the patented product,

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[1]In addition to the discussion in this section, see: Rosenberg, The Metes and Bounds of the Defined-Field Patent License, 53 JPOS 555 (1971); Cooke, Defined Field Licenses Revisited, 52 JPOS 378 (1970); Gibbons, Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition, 66 Columbia L R 423 (1966); Harmon, Antitrust and Misuse Implications of the Defined Field License, 45 JPOS 463 (1963).

[2]Bela Seating Co v. Poloron Products Inc, 297 F Supp 489 (160 USPQ 646)(ND IL, 1968), affirmed, 438 F 2d 733 (168 USPQ 548)(CA7, 1971); Barr Rubber Products Co v. Sun Rubber Co, 277 F Supp 484 (156 USPQ 374)(SD NY, 1967), affirmed on antitrust issues, 425 F 2d 1114 (165 USPQ 429)(CA 2, 1970); Atlas Imperial Diesel Engine Co v. Lanova Corp, 79 F Supp 1002 (178 USPQ 319)(D DE, 1948). Also see: Rubber Co v. Goodyear, 76 US 788 (1896); Becton, Dickinson & Co v. Eisele & Co, 86 F 2d 267 (32 USPQ 172)(CA 6, 1936); Popsicle Corp v. Good Humor Corp, 66 F 2d 659 (18 USPQ 223)(CA 3, 1933); Whitfield & Sheshunoff Inc v. Fairchild Engine & Airplane Corp, 158 F Supp 463 (117 USPQ 22)(ED NY, 1957), affirmed, 269 F 2d 427 (122 USPQ 422)(CA 2, 1959); Q-Tips Inc v. Johnson & Johnson, 109 F Supp 657 (95 USPQ 258)(D NJ, 1951); Ruckstell Sales & Mfg Co v. Perfecto Gear Differential Co, 28 F 2d 407 (ND CA, 1928).

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a licensor may desire either to prohibit its manufacturing licensee from selling the patented device alone or to limit the style of other mechanisms with which its licensee may sell the patented device. Since this type of limitation is a direct restriction solely on the right of the licensee to sell patented devices, it has been held to be within the scope of the patent grant.[7]

Many patented devices are adapted to be used in diverse fields. A licensor may desire to limit the licensee's right to sell patented devices for use in certain fields only. This limitation is, in effect, a limitation on the class of customers to whom the licensee may sell. Thus, customers can be classified according to the expected and usual use to which they will put the patented device. For example, one group of customers may normally make only a private use of the patented article, while another group may normally make only a commercial use of the article. In such case, a licensee might be limited to selling the patented article solely to one of the two groups. Limited licenses to sell to customers who will use the patented device solely in certain fields or for certain prescribed purposes have been uniformly upheld by the courts.[8]

(26 USPQ 102)(CA 1, 1935); Consolidated Packaging Machinery Corp v. Kelly, 1957 Trade Cases ¶68,729 (ND IL, 1957), affirmed on other grounds, 253 F 2d 49 (116 USPQ 276)(CA 7, 1958); United States v. Crown Zellerbach Corp, 141 F Supp 118 (110 USPQ 399)(ND IL, 1956); Fox Solid Pressed Steel Co v. Schoen, 77 F 29 (WD PA, 1896), affirmed on other grounds, 84 F 544 (CA 3, 1898). But compare: Radio Corp of America v. Hygrade Sylvania Corp, 10 F Supp 879 (D NJ, 1934); Radio Corp of America v. United Radio & Electric Corp, 50 F 2d 206 (D NJ, 1926).

[7]Vulcan Mfg Co v. Maytag Co, 73 F 2d 136 (23 USPQ 96)(CA 8, 1934). Also see: Melard Mfg Co v. Chase Brass & Copper Co Inc, 1959 Trade Cases ¶69,595 (ND IL, 1959); American Optical Co v. New Jersey Optical Co, 58 F Supp 601 (65 USPQ 114)(D MA, 1944); Perbal v. Dazor Mfg Corp, 161 USPQ 169, 182 (MO Sup Ct, 1968).

[8]General Talking Pictures Corp v. Western Electric Co, 304 US 175 (37 USPQ 357)(1938), on rehearing, 305 US 124 (39 USPQ 329)(1938); Automatic Radio Mfg Co v. Hazeltine Research Inc, 339 US 827 (85 USPQ 378)(1950); Armstrong v. Motorola Inc, 374 F 2d 764 (152 USPQ 535)(CA 7, 1967); Aluminum Co of America v. Sperry Products Inc, 285 F 2d 911 (127 USPQ 394)(CA 6, 1960); Hazeltine Research v.

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Another consideration is a limited license authorizing a manufacturing licensee to sell patented devices to customers individually approved or licensed by the licensor. This limited license would appear to be within the scope of the patent grant because it merely concerns the licensee's right to sell patented devices. Also, the customer approval or licensing would seem to be supported by the line of authority holding that a patent owner may grant user licenses and require such licensees to purchase patented devices for use under the license from authorized manufacturing licensees.[13] The Fifth Circuit has held that permitting manufacturing licensees to sell machinery solely to user licensees is not an illegal extension of the patent monopoly.[14] And, several other courts have noted, without apparent disapproval, customer limitations of the type under consideration.[15] However, in the case of government regulated industries, restrictive customer licensing has been viewed with disfavor.[16]

Finally, one court has held that a "license" agreement granting a *purchaser* the exclusive right to use and sell a patented product in a designated product use area throughout an exclusive territory, and to sublicense others to use the product obtain-

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Co, 23 F 2d 628 (CA 8, 1927); Radio-Craft Co v. Westinghouse & Mfg Co, 7 F 2d 432 (CA 3, 1925); Westinghouse Mfg Co v. Cutting & Washington Radio Corp, 294 F 671 (CA 2, 1923).

[13] Steiner Sales Co v. Schwartz Sales Co, 98 F 2d 999 (38 USPQ 15) (CA 10, 1938); United States v. Consolidated Car-Heating Co Inc, 87 USPQ 20 (SD NY, 1950). Also see: Baldwin-Lima-Hamilton Corp v. Tatnall Measuring Systems Co, 169 F Supp 1, 25-28 (120 USPQ 34, 52-5)(ED PA, 1958), affirmed per curiam, 268 F 2d 395 (121 USPQ 363)(CA 3, 1959); Foster v. Goldschmidt, 21 F 70 (SD NY, 1884).

[14] In re Yarn Processing Patent Validity Litigation, 541 F 2d 1127 (192 USPQ 241)(CA 5, 1976).

[15] Cream Top Bottle Corp v. Bailes, 62 F 2d 714 (16 USPQ 106)(CA 10, 1933); Deering, Milliken & Co v. Temp-Resisto Corp, 160 F Supp 463 (116 USPQ 386)(SD NY, 1958); Electrical Fittings Corp v. Thomas & Betts Co, 3 FRD 256 (D NJ, 1943).

[16] State of Missouri ex rel Baltimore & Ohio Tel Co v. Bell Telephone Co, 23 F 539 (ED MO, 1885). Also see: State ex rel Postal Telegraph Cable Co v. Delaware & A Telegraph & Tel Co, 47 F 633 (D DE, 1891), affirmed, 50 F 677 (CA 3, 1892).

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FORM 15.01 NONEXCLUSIVE LICENSE; STYLE LIMITATION

ABC hereby grants to XYZ a nonexclusive paid-up, royalty-free license under said patent, and any reissue thereof, to make, use and/or sell filaments having, in the drawn state, a maximum cross-sectional dimension of not more than 5 mils (.005 inches).

FORM 15.02 NONEXCLUSIVE LICENSE; STYLE LIMITATION

ABC hereby grants unto XYZ the nonexclusive right and license under said Letters Patent to make, have made, use and sell throughout the United States, its territories and possessions, stationary, marine, industrial and automotive engines with a piston displacement of not more than 1,000 cubic inches.

FORM 15.03 NONEXCLUSIVE LICENSE; STYLE LIMITATION

ABC hereby grants to XYZ a nonexclusive right and license under said Letters Patents to make, use and sell throughout the United States automatic transmissions identical to the sample which has been deposited by XYZ with ABC and which is identified in Schedule A.

XYZ agrees not to directly or indirectly engage in the manufacture or sale of any automatic transmissions covered by said Letters Patent other than those licensed hereunder, except such as XYZ might manufacture and furnish another licensee of ABC, and then only such constructions thereof as such other licensee should be licensed by ABC to manufacture and sell.

FORM 15.04 NONEXCLUSIVE LICENSE; LIMITED TO STYLE; LIMITED AS TO PLANTS AND PRODUCTS

ABC hereby grants unto XYZ a nonexclusive license, to manufacture in any of its plants or factories and in such plants or factories as it may hereafter own or lease, and to use, vend and lease throughout the United States of America and its possessions and in any foreign country, (1) aircraft engines, aircraft type engines and/or parts thereof; (2) aircraft and/or parts thereof; and (3) apparatus or equipment and/or parts thereof,

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intended for use or application to, on or with aircraft, embodying, utilizing, comprising or including any and all of the processes; and/or apparatus and/or products, covered by Letters Patent of the United States and foreign countries and applications therefor which ABC owns, provided that XYZ shall not have the right under said license to manufacture or process cylinders or other engine parts for other manufacturers, or engines or other aircraft parts other than XYZ 's without ABC's consent.

FORM 15.05 NONEXCLUSIVE LICENSE; LIMITED TO UNFINISHED ARTICLES; LIMITED AS TO CLASS OF CUSTOMERS

ABC hereby grants to XYZ a nonexclusive license to practice throughout the United States the inventions covered by said Letters Patent in the manufacture of pressed glass blanks for cutting, to be sold only to cutting houses for use in the manufacture of cut glassware.

It is understood by the parties hereto that the practice of any of said patented inventions by XYZ in finishing glassware to be put upon the market without cutting, otherwise known as pressed glassware, or sold to other than cutting houses, will be an infringement of said Letters Patent; it being the intention and purpose of this license that said patented inventions shall not be used by XYZ in the manufacture of "imitation cut glassware" or other pressed glassware.

FORM 15.06 NONEXCLUSIVE LICENSE LIMITED TO MANUAL APPARATUS

ABC hereby grants to XYZ a nonexclusive license to manufacture, use and sell throughout the United States manually operated feather picking apparatus covered by the claims of said Letters Patent.

The parties understand and agree that this license is limited to manually operated apparatus and that it does not extend to or include automatic apparatus, that is, apparatus wherein a conveyor or

son, firm or corporation, except for repairs to machines previously sold by XYZ.

FORM 15.09 EXCLUSIVE LICENSE; CUSTOMER LIMITATION (FIELD OF USE)

ABC hereby grants to XYZ the exclusive right to make, use and vend the inventions covered by said Letters Patents for the following purposes and no others; that is to say, for the purpose of constructing and operating telegraph wires and instruments within the corporate limits of any of the incorporated cities or villages, or other incorporated municipalities analagous to cities and villages, in any of the states and territories of the United States, when said telegraph lines and instruments are used solely by the municipal authorities for fire-alarms or the transmission of police or other municipal intelligence.

FORM 15.10 NONEXCLUSIVE LICENSE; CUSTOMER LIMITATION (FIELD OF USE)

ABC hereby grants to XYZ a nonexclusive license to manufacture said apparatus and to sell said apparatus of XYZ's manufacture, as follows: (a) To radio amateurs for use in radio amateur stations; (b) To radio experimenters and scientific schools or universities, for use in experimental and scientific school or university radio stations; (c) To purchasers in the United States for use in their own non-commercial land radio stations, i.e., stations used for the private purposes of their owners, and which do not receive or transmit for others commercial messages for money or other valuable consideration.

FORM 15.11 NONEXCLUSIVE LICENSE; CUSTOMER LIMITATION (FIELD OF USE)

ABC hereby grants to XYZ a nonexclusive license to manufacture and sell throughout the United States power supply and power amplifying units embodying the inventions of said Letters Patents for radio amateur reception, radio experimental reception, and radio broadcast reception.

§16. Price Limitations

This section is concerned with price control exercised by a licensor over a manufacturing licensee.[1] It is possible to exercise such control, for example, by fixing the absolute or minimum price at which the licensee may sell patented articles, or by binding the licensee to sell at the same price, or at not less than the price, used by the licensor in its own sales.

Ordinarily, price fixing is illegal *per se*.[2] However, in the 1926 *General Electric* case, the Supreme Court held that price limitations were permissible in patent licenses at least within the context of the facts presented to it in that case.[3] Based on the doctrine of the *General Electric* case, price fixing agreements involving patents have been approved by a number of lower courts.[4] Nevertheless, the use of any price limitations in patent licenses is on an extremely precarious footing. Since 1926, the Supreme Court has had occasion to reconsider the General Electric rule. Although a majority of the Court has not overruled the *General Electric* case, neither has a majority reaffirmed it.[5] In these circumstances, the value of the *General Electric* case as a reliable precedent has been considerably diminished.

Moreover, the extent to which price control by patent license is still permissible at all has been

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[1] In addition to the discussion in this section, see Price, Jr., Price Restrictive Patent Licenses, 50 JPOS 127 (1968).

[2] United States v. Socony-Vacuum Oil Co., 310 US 150 (1940); United States v. Trenton Potteries Co., 273 US 392 (1927).

[3] United States v. General Electric Company, 272 US 476 (1926). Also see Bement v. National Harrow, 186 US 70 (1902).

[4] Prestole Corp. v. Tinnerman Products, Inc., 271 F 2d 146, 156-7 (CA 6, 1959); Glen Raven Knitting Mills v. Sanson Hosiery Mills, 189 F 2d 845 (CA 4, 1951); Straight Side Basket Corporation v. Webster Basket Co., 82 F 2d 245 (CA 2, 1936); United States v. Huck Manufacturing Co. 227 F Supp 791 (ED Mich, 1964), affirmed per curiam, by an equally divided court, 382 US 197 (1965); Ronson Patents Corp. v. Sparklets Devices, Inc., 112 F Supp 676 (ED Mo, 1953); General Electric Co. v. Willey's Carbide Tool Co., 33 F Supp 969 (ED Mich, 1940).

[5] United States v. Huck Manufacturing Co., 382 US 197 (1965); United States v. Line Material Co., 333 US 287, 304 (1948).

Thirdly, the licensor must retain the absolute right to fix the sale price of the patented product and may not relinquish to the licensee any control over the determination or enforcement of prices.[10]

Fourthly, there is authority holding that a licensor is restricted to a price maintenance agreement with a single licensee.[11]

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[10]Cummer-Graham Co. v.Straight Side Basket Corporation, 142 F 2d 646 (CA 5, 1944); United States v. Krasnov, 143 F Supp 184, 198 (ED Pa, 1956), affirmed per curiam, 355 US 5 (1957). Also See Interstate Circuit v. United States, 306 US 208 (1939).

[11]Newburgh Moire Co. v. Superior Moire Co., 237 F. 2d (CA 3, 1956); Tinnerman Products, Inc. v. George K. Garrett Company, 185 F Supp 151 (ED Pa, 1960), corrected, 188 F Supp 815 (ED Pa, 1960), affirmed on other grounds, 292 F 2d 137 (CA 3, 1961). Contra: Westinghouse Electric Corporation v. Bulldog Electric Products Co., 179 F 2d 139 (CA 4, 1950); Indiana Mfg. Co. v. J. I. Case Machine Co., 154 F 365 (CA 7, 1907).

herein granted to XYZ. Terms of payment, time of delivery and differential for quantity shall all be set forth in the price schedules furnished by ABC to XYZ, and deemed for all purposes herein to be a part of the selling prices.

FORM 16.06 PRICE LIMITATION

ABC reserves the right to establish minimum sales prices for the articles or products which XYZ is licensed to manufacture hereunder and to modify or change such minimum prices from time to time during the life of this Agreement. XYZ shall not, without the consent of ABC, sell or offer for sale, or otherwise dispose of any of said licensed devices or products below said minumum sales prices, or on more favorable terms of sale than those set forth in any such scale of prices so established by ABC. Contemporaneously with the execution and delivery of this Agreement, XYZ has received from ABC a schedule of minimum prices, effective as of the date hereof, below which none of the products or devices made under this license shall be sold. ABC reserves the right, upon thirty (30) days' notice in writing by ABC to XYZ, to change said minimum prices from time to time during the life hereof.

FORM 16.07 PRICE LIMITATION

ABC grants this license on the express condition that the prices, terms and conditions of sale for use or sale in the United States, its territories and possessions of products embodying the invention covered by said Letters Patent and so long as such products continue to be covered by said patent, shall be no more favorable to the customer than those which from time to time ABC establishes and maintains for its own sales of similar or competing products under said patent to such or other similarly situated customer purchasing in like quantities. XYZ shall be notified of all such prices, terms and conditions of sale fixed by ABC. The prices, terms and conditions of sale of ABC may be changed by ABC from time to time,

§17. Tying Arrangements

In general, the exclusionary rights of a patent owner are limited to the specific invention defined in the patent claims and do not extend to supplies required for practicing the invention. Accordingly, except insofar as Section 271 of the Patent Act may be concerned, licenses that restrict the source from which the licensee may purchase supplies or components for practicing a patented invention are outside of the scope of the patent grant.

In line with this view, the courts have generally held that the grant of a license under a product, machine or process patent solely with the sale of supplies necessary for practicing the invention, or on the express condition that such supplies be purchased from the licensor, is a misuse of the licensed patent.[1] Also, the grant of a patent license with a tie-in of supplies or components that are required for making a patented product or machine, or for using a patented

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[1] B. B. Chemical Co. v. Ellis, 314 US 495 (1942); Leitch Manufacturing Company v. Barber Company, 302 US 458 (1938); Carbice Corp. v. American Patents Development Corp., 283 US 27 (1931); I. D. Russell Co. v. Dr. Salsbury's Laboratories, 198 F 2d 473 (CA 8, 1952); F. C. Russell Co. v. Comfort Equipment Corp., 194 F 2d 592 (CA 7, 1952); Lincoln Electric Co. v. Linde Air Products Co., 171 F 2d 223 (CA 6, 1948); Philad Co. v. Lechler Laboratories, 107 F 2d 747 (CA 2, 1939); American Lecithin Co. v. Warfield Co., 105 F 2d 207 (CA 7, 1939); J. C. Ferguson Mfg. Works v. American Lecithin Co., 94 F 2d 729 (CA 1, 1938); Jack Winter, Inc. v. Koratron Co., 181 USPQ 353, 398-399 (ND Cal, 1974); F. C. Russell Co. v. Consumers Insulation Co., 119 F Supp 119 (DNJ, 1954), affirmed on other grounds, 226 F 2d 373 (CA 3, 1955); Jacquard Knitting Machine Co. v. Ordnance Gauge Co., Inc. 108 F Supp 59 (ED Pa, 1952), affirmed, 213 F 2d 503 (CA 3, 1954); Miller v. Zaharias, 72 F Supp 29 (ED Wis, 1947), affirmed on other grounds, 168 F 2d 1 (CA 7, 1948); A. L. Smith Iron Co. v. Dickson, 52 F Supp 566 (D. Conn, 1943), reversed on other grounds, 141 F 2d 3 (CA 2, 1944); Universal Sewer Pipe Corp. v. General Construction Company, 42 F Supp 132 (ND Ohio, 1941); Slayter & Co. v. Stebbins-Anderson Co., 31 F Supp 96 (D Md, 1940), affirmed on other grounds, 117 F 2d 848 (CA 4, 1941). Also see: Sylvania Industrial Corporation v. Visking Corporation, 132 F 2d 947 (CA 4, 1943; Key Pharmaceuticals, Inc. v. Lowey, 182 USPQ 316 (SDNY, 1974); Dewey & Almy Chemical Co. v. Mimex Co., 37 F Supp 36 (EDNY, 1941), modified on other grounds, 124 F 2d 986 (CA2, 1942).

One court has held that a patent owner's policy of licensing a patented method at a fixed royalty on each job when the licensor does not perform the services, and at no royalty when the licensor performs the services, does not constitute patent misuse where the fixed royalty is not too high and does not produce uncertainty and wide fluctuations in cost.[5]

The application of the misuse doctrine to tying arrangements has been modified to a limited extent by Section 271 of the Patent Code.[6] [35 USC §271.] Under this section, certain tie-ins of *components* may be permissible provided the components constitute a material part of the patented invention, are especially made or especially adapted for use in the invention, and are not a staple article or commodity of commerce suitable for substantial noninfringing use.[7] Thus, it appears that a patent owner may sell such components and grant a license to purchasers to use the components in the patented product, system or process, or may license another to make and sell such components and authorize the

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Schmitt Foundation v. Stockham Valves & Fittings Inc, 292 F Supp 893, 906 (151 USPQ 474, 486)(ND AL, 1966)

[5]Watson Packer Inc v. Dresser Industries Inc, 193 USPQ 552 (ND TX, 1977).

[6]Scafetta, Jr, Ten Years After Aro II: The Effect of Patent Act Section 271 on the Patent Misuse Doctrine, 58 JPOS 69 (1976).

[7]Harte & Co Inc v. L E Carpenter & Co, 138 USPQ 578 (SD NY, 1963); Calhoun v. State Chemical Mfg Co, 153 F Supp 293 (115 USPQ 120) (ND OH, 1957); Sola Electric Co v. General Electric Co, 146 F Supp 625 (111 USPQ 203)(ND IL, 1956). Also see: Federal Sign & Signal Corp v. Bangor Punta Inc, 357 F Supp 1222, 1240 (177 USPQ 737, 749-50)(SD NY, 1973); General Tire & Rubber Co v. Firestone Tire Co, 349 F Supp 333, 341-5 (174 USPQ 427, 434-7)(ND OH, 1972); Nordberg Mfg Co v. Jackson Vibrators Inc, 153 USPQ 777 (ND IL, 1967); Pennsalt Chemicals Corp v. Universal Chemical Co, 145 USPQ 545 (ND TX, 1965); Buxton Inc v. Julen Inc, 223 F Supp 697 (140 USPQ 181)(SD NY, 1963); Amalgamated Dental v. William Getz Corp, 90 USPQ 339 (ND IL, 1951); Calhoun v. United States, 339 F 2d 665 (143 USPQ 439)(Ct Cls, 1964). But compare: Rohm & Haas Co v. Dawson Chemical Co, 191 USPQ 691 (SD TX, 1976); Baldwin-Lima-Hamilton Corp v. Tatnall Measuring Systems Co, 169 F Supp 1, 31-3 (120 USPQ 34, 57-8)(ED PA, 1958), affirmed per curiam, 268 F 2d 395 (121 USPQ 363)(CA 3, 1959); Dr Salsbury's Laboratories v. I D Russell Co, 212 F 2d 414 (101 USPQ 137)(CA 8, 1954).

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FORM 17.01 NONEXCLUSIVE LICENSE TO MAKE AND SELL NONSTAPLE COMPONENTS FOR USE IN PATENTED CONSTRUCTION

ABC hereby grants to XYZ a nonexclusive license to make and sell throughout the United States [nonstaple] seals for use in said packing construction covered by said Letters Patents as a part of, repair for, or replacement in devices in which said packing construction is a part, and hereby licenses any purchaser from XYZ to use the seal so sold, in accordance with said patent.

FORM 17.02 NONEXCLUSIVE LICENSE TO MAKE AND SELL PATENTED COMPOSITION FOR USE IN PATENTED METHOD

ABC hereby grants to XYZ a nonexclusive license to make and sell throughout the United States molding compositions covered by said Letters Patent, and hereby licenses XYZ to authorize any purchaser from XYZ to use the patented molding compositions so sold in the method covered by said Letters Patent.

FORM 17.03 NONEXCLUSIVE USE LICENSE; LIMITATION AS TO SOURCE OF PATENTED DEVICES

ABC hereby grants to XYZ the nonexclusive right and license to use said patented towel cabinets, including any improvements thereon, for the term of this Agreement; restricted, however, to XYZ's own business and own use in the following cities and adjoining suburbs.

XYZ agrees to purchase said patented towel cabinets and improvements solely and exclusively from ABC or from a manufacturer authorized by ABC.

CHAPTER 3

MONETARY CONSIDERATION

§18. Prefatory

Patent licenses are usually granted in exchange for some form of monetary consideration. Broadly classified, the consideration may be fixed or variable. When the compensation is arranged on a variable basis, there may be provisions concerning minimum and maximum payments, and there usually are provisions concerning royalty reports and related accounting matters.

In reference to compensation, "royalty" is a term commonly associated with patent licenses. Although this term most frequently is used to refer to variable forms of compensation, it may also be used in a technical sense to refer to all forms of compensation.[1]

During the negotiation and preparation of the royalty provisions of a license agreement, careful attention must be given to the decisions concerning royalties in relation to package licensing [see §10], and to the decisions concerning pre-issuance, unreasonable, discriminatory and post-expiration payments [see §§18A-D].[2]

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[1]Hazeltine Corp v. Zenith Radio Corp, 100 F 2d 10 (39 USPQ 17)(CA 7, 1938).

[2]Also see Fisher, The Misuse Doctrine and Post Expiration-Discriminatory-and Exorbitant Patent Royalties, 51 JPOS 215 (1969).

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§18C. Discriminatory Payments

A patent license is not governed by the prohibitions against price discrimination embodied in Section 2(a) of the Robinson-Patman Act.[1] In general, a patent owner may license at different rates when there is no anti-competitive effect, or when the differentiation in the rate can be justified on a rational business basis.[2] However, in a series of cases, the use of discriminatory rates in the leasing of patented machines has been held to be a violation of Section 2 of the Sherman Act, a violation of Section 5 of the Federal Trade Commission Act, or misuse of patents.[3]

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[1]La Salle Street Press Inc v. McCormack and Henderson Inc, 293 F Supp 1004 (ND IL, 1968).

[2]La Salle Street Press v. McCormack & Henderson Inc, 445 F 2d 84, 94-6 (170 USPQ 305, 312-3)(CA 7, 1971); Congoleum Industries Inc v. Armstrong Cork Co, 366 F Supp 220, 231-2 (180 USPQ 264, 268-9)(ED PA, 1973); Bela Seating Co v. Poloron Products Inc, 297 F Supp 489, 503-4, 509 (160 USPQ 646, 657, 662)(ND IL, 1968), affirmed, 438 F 2d 733 (168 USPQ 548)(CA 7, 1971); Hanks v. Ross, 200 F Supp 605, 623 (132 USPQ 129, 143)(D MD, 1961); Pemco Products v. General Mills, 155 F Supp 433, 437 (115 USPQ 72, 76)(ND OH, 1957), affirmed per curiam on other grounds, 261 F 2d 302 (119 USPQ 454)(CA 6, 1958). Compare Allied Research Products Inc v. Heatbath Corp, 300 F Supp 656 (161 USPQ 527, 529-30)(ND IL, 1969). Also see: Carter-Wallace Inc v. United States, 171 USPQ 359, 367-9 (Ct Cls, 1971); Welch, The Significance of Field-of-Use Restrictions in Royalty Discrimination Between Patent Licensees, 57 JPOS 455 (1975); Gottlieb, Discriminatory Patent Licensing, 56 JPOS 241 (1974).

[3]Peelers Co v. Wendt, 260 F Supp 193 (151 USPQ 378)(WD WA, 1966); LaPeyre v. FTC, 366 F 2d 117 (151 USPQ 79)(CA 5, 1966); Laitram Corp v. King Crab Inc, 245 F Supp 1019 (147 USPQ 136)(D AK, 1965).

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§18E. Royalty Sharing

A division of royalties among cross licensees (patent owners) is permissible where the arrangement is otherwise reasonable.[1] However, one court has held that when *non-patent* holder competing machinery manufacturing licensees are given a share of the royalties collected by the licensor from users of the machines sold by them, the price of the machinery is effectively fixed, and the arrangement is per se illegal.[2]

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[1]Eg, Standard Oil Co v. United States, 283 US 163 (1931).
[2]In re Yarn Processing Patent Validity Litigation, 541 F 2d 1127 (192 USPQ 241)(CA 5, 1976).

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§19. Fixed Consideration

A fixed consideration may assume the form of a single lump sum payment, or a fixed sum payable in installments over a period of months or years, or a series of fixed sums each payable for a designated period of use of the invention (e.g., fixed monthly or annual payments).

This form of compensation offers certain advantages to both parties. From the licensee's standpoint, it is unnecessary to disclose its business affairs to the licensor by monthly reports, to maintain special books and records for the benefit of the licensor, or to permit regular audit of its accounts for royalty purposes by the licensor. Moreover, the licensee has unrestricted freedom to sell to or through affiliated corporations. From the licensor's standpoint, all risk involving the licensee's sales volume is shifted from the licensor to the licensee, and the uniform fixed payments afford the licensor an element of financial stability. Finally, because of the simplicity of the arrangement, possible disputes regarding payments under the contract are maintained at a minimum.

To encourage prompt payment of sums payable in installments, and to simplify the mechanics of recovery of unpaid installments, occasionally provision is made for acceleration. That is, upon the non-payment or late payment of any installment, the entire amount remaining unpaid becomes due and payable immediately.[1] Also, interest on overdue payments may be required.

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[1] Otto v. Orange Screen Co., 57 F Supp 134 (DNJ, 1944).

§20. Variable Consideration

As an alternative to receiving a fixed consideration, a licensor may agree to receive payments from a licensee in the form of "royalties" which are measured by prescribed activities of the licensee. There are two principal factors involved in royalty payments: first, the *rate* of payment (namely, the amount of money that must be paid for each designated unit dealt with pursuant to the license agreement) and, second, the *base* upon which payments are made (namely, the definition of the units themselves).

The royalty *rate* may be predicated upon a direct proportion relationship, a descending graduated basis, an ascending graduated basis or a differential basis. Under the first arrangement, a uniform price is payable for each unit made, processed or sold pursuant to the agreement; therefore, irrespective of the number of units dealt with, the unit-payment remains the same. If a descending royalty rate is employed, the payment per unit decreases as the number of units dealt with increases. Neither fixed unit royalty rates nor descending royalty rates, standing alone, appear objectionable.[1]

In connection with ascending royalty rates, the payment per unit increases as the number of units dealt with increases. Because ascending royalty rates are invariably imposed to compel, or at least to encourage, compliance with suggested quota or territorial limitations established by the licensor, they would seem to be subject to the same tests of legality that are applied to quota and territorial limitations in general. [See §§13-14.] When differential or separate royalty rates are employed, the licensee is offered one rate if purchases of supplies are made on the open market and a lower rate if purchases of supplies are made from the licensor. Since a differential royalty can serve to tie in supplies with the

[1]Arthur J. Schmitt Foundation v. Stockham Valves and Fittings, Inc. 151 USPQ 474, 485 (ND Ala, 1966); Eversharp, Inc. v. Fisher Pen Co., 204 F Supp 649, 669 (ND Ill, 1961); and other cases cited throughout this section.

ience and the absence of conditioning, royalty rates presumably could be properly applied:

1. To the licensee's sales of certain products that include both patented and unpatented components.[5]
2. To unpatented parts as well as to complete patented instrumentalities.[6]
3. To the licensee's sales of patented and competitive or similar articles.[7]
4. To the licensee's sales of certain products irrespective of whether any invention of the licensed patents is embodied therein.[8]
5. To the licensee's total sales of certain products whether or not manufactured in accordance with the process of any of the licensed patents.[9]
6. To the licensee's sales of an entire class of apparatus regardless of the extent to which the licensee uses any licensed patent.[10]

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231 (CA 4, 1973); Chandler v. Stern Dental Laboratory Co., 335 F Supp 580 (SD TX, 1971); Glen Mfg. Inc. v. Perfect Fit Industries, Inc., 324 F Supp 1133 (SD NY, 1971); Plastic Contact Lens Co. v. W.R.S Contact Lens, 169 USPQ 684 (SD NY, 1970); Mutchnik v. M S Willett Inc., 186 USPQ 427 (MD Ct App, 1975)(mutual convenience not essential); Richards v. Liquid Controls Corp., 186 USPQ 144 (IL App Ct, 1975).

[5]American Optical Co. v. New Jersey Optical Co., 58 F Supp 601 (D Mass, 1944).

[6]Wagner Electric Corporation v. Hydraulic Brake Co., 12 F Supp 837 (SD Cal, 1935).

[7]Flexwood Co. v. Faussner & Co., 145 F 2d 528 (CA 7, 1944); Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corporation, 56 F Supp 1010 (ND Ohio, 1944).

[8]Plastic Contact Lens Company v. Butterfield, 366 F 2d 338 (CA 9, 1966); Muth v. J. W. Speaker Corporation, 151 F Supp 188 (ED Wis, 1957); H-P-M Development Corporation v. Watson-Stillman Co., 71 F Supp 906 (DNJ, 1947).

[9]International Carbonic Engineering Co. v. Natural Carbonic Products, Inc. 57 F Supp 248 (SD Cal, 1944), affirmed, 158 F 2d 285 (CA 9, 1946).

[10]Automatic Radio Mfg. Co. v. Hazeltine Research, Inc. 339 US 827 (1950); McCullough Tool Co. v. Well Surveys, Inc. 343 F 2d 381 (CA 10, 1965); Hazeltine Research v. Avco Manufacturing Corp., 227 F 2d 137 (CA 7, 1955); Hazeltine Research v. Admiral Corp. 183 F 2d 953 (CA 7, 1950).

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To avoid disputes concerning the foregoing subjects, it will be apparent that the license agreement should be carefully drafted to clearly define what devices are subject to royalties, when they are subject to royalties, and, in appropriate circumstances, what constitutes a sale, what part of gross receipts is to be included in the sales base, and the effect of credit losses on royalties. In certain situations, special provision may be made for: a minimum unit royalty when royalties are otherwise based on a percent of sale price, the addition of interest on overdue royalty payments [Form 19.05], an allowance for royalties payable by the licensee to others, an exemption on the licensee's sales of licensed equipment to others licensed by the licensor, and/or the payment of but one royalty for each licensed unit sold by the licensee. When the licensee has some doubt concerning the validity and scope of the licensed patent, the parties may agree to a temporary low royalty rate until these issues have been adjudicated in a suit against a third party.[17] The agreement may further provide that termination thereof shall not affect the licensee's obligation to pay royalties that may have accrued up to the time of termination.[18]

When royalties are computed as a percentage of sale price, it is possible for a licensee to sell licensed devices to an affiliate at a price lower than it would ordinarily charge the public and thereby unfairly reduce royalty liability. In such circumstances, the licensor may be entitled to general equitable relief.[19] However, it is preferable to cover the matter specifically by contract. This can be done by prescribing

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[17]Galion Iron Works & Mfg. Co. v. J. D. Adams Mfg. Co., 105 F 2d 943 (CA 7, 1939).
[18]McEvoy Co. v. Kelly, 171 F 2d 837 (CA 5, 1948).
[19]Hazeltine Corporation v. Emerson Television-Radio, Inc., 23 USPQ 344 (SDNY, 1934).

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FORM 20.01 UNIT ROYALTIES; UNIFORM RATE

XYZ hereby agrees to pay to ABC a royalty of ten dollars ($10.00) for each machine made and sold under the license herein granted.

FORM 20.02 UNIT ROYALTIES; UNIFORM RATE; TOTAL SALES OF LICENSEE

XYZ agrees to pay to ABC, or to one whom ABC may designate in writing, a royalty of ten dollars ($10.00) for each automatic transmission made and sold by XYZ after the effective date of this Agreement, whether or not said automatic transmissions fall within the scope of one or more of the claims of said Licensed Patent, it being the understanding of the parties that such royalty arrangement is for the purpose of simplifying the determination of the royalty payable for the license herein granted.

FORM 20.03 UNIT ROYALTIES; UNIFORM RATE; TEMPORARY LOW RATE

XYZ agrees to pay to ABC royalties as follows:

(A) $5.00 per machine for all machines manufactured and sold subsequent to the date of this Agreement, embodying one or more claims of said patent until either one or more claims of said patent have have been held valid by a court of competent jurisdiction in a decision on the merits and of such scope as to cover machines now being made by XYZ and MNO Manufacturing Company, or until MNO accepts a license from ABC under said patent at a royalty of $15.00 per machine, or has been enjoined from manufacturing, selling and using machines under said patent or has ceased to manufacture such machines, whichever first occurs.

(B) From and after the happening of any of the above-mentioned events XYZ agrees to pay ABC a royalty of $15.00 per machine upon each machine manufactured or sold by XYZ embodying one or more claims of said patent.

FORM 20.07 UNIT ROYALTIES TO BE COLLECTED BY LICENSEE SELLING COMPONENTS FOR USE IN PATENTED CONSTRUCTION

There shall be paid to ABC for each packing construction used in accordance with said patent, a royalty of one-fourth cent (1/4¢) irrespective of the size of such construction. XYZ shall act as the agent of ABC in the collection of such royalty from purchasers of seals from XYZ for use in said packing constructions, and shall make payment to ABC in the manner hereinafter set forth.

FORM 20.08 UNIT ROYALTIES BASED ON SIZE OF LICENSED DEVICES

XYZ agrees to pay to ABC a royalty on all engines made and sold under the license herein granted. Royalties shall be payable on the basis of the piston displacement of each such engine as follows:

Under 500 cubic inches	$10 per engine
500-1000 cubic inches	$15 per engine
over 1000 cubic inches	$20 per engine

FORM 20.09 DEFINITION OF "SOLD"

For the purpose of computing royalties hereunder, an article shall be deemed sold when it is completed and ready for shipment to the customer.

FORM 20.10 DEFINITION OF "SOLD"

Licensed Devices shall be deemed to have been sold when billed out, or when shipped, or when paid for, whichever shall occur first.

FORM 20.11 DEFINITION OF "SOLD"

For the purpose of computing royalties hereunder, Licensed Devices shall be regarded as sold when they are billed out, or if not billed out, when they have been shipped, or otherwise delivered to the purchaser, except where such Licensed Devices are shipped by XYZ on consignment or memorandum, in which event the earned royalty shall

FORM 20.17 ROYALTY BASE: NET SALES OF LICENSED DEVICES; MINIMUM UNIT ROYALTY

XYZ agrees to pay to ABC a royalty of ten percent (10%) of the net selling price, but not less than fifty dollars ($50.00), for each and every Licensed Device sold by it and/or by its sublicensees, under the terms of this Agreement.

FORM 20.18 ROYALTY BASE: NET SALES OF LICENSED MACHINES; DESCENDING RATE

XYZ agrees to pay to ABC royalties on net sales in each 12-month period of machines made and sold under the license herein granted, as follows:

Under $1,000,000	1%
$1,000,000-$2,000,000	3/4%
Over $2,000,000	1/2%

FORM 20.19 ROYALTY BASE: NET SALES OF LICENSED DEVICES; ROYALTIES ON CERTAIN SALES SUBJECT TO NEGOTIATION

XYZ hereby agrees to pay to ABC from the date of this Agreement, as royalty for the use of said invention, eight percent (8%) of the net selling price of all devices made and sold under the license herein granted, provided however, that royalties payable on devices sold by XYZ to the United States government, or any agency thereof, shall be subject to negotiations between the parties thereto.

FORM 20.20 ROYALTY BASE: NET SALES OF LICENSED DEVICES; ALLOWANCE FOR ROYALTIES PAYABLE TO OTHERS

XYZ agrees to pay to ABC a royalty of five percent (5%) of the net selling price of said units, or the portions thereof embodying any of the inventions listed in Exhibit A hereof, it being understood that if any unit embodies more than one of said inventions but one royalty of five percent (5%) is to be paid on such unit regardless of the number of patents involved. In the event any unit upon which a royalty is payable hereunder includes inventions other

FORM 20.23 ROYALTY BASE: GROSS SALES OF PATENTED AND SIMILAR MATERIAL

XYZ agrees to pay to ABC an amount hereinafter called royalty equal to 10% of the gross sales of said patented material and any other wood veneer, wall covering or other material similar in character and general use to said patented material.

FORM 20.24 ROYALTY BASE: TOTAL SALES OF PRODUCT WHETHER PATENTS INVOLVED OR NOT

XYZ agrees to pay to ABC an amount of one cent ($0.01) for each pound of solid carbon dioxide manufactured and sold by XYZ whether or not such solid carbon dioxide has been manufactured in accordance with the methods, processes and apparatus of any one of the licensed patents.

FORM 20.25 ROYALTY BASE: NET SALES OF ENTIRE CLASS OF APPARATUS

XYZ agrees to pay ABC a royalty of two percent (2%) of the net selling price of all equipment manufactured and sold by XYZ embodying systems, apparatus for and methods of operation of hydraulic presses of the self-contained, high speed, oil pressure type, including all types of circuits, methods of control, and power and control elements therefor. It is specifically covenanted and agreed by and between the parties that said royalty shall be paid on all of the foregoing equipment irrespective of whether or not any patented invention of ABC is embodied therein.

FORM 20.26 ROYALTY BASE: NET SALES OF ENTIRE CLASS OF APPARATUS

As a consideration for the privilege of using the inventions of any desired number which XYZ may elect of ABC's patents in the radio and television field, XYZ agrees to pay to ABC a royalty of one percent (1%) of the net selling price of all radio and television receivers manufactured and sold by XYZ.

FORM 20.31 SALES TO AFFILIATES

Anything herein to the contrary notwithstanding, royalties with respect to all sales, transfers or consignments made by XYZ to an Affiliate (as hereinafter defined) or to any purchaser which otherwise does not deal at arms-length with it, shall be computed on an amount equal to the price at which XYZ, at the time of such sales, transfers or consignments, would invoice the same or similar items to purchasers dealing at arms-length with XYZ.

FORM 20.32 DEFINITION OF "AFFILIATE"

As used herein, "Affiliate" means (A) any entity in which XYZ or any of its stockholders, directors or officers has a direct or indirect ownership interest (other than insubstantial interests in publicly held companies) or (B) any entity which directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, XYZ.

FORM 20.33 SALES TO ASSOCIATES

If XYZ shall make any sales of Licensed Products to a subsidiary, associated or affiliated company, or through any agency or sublicensee, then the selling price subject to royalty shall be that charged to the consumer or customer, by XYZ's subsidiary, associated or affiliated company, or agency, or sublicensee.

FORM 20.34 SALES THROUGH RELATED COMPANY

XYZ shall have the right to conduct sales through a subsidiary or related company provided that XYZ shall be responsible for the payment of royalties and for other obligations under this Agreement, and the net selling price subject to royalty shall be deemed the price at which Licensed Devices are sold or resold by XYZ or by its subsidiary or related company, whichever be the highest.

§21. Minimum and Maximum Payments

Minimum payment provisions are of interest to the licensor, while maximum payment provisions are of interest to the licensee.

To guarantee that the licensor will receive some compensation even though the licensee may not exploit the licensed invention, provision may be made for an initial down payment of a fixed sum to supplement the conventional royalties otherwise payable. The down payment thus serves as a minimum payment. The parties can provide either that the down payment shall be completely independent of other royalties payable, or that it may be credited against future accrued royalties.

Correspondingly, to protect the licensor, a minimum royalty may be established. The agreement may provide, for example, that the minimum royalty shall equal at least a certain amount in designated time periods, or that it shall be paid on not less than a certain number of articles, irrespective of the extent of exploitation by the licensee under the license. In general, a minimun royalty is a proper and sufficient consideration to support a patent license agreement.[1] The payment of a minimum royalty may be mandatory or optional.

Mandatory minimum payments may be required for a fixed term of years or for the life of the licensed patent. During the prescribed period, in the absence of any provision to the contrary and unless the patent is invalid,[2] the licensee cannot refuse to make minimum payments and cannot terminate the license agreement.[3] Even if the licensee has an express right to terminate the agreement, it may be compelled to pay minimum royalties up to the date of termination when the obliga-

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[1]Automatic Radio Mfg. Co. v. Hazeltine Research, Inc. 339 US 827 (1950); Brawley v. Crosby Research Foundation, Inc., 68 USPQ 406 (Cal App Ct, 1946). Whether a minimum royalty has to be "reasonable" remains an open question. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 US 100, 139-140 (1969).

[2]See §§28 and 29.

[3]American Delinting Co. v. Pomeraning, 274 F 212 (MD Pa, 1921); International Photo Recording Machines, Inc. v. Microstat Corporation, 61 USPQ 334 (NY Sup Ct, 1944); Miller v. McClintock, 49 USPQ 458 (Minn Sup Ct, 1941).

fluctuations in the licensee's activities under the license, provision may be made for crediting certain royalties paid in one year against the minimum royalty required in a subsequent year.

Finally, to limit the licensee's liability, the license agreement may provide for the cessation of royalty payments after a certain amount has been paid to the licensor in each year or in total.[9] A maximum royalty payment provision is a limitation only and does not create an absolute obligation on the part of the licensee to pay the maximum amount designated.[10]

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[9]Tesra Company v. Holland Furnace Company, 73 F 2d 553 (CA 6, 1934).

[10]Grauer v. Schenley Products Co., 32 F Supp 225 (SDNY, 1940).

ference between the amount of said royalty and the sum of Twenty-four Hundred Dollars ($2,400) will be paid as an additional royalty to ABC.

FORM 21.06 MINIMUM ROYALTY; ADVANCE PAYMENT MANDATORY

XYZ agrees that, starting with the date of this Agreement, it will pay to ABC a minimum of twelve thousand dollars ($12,000) per year on account of royalties under the license provided herein, said annual minimum to be paid in advance installments of three thousand dollars ($3,000) per quarter,and such advance installments to apply against earned royalties due during the following quarterly period under the license provided herein, and it is further agreed that if and when royalties are payable in accordance with paragraph X hereof, the payment of such royalties shall be credited against the advance payment to be made by XYZ at the beginning of each calendar quarter as provided for in this paragraph.

FORM 21.07 MINIMUM ROYALTY; PAYMENT OPTIONAL; EXCLUSIVENESS SUBJECT TO TERMINATION

If payments made by XYZ to ABC in any one year do not total five thousand dollars ($5,000), ABC at its option may terminate the exclusive features of the license herein granted, and XYZ shall then have a nonexclusive license.

FORM 21.08 MINIMUM ROYALTY; PAYMENT OPTIONAL; EXCLUSIVENESS SUBJECT TO TERMINATION

In the event that XYZ, during any year after issuance of a patent or patents which contain claims covering said Licensed Devices as manufactured, used or sold by XYZ, shall not pay royalties in the minimum amount of Five Hundred Dollars ($500.00), or make a minimum payment in said amount, then ABC shall have the right to make the license granted hereunder nonexclusive.

FORM 21.12 MINIMUM ROYALTY BASED ON PRODUCTION; PAYMENT OPTIONAL; LICENSE SUBJECT TO TERMINATION

XYZ agrees that if beginning with January 1, 2000 it does not sell five hundred (500) devices annually per calendar year, ABC shall have the right at its option, within thirty (30) days after the end of each calendar year, in which XYZ has failed to sell five hundred (500) devices as aforesaid, to terminate this Agreement by notice in writing, provided, however, that if XYZ should make payment of a sum equal to the difference between the royalty on the number of devices actually sold and the royalty on five hundred (500) devices, such notice of cancellation shall not be effective, and this Agreement shall continue in effect.

FORM 21.13 MINIMUM ROYALTY; CARRY OVER PROVISION

In connection with said minimum royalty it is agreed that if in any year or years the royalty paid by XYZ exceeds the minimum above recited for that year or years, such excess may be taken into consideration and used by XYZ for its credit toward the minimum required in any year or years that the royalty called for by the actual sales of XYZ has not equaled the minimum specified, and in the event XYZ shall in any year pay royalty in excess of that called for by its actual sales in order to pay the minimum required for that year, and in any subsequent year shall have actual sales calling for a royalty in excess of the minimum, it may credit against royalty called for in excess of the minimum in the subsequent year the royalty paid in excess of that called for by actual sales in the said previous year, and XYZ shall be held to have complied with said minimum royalty requirement up to any specified date so long as its total royalty payments from the date of this Agreement to such date shall equal the total of the annual minimum royalties specified for the same period.

§22. Reports and Related Accounting Matters

In addition to specifying how royalties are to be computed, it is necessary to prescribe (a) when the licensee is obligated to render reports of royalties due and payable (and the contents of such reports) and (b) when the licensee is obligated to make payments of such royalties. And, so that the licensor may verify the licensee's reports and payments of royalties, it is customary for the licensee to agree to keep books and records of sales of licensed devices and to permit examination of such records by the licensor. Permission to examine books and records may be given broadly to any representative of the licensor, or limited to a certified public accountant or a designated accounting firm. The right of the licensor to inspect the books and records of the licensee does not by implication include the right to have the records copied and furnished to it.[1] When the licensor has a right to examine the books of the licensee, but fails to exercise this right and accepts reports and payments from the licensee without objection or protest for an unreasonable period, the licensor may be precluded from later attacking the correctness of the payments.[2]

To minimize the licensee's burden of maintaining books and records, it may be desirable to stipulate that the licensor's right to examine the licensee's books and records relating to any particular year is limited to a prescribed period (e.g., one year) following the end of that year. Additionally, to protect the licensee, the licensor may be expressly bound to maintain confidential all information concerning the licensee's operations. To permit an orderly windup of affairs upon termination of the license agreement, the parties may provide that the right of the licensor to examine the licensee's books and records shall survive termination for a prescribed period.

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[1]National Pigments & Chemical Co. v. C. K. Williams & Co., 94 F 2d 792, 796 (CA 8, 1938).

[2]Perbal v. Dazor Mfg. Corp., 161 USPQ 169, 174-176 (Mo Sup Ct, 1968).

thereof during the preceding month, which billing shall correctly represent the net sales prices and the total number of units billed out during said month, and to accompany said report with payment to ABC of five percent (5%) of the amount of said billing covering sales, provided, however, that if any part of billing so reported has not been paid for by the customer at the time of making said report, then as to said unpaid part, said five percent (5%) shall not be remitted until the time of making the next monthly report following the date of payment by the customer. With respect to accounts uncollectible, in whole or in part, XYZ shall not be required to pay a greater proportion of the five per cent (5%) than the proportion of said account collected by XYZ. In case XYZ writes off any account as uncollectible, in whole of in part, it shall so report to ABC, but in case any such items are subsequently collected, sufficient records shall be kept so that ABC shall receive due credit.

FORM 22.04 BOOKS AND RECORDS; EXAMINATION

XYZ agrees to make and keep full and accurate books and records showing the sales of Licensed Products sold under the license herein granted in sufficient detail to enable royalties payable hereunder to be determined, and further agrees that ABC shall be permitted to inspect such books and records from time to time, during business hours, as contain any data material to the computation of royalties hereunder, and to make copies thereof to the extent necessary to verify the royalty reports and payments provided by this Agreement.

FORM 22.05 REPORTS; RECORDS; EXAMINATION

XYZ agrees that it will render to ABC with each royalty payment specified in the preceding paragraph a written report setting forth the sales price of all Licensed Devices sold under this Agreement during the period covered by such statement, together with a computation of the royalty accruing by virtue

FORM 22.08 AUDITS

It is agreed that ABC shall have the privilege of having a certified public accountant audit all statements of account, reports, etc. provided for in this Agreement to be made by XYZ to ABC, as frequently as ABC may desire to have such audits made, and that XYZ shall place at the disposal of said certified public accountant for the purposes of this paragraph any and all records essential to the verification of such reports. The expense of such audits and verifications shall be borne by ABC.

FORM 22.09 VERIFICATION OF REPORTS

Each monthly report shall be subject to an independent verification, at the option and expense of ABC, by an independent certified public accountant selected by ABC, to whom all books and records of XYZ relating to Licensed Products and reasonably necessary to verify said reports shall be accessible at reasonable times and for reasonable periods to verify the reports and payments required by the preceding paragraph; provided that no more than four audits shall be made during each calendar year, and provided further, that the accountant shall not disclose to ABC the names of XYZ's customers or the prices charged by XYZ for Licensed Products.

FORM 22.10 ROYALTY AND AUDIT INFORMATION TO BE MAINTAINED CONFIDENTIAL

ABC agrees to hold strictly confidential all information concerning royalty payments and reports and all information learned in the course of any audit hereunder, except when it is necessary for ABC to reveal such information in order to enforce its rights under this Agreement.

FORM 22.11 EXAMINATION OF RECORDS AFTER TERMINATION

In the event of termination of this Agreement for any reason whatsoever, XYZ agrees to permit ABC, its auditors, accountants or agents to inspect all said

records and books of XYZ and to investigate generally all transactions of business carried on by XYZ pursuant to this Agreement and the license hereby granted, for a period of six (6) months after such termination.

of such sales; and XYZ agrees to keep a separate record in a suitable book or set of books provided for the purpose in sufficient detail to enable the royalties payable hereunder to be determined, and further agrees that it will permit such book or set of books and related records and accounts to be examined by an auditor or accountant authorized so to do by ABC at any reasonable time during business hours to the extent necessary to verify the reports, records and payments provided for herein. XYZ agrees not to destroy such records prior to the expiration of one year subsequent to the termination of this Agreement.

FORM 22.06 BOOKS AND RECORDS

XYZ agrees to keep full, accurate and complete records and books of account showing the quantity, cost and selling price of all automatic transmissions coming under the terms of this Agreement.

FORM 22.07 VERIFICATION OF REPORTS AND PAYMENTS; BOOKS OF ACCOUNT; EXAMINATION

XYZ hereby agrees that ABC shall have the right, during any normal working day for the life of this Agreement, to have a duly authorized agent or representative in its behalf come upon and enter the premises of XYZ's operations, plants or business premises to check and verify all statements, records, reports or payments made or required to be made by XYZ to ABC hereunder. XYZ further agrees to keep accurate books of account covering all sales made of Licensed Products, all orders received for Licensed Products, and all Licensed Products on hand. Such account or accounts shall be available for examination by ABC or a duly authorized agent or representative of ABC in its behalf, in accordance with the provisions of this paragraph, and for the purpose of verifying the correctness of any reports, statements or payments made by XYZ to ABC.

FORM 22.01 REPORTS; TIME OF ROYALTY PAYMENTS; BOOKS OF ACCOUNT; EXAMINATION

For the purpose of computing the royalties referred to in Paragraph X of this Agreement, the year shall be divided into quarters, beginning January 1, April 1, July 1, and October 1 of each year. Within thirty (30) days after the end of each quarter, reports shall be made by XYZ to ABC setting forth the number of devices, embodying the above-mentioned invention, which have been sold during the preceding quarter, and also showing the net selling price of such devices. XYZ's remittance for the full amount of royalties due for such quarter shall accompany such reports. XYZ agrees to keep complete and correct account of the number and sales price of said devices embodying the above-mentioned inventions made and sold, and ABC or its representative shall have the right to examine XYZ's books of account at all reasonable times to the extent and insofar as is necessary to verify the accuracy of the above-mentioned reports.

FORM 22.02 REPORTS; TIME OF ROYALTY PAYMENTS; BOOKS OF ACCOUNT; EXAMINATION

XYZ agrees to keep regular books of account and to render a statement within thirty (30) days after the end of each calendar quarter setting forth, under oath if requested, the class of units sold, the number of each class sold, the net selling price thereof, and the royalty due thereon, and shall accompany each such report with a remittance covering the royalty due. Such books of account shall be open at all reasonable business hours for inspection by ABC or its duly authorized representative.

FORM 22.03 REPORTS; TIME OF ROYALTY PAYMENTS

XYZ agrees to render a report (under oath if requested by ABC) to ABC on or before the last day of each month, setting forth the total billing covering sales by XYZ of the licensed equipment and parts

FORM 21.14 MAXIMUM ROYALTY

After XYZ has paid ABC royalties totaling fifty thousand dollars ($50,000), XYZ 's obligation to pay royalties shall cease, and XYZ shall thereafter have a royalty-free paid-up license under said patent.

FORM 21.15 MAXIMUM ROYALTY

XYZ hereby agrees to pay to ABC the sum of one dollar ($1.00) per unit for each set of Licensed Controls made and sold by it, until there has been paid to ABC the sum of fifty thousand dollars ($50,000).

FORM 21.09 MINIMUM ROYALTY; PAYMENT OPTIONAL; RIGHT TO GRANT ANOTHER LICENSE

If payments made by XYZ to ABC in any one year do not total five thousand dollars ($5,000), ABC may at its option license one other manufacturer to make and sell Licensed Devices on the same terms and conditions as are provided in this Agreement, except for the payment of advance royalties.

FORM 21.10 MINIMUM ROYALTY; PAYMENT OPTIONAL; LICENSE SUBJECT TO TERMINATION

During the life of this Agreement, the Agreement shall not be terminable for lack of diligence so long as the minimum royalty herein specified shall be paid. XYZ agrees that to entitle it to retain the license herein granted, a minimum royalty as follows shall be payable:

(a) For the first three years royalties on fifty (50) Licensed Devices per year.

(b) Thereafter royalties on twenty-five (25) Licensed Devices per year.

Failure on the part of XYZ to account to ABC for the annual minimum royalty hereunder shall constitute a breach of this Agreement and be cause for termination hereof in the manner and subject to the provisions of paragraph X hereof, and such termination shall be ABC's sole remedy for such breach.

FORM 21.11 MINIMUM ROYALTY; PAYMENT OPTIONAL; LICENSE SUBJECT TO TERMINATION

In the event that the royalties payable under this Agreement during any twelve (12) months' period shall not equal fifteen thousand dollars ($15,000), ABC shall have the right to notify XYZ of the amount of the deficiency. XYZ may thereupon within sixty (60) days pay to ABC the difference between the actual royalties received by ABC during the preceding twelve (12) months' period and fifteen thousand dollars ($15,000). In the event that XYZ fails to make such payment, ABC may as its sole remedy terminate this Agreement.

FORM 21.01 SUPPLEMENTARY INITIAL PAYMENT

In addition to the royalties specified herein, XYZ hereby agrees to pay to ABC the sum of five thousand dollars ($5,000) within ten days of the execution of this Agreement.

FORM 21.02 SUPPLEMENTARY INITIAL PAYMENT; CREDIT AGAINST ROYALTIES

The first annual royalty period shall commence with the date of execution of this Agreement. XYZ agrees to pay to ABC within ten days of such date of execution the sum of five thousand dollars ($5,000), which amount shall be credited only against the royalties due from XYZ to ABC for the first annual royalty period, and not otherwise.

FORM 21.03 ADVANCE ROYALTY PAYMENT

Upon execution of this Agreement, XYZ agrees to pay to ABC fifty thousand dollars ($50,000) as advance royalties, which amount shall be non-returnable but which shall be credited against royalties becoming due and payable from XYZ to ABC pursuant to the succeeding paragraph.

FORM 21.04 MINIMUM ROYALTY PAYMENT MANDATORY

The minimum royalty per calendar year under this Agreement shall be five thousand dollars ($5,000), beginning with the calendar year 2000 and continuing throughout the life of this Agreement. The minimum royalty herein specified shall be paid by XYZ to ABC regardless or irrespective of actual manufacture or sale of Licensed Devices.

FORM 21.05 MINIMUM ROYALTY PAYMENT MANDATORY

Beginning January 1, 1937, and continuing thereafter for the life of said patents or until this license and agreement is voided by mutual consent or nonperformance, XYZ agrees that if the royalties at the rate of 5% on gross sales or installations made by XYZ do not amount to as much as a total of Twenty-four Hundred Dollars ($2,400) in one year, the dif-

tion to pay is found to be absolute.[4] Ordinarily, minimum royalties must be paid for the full term of the agreement even though licensed devices are not made and the licensee does not operate under the license.[5] However, when a licensor has agreed to disclose a commercially usable process, the licensee is not obligated to pay minimum royalties if the process is found not to be usable commercially.[6]

Alternatively, payment of a minimum royalty may be made optional on the part of the licensee. For example, minimum royalties may be required only so long as the licensee desires (a) to maintain the exclusive features of an exclusive license,[7] and/or (b) to maintain the license in full force and effect.[8] In the event of nonpayment, the licensor is given the right to cancel the exclusive features and/or to terminate the license outright. The licensor is afforded these remedies in lieu of the right to collect unpaid minimum royalties. An option to convert an exclusive license to a nonexclusive license may, in appropriate circumstances, be accompanied by a provision effecting, upon exercise of the option, termination of or modification in certain other rights, such as the right to sue third parties, originally granted to the licensee.

An implied duty to work or exploit the invention is usually imposed on an exclusive licensee, and a minimum royalty provision alone may not suffice to discharge this duty. [See §32.] Therefore, if the payment of minimum royalties is to be in full satisfaction of the duty to exploit, this fact should be recited in the agreement. Additionally, to compensate for possible

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[4]McEvoy Co. v. Kelly, 171 F 2d 837 (CA 5, 1948); American Radiator Co. v. Foster, 98 F 2d 135 (CA 6, 1938).

[5]Elgin National Watch Co. v. Bulova Watch Co., 96 USPQ 176 (NY App Div, 1953); Bucky v. Sebo, 88 USPQ 161 (NY Sup Ct, 1951).

[6]Kraus v. General Motors Corporation, 120 F 2d 109 (CA 2, 1941).

[7]Kennedy v. Engelhard Industries, Inc., 288 F 2d 642 (CA 3, 1961).

[8]Standard Appliance Co. v. Standard Equipment Co., 296 F 456 (CA 6, 1924); Roberts Numbering Machine Co. v. Black Heat Electric Corp., 81 USPQ 571 (NY App Div, 1949).

FORM 20.35 SALES TO AFFILIATES PROHIBITED

XYZ agrees that it will not sell to any distributor or dealer in which it or any of its stockholders or officers have any financial interest, directly or indirectly, unless otherwise mutually agreed upon.

FORM 20.36 SALES TO OTHER LICENSEES; ROYALTY BASE: PROFITS

XYZ shall not be required to pay any royalties on sales of Licensed Equipment or parts thereof to Other Licensees as above specified in this Agreement, except as follows:

Until XYZ has made a profit of fifteen percent (15%) upon the net selling price of said equipment, ABC shall receive no royalties or payments; in case of profits to XYZ in excess of fifteen percent (15%) XYZ and ABC shall divide equally such excess over fifteen percent (15%) until ABC shall have received five percent (5%) and XYZ twenty percent (20%) of said net selling price.

FORM 20.27 DEFINITION OF "NET SELLING PRICE"

The term "net selling price" means the actual price at which the article is sold by XYZ, f.o.b. XYZ 's plant. Royalties shall be payable regardless of terms of payment by XYZ's vendee or credit risks or losses. Appropriate adjustments in royalty payments shall be made to reflect bona fide returns.

FORM 20.28 DEFINITION OF "NET SELLING PRICE"

The term "net selling price" shall mean the invoice price less quantity and cash discounts thereon actually allowed and less sales, use and other similar taxes and any transportation or delivery charges borne by XYZ. No royalty shall be due on Licensed Products which are not accepted by the customer and when royalties shall have been paid on such products they shall be credited against future royalties to be paid hereunder.

FORM 20.29 DEFINITION OF "NET INVOICE PRICE"

The term "net invoice price" shall mean the total gross sales billed, less the following items of expense to the extent to which they are paid or allowed and included in gross sales billed in accordance with recognized principles of accounting: (1) sales, use or turnover taxes on sales invoices; (2) excise taxes, custom duties or consular fees; (3) transportation and insurance on shipments to customers; (4) trade or quantity discounts (but not cash discounts); and (5) credits allowed for returned goods.

FORM 20.30 SALES TO AFFILIATES

The price for which XYZ shall sell any Licensed Product to an Affiliate (as hereinafter defined) shall be deemed to be the higher of the actual price charged or the price of such product when sold by the Affiliate to the ultimate user.

than those of ABC, upon which XYZ is required to pay a royalty to others, then an apportionment of the net selling price shall be made in accordance with accepted accounting practices, to arrive at the portion of the net selling price upon which the royalty to ABC is to be based, but this shall in no event be less than one-half the entire net selling price of the unit.

FORM 20.21 ROYALTY BASE: ADJUSTED INVOICE PRICE; CREDITED AGAINST PRESCRIBED ADVANCE PAYMENTS

XYZ agrees to pay ABC a royalty of 2% of the adjusted invoice price of Licensed Devices sold under the present Agreement. As used herein, "adjusted invoice price" means the actual invoice price exclusive of excise taxes, fully credited returned articles, and allowances for cash payment. Royalty payments made pursuant to this paragraph shall be credited against said advance installment payments provided for in the preceding paragraph.

FORM 20.22 ROYALTY BASE: NET SALES OF PATENTED AND COMPETITIVE ARTICLES

XYZ agrees to pay to ABC a royalty of three percent (3%) of the net selling price of all articles manufactured and/or sold under the license herein granted.

XYZ may manufacture and/or sell, during the term of this Agreement, any article or articles which compete with any or all of the articles authorized to be manufactured and/or sold under said patents or applications for patents, and it shall be wholly optional with XYZ as to whether it will manufacture and/or sell any articles under said patents or applications for patents, or any of them, but in any and in every such event or events, XYZ shall pay to ABC the same royalties that it would be required to pay to ABC if said competitive article or articles so manufactured and/or sold had been manufactured and/or sold under any of said patents or applications for patents.

be payable to ABC when the Licensed Devices are sold by the consignee and billed by XYZ.

FORM 20.12 ONE ROYALTY PAYMENT PER UNIT

Regardless of the number of inventions or patents pertaining to any Licensed Device sold by XYZ, and regardless of the number of times any Licensed Device is sold, only one royalty payment therefor shall be due ABC.

FORM 20.13 ROYALTY BASE: AMOUNT OF SUPPLIES CONSUMED IN PATENTED PROCESS

XYZ agrees to pay to ABC an amount of five cents ($0.05) for each pound of welding rod used by XYZ in practicing said patented welding process.

FORM 20.14 ROYALTY BASE: COST OF SUPPLIES CONSUMED IN PATENTED PROCESS

XYZ agrees to pay to ABC royalties equal to three per cent (3%) of the net price paid by XYZ for all solid carbon dioxide deposited or used in apparatus manufactured in accordance with said Inventions for the purpose of converting such solid carbon dioxide into liquid and/or gas.

FORM 20.15 ROYALTY BASE: COMPENSATION RECEIVED BY LICENSEE WHILE USING LICENSED APPARATUS OR METHOD

XYZ agrees to pay to ABC a royalty of five percent (5%) of the amount received by XYZ from customers for any work performed by XYZ during the continuance of this Agreement, in which XYZ shall employ the Licensed Apparatus or Method.

FORM 20.16 ROYALTY BASE: COMPENSATION RECEIVED BY LICENSEE FOR USE OF PATENTED APPARATUS

XYZ agrees to pay to ABC a sum equal to three percent (3%) of any and all sums paid by the user of said apparatus for the use thereof, whether by way of rental or other charge, howsoever designated.

FORM 20.04 UNIT ROYALTIES; DESCENDING RATE

XYZ hereby agrees to pay to ABC a royalty on all machines made and sold annually under the license herein granted as follows:

First 100 machines	- $10 per machine
Second 100 machines	- $ 9 per machine
All machines thereafter	- $ 8 per machine

FORM 20.05 UNIT ROYALTIES; DESCENDING RATE

XYZ, solely for the purpose of accounting hereunder, agrees to pay to ABC royalties upon such devices consisting of pieces of finished material in which two lens surfaces are applied thereto and which are adapted to be or are made into a finished or unfinished corneal contact lens calculated in accordance with the following schedule on all such devices sold by XYZ:

$1.00 on each pair of the first 150 pairs of devices or $.50 per device

$ .75 on each pair of the next 100,000 pairs of devices or $.375 per device

$ .50 on each pair of the next 100,000 pairs of devices or $.25 per device

$ .25 on each pair of all additional pairs of devices or $.125 per device.

XYZ shall not pay royalties to ABC on finished or unfinished lenses (i.e. lenses upon which two lens surfaces are already formed) when purchased from ABC or from a licensee of ABC, and such lenses shall not be counted in the total number of devices sold by XYZ under the schedule hereinabove.

FORM 20.06 UNIT ROYALTIES; ASCENDING RATE

XYZ hereby agrees to pay to ABC a royalty on all machines made and sold annually under the license herein granted as follows:

First 100 machines	- $10 per machine
Second 100 machines	- $11 per machine
All machines thereafter	- $12 per machine

special terms of royalty payments on sales made by the licensee to affiliates.[20] Alternatively, the licensee can be bound not to make any sales to affiliates.[21]

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[20]In re Celotex Company, 17 F Supp 254 (D Del, 1936).
[21]Coats Loaders & Stackers, Inc. v. Henderson, 233 F 2d 915 (CA 6, 1956).

Royalty rates may also be applied to the profits of the licensee.[11]

In the interpretation of general royalty provisions, royalties are normally held to be payable not only on devices literally covered by the patent claims but also on equivalent devices under the doctrine of equivalents,[12] subject to any limitations of file wrapper estoppel.* When royalties are payable on devices "covered" by a licensed patent, the coverage of the patent is interpreted in the light of the prior art.[13]

Courts have also required the payment of royalties on certain devices without regard to the patent claims when the licensee has been found to be estopped, by contract or conduct, to deny that the devices come within the scope of the claims. [See §28.] When a provision specifies that royalties shall be paid on the sale of certain products identified in terms of complete units, the payment of royalties is not required on the sale of component parts of the product.[14] When a percentage royalty is based on "net sales" of the licensee, it has been held that royalties need not be paid on patented items manufactured but not sold.[15] However, once patented items have been sold, royalties ordinarily must be paid even though the licensee is not paid for the items.[16]

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[11]McCullough v. Kammerer Corporation, 166 F 2d 759 (CA 9, 1948); Tate v. Lewis, 127 F Supp 105 (D Mass, 1954); American Delinting Co. v. Pomeraning, 274 F 212 (MD Pa, 1921).

[12]Sbicca-Del Mac, Inc. v. Milius Shoe Co., 145 F 2d 389 (CA 8, 1944); Saco-Lowell Shops v. Reynolds, 141 F 2d 587 (CA 4, 1944); Skinner v. Reynolds Metals Co. 69 F Supp 306 (WD Ky, 1946), affirmed, 166 F 2d 66 (CA 6, 1948).

*Arvin Industries, Inc. v. Berns Air King Corp., 188 USPQ 49 (CA 7, 1975).

[13]Lamb v. Hussman Refrigerator Co., 160 USPQ 812 (D Ore, 1968).

[14]Krantz v. Van Dette, 165 F Supp 776 (ND Ohio, 1958), affirmed per curiam, 272 F 2d 709 (CA 6, 1959).

[15]MacCluny v. Kelsey-Hayes Wheel Company, 186 F 2d 552 (CA 6, 1951). But compare Chemical Foundation, Inc. v. Bethlehem Steel Co., 46 USPQ 290, 292 (NY Sup Ct, 1940).

[16]Confectioners' Machinery & Mfg. Co. v. Panoulias, 134 F 393 (CA 2, 1904); Bee Machine Co. v. Freeman, 40 F Supp 299 (SD Ohio, 1939), affirmed per curiam, 121 F 2d 451 (CA 6, 1941).

grant of a patent license, the legality of such an arrangement would appear to depend on the nature of the tie-in itself. [See §17.] It will be appreciated that the rate of royalty may be expressed in terms of percent of sales as well as price per unit.

In general, *bases* used in the determination and computation of royalty payments fall into two groups, those that bear a direct relationship to the use made of the patent right and those that do not.

Specified royalty rates may, for example, be applied to the amount of raw materials, measured either by volume or cost, used in a patented process or machine or for producing a patented article, or to the number of articles, measured by volume or sales, treated or produced by a patented process or machine or produced under a product patent.[2] In the case of patented apparatus offered for rent by the licensee, royalty rates may be applied to the rental compensation received by the licensee.[3] The foregoing royalty bases bear a direct relationship to the actual use of the patent right.

The use of broader royalty bases is not uncommon. Although royalty bases may include products not within the reach of the licensed patent if the mutual convenience of the licensor and licensee is served, *conditioning* the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent, and refusing to license on any other basis, each amount to patent misuse.[4] Assuming mutual conven-

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[2]Carbo-Frost, Inc. v. Pure Carbonic, 103 F 2d 210 (CA 8, 1939); United States v. Linde Air Products Co., 83 F Supp 978 (ND Ill, 1949); United States v. Parker-Rust-Proof Co., 61 F Supp 805 (ED Mich, 1945); Ceramic Process Co. v. Cincinnati Advertising Products Co., 28 F Supp 794 (SD Ohio, 1939), appeal dismissed, 116 F 2d 497 (CA 6, 1940). Also see Armstrong v. Emerson Radio and Phonograph Corp., 179 F Supp 95 (SDNY, 1959).

[3]Carbo-Frost, Inc. v Pure Carbonic, 103 F 2d 210 (CA 8, 1939).

[4]Zenith Radio Corp. v. Hazeltine Research, Inc., 395 US 100, 133-141 (1969). Also see: United States v. United States Gypsum Co., 333 US 364, 397 (1948); Beckman Instruments, Inc. v. Technical Development Corp., 433 F 2d 55, 59-60 (CA 7, 1970); Plastic Contact Lens Co. v. Young Contact Lens, Inc., 175 USPQ 573 (D Mass, 1972); Blohm & Voss AG v. Prudential-Grace Lines, Inc., 174 USPQ 484, 502-503 (D Md, 1972), reversed on other grounds, 489 F 2d

FORM 19.01 LUMP SUM PAYMENT

XYZ hereby agrees to pay to ABC the sum of ten thousand dollars ($10,000.00) within ten days of the execution of this Agreement.

FORM 19.02 FIXED SUM PAYABLE IN INSTALLMENTS

XYZ hereby agrees to pay to ABC the sum of ten thousand dollars ($10,000), one thousand dollars ($1,000) being payable within ten days of the execution of this Agreement and three thousand dollars ($3,000) being payable on each of the three successive anniversary dates of the execution of this Agreement.

FORM 19.03 FIXED ANNUAL PAYMENTS

XYZ hereby agrees to pay to ABC one thousand dollars ($1,000) on execution of this Agreement and annually thereafter during the term of this Agreement.

FORM 19.04 FIXED QUARTERLY PAYMENTS

XYZ hereby agrees to pay to ABC a royalty in quarterly payments of $250 each on January 1, April 1, July 1 and October 1 of each year.

FORM 19.05 INTEREST ON OVERDUE PAYMENTS

XYZ shall pay interest to ABC upon any and all amounts of royalties that are at any time overdue and payable to ABC at the rate of 6% per annum from the date when such royalties are due and payable as provided herein to the date of payment.

FORM 19.06 ACCELERATION PROVISION

Upon XYZ's failure to meet punctually the terms and conditions of this Agreement in respect to payments, the entire amount remaining unpaid under this Agreement shall become due and payable. The specific purpose of this paragraph is to insure exact compliance with the terms and conditions in reference to payments.

§18D. Post Expiration Payments

A number of courts have held that a provision requiring the payment of royalties beyond the expiration of the licensed patent is illegal, unenforceable and constitutes patent misuse.[1] For example, an exclusive licensee, under a 25-year royalty agreement involving two patents which had expired before the 25 years ended, need not pay royalties after expiration of the patents.[2] However, initially calculating machinery use-royalties under a first group of patents on the basis of the number of pounds produced, and, after the first group of patents has expired, calculating machinery use-royalties under a later-issued group of patents on the basis of a percentage of the price paid for the raw materials, is not per se illegal.[3]

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[1]Brulotte v. Thys Co, 379 US 29 (143 USPQ 264)(1964); Ar-Tik Systems Inc v. Dairy Queen Inc, 302 F 2d 496 (133 USPQ 109)(CA 3, 1962); Peterson v. Fee International Ltd, 381 F Supp 1071, 1080-1 (182 USPQ 264, 270-1)(WD OK, 1974). Also see Modrey v. American Gage & Machine Co, 177 USPQ 545, 548-9 (CA 2, 1973); Pipkin v. FMC Corp, 427 F 2d 353 (166 USPQ 67)(CA 5, 1970); Mobil Oil Corp v. W R Grace & Co, 367 F Supp 207, 249-50 (180 USPQ 418, 447-8) (D CT, 1973); Congoleum Industries Inc v. Armstrong Cork Co, 366 F Supp 220, 235-7 (180 USPQ 264, 271-2)(ED PA, 1973); Shields-Jetco Inc v. Torti, 314 F Supp 1292, 1303 (166 USPQ 397, 405-6)(D RI, 1970), affirmed on other grounds, 436 F 2d 1061 (168 USPQ 385)(CA 1, 1971); Technograph Circuits Ltd v. Bendix Aviation Corp, 218 F Supp 1, 47 (137 USPQ 725)(D MD, 1963), affirmed on other grounds, 327 F 2d 497 (140 USPQ 285)(CA 4, 1964); Perbal v. Dazor Mfg Corp, 161 USPQ 169, 176-8 (MO Sup Ct, 1968); Finnegan v. Spiegl Farms Inc, 145 USPQ 623 (CA DC App, 1965).

[2]Veltman v. Norton Simon Inc, 194 USPQ 168 (SD NY, 1977).

[3]In re Yarn Processing Patent Validity Litigation, 541 F 2d 1127 (192 USPQ 241)(CA 5, 1976).

§18A. Pre-Issuance Payments

Although the Supreme Court has questioned the legitimacy of pre-issuance royalties,[1] one lower court has specifically held that a requirement that royalties be paid during the pendency of a patent application does not constitute patent misuse.[2]

§18B. Unreasonable Payments

Generally, royalties need not be reasonable.[1] However, one court has indicated that the imposition of "exorbitant and oppressive" royalties which materially affect prices could constitute patent misuse.[2]

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§18A

[1]Lear Inc v. Adkins, 395 US 653, 674-5 (162 USPQ 1, 10)(1969).

[2]San Marino Electronic Corp v. George J Meyer Co, 155 USPQ 617 (CD CA, 1967), affirmed, 422 F 2d 1285 (165 USPQ 23)(CA 9, 1970). Compare Pollack v. Angelus Block Co Inc, 171 USPQ 182 (CA Superior Ct, 1971). Also see Congoleum Industries Inc v. Armstrong Cork Co, 366 F Supp 220, 234-5 (180 USPQ 264, 270-1)(ED PA, 1973).

§18B

[1]Brulotte v. Thys Co, 379 US 29, 33 (143 USPQ 264, 266)(1964); W L Gore & Associates Inc v. Carlisle Corp, 189 USPQ 129, 136 (CA 3, 1976); Meurer Steel Barrel Co v. Martin, 1 F 2d 687 (CA 3, 1924). Also see Carter-Wallace Inc v. United States, 449 F 2d 1374, 1383 (171 USPQ 359, 365)(Ct Cls, 1971); Richards v. Liquid Controls Corp, 186 USPQ 144, 151 (IL App Ct, 1975).

[2]American Photocopy Equipment Co v. Rivico Inc, 359 F 2d 745 (148 USPQ 631)(CA 7, 1966), further proceedings, 257 F Supp 192 (150 USPQ 180)(ND IL, 1966), 384 F 2d 813 (155 USPQ 119)(CA 7, 1967).

purchasers, either directly or through the licensee, to use the components in the patented invention.

There is also an apparent exception to the misuse doctrine when the tied product is patented. For example, a patent may contain one set of claims covering components, material or apparatus and another set of claims covering a method or system in which the patented components, material or apparatus are adapted to be used. In this circumstance, it appears permissible for the patent owner to sell the patented components and grant a license to purchasers to use the components in the patented method, or to license another to make and sell the patented components and authorize the purchasers, directly or indirectly, to use the components in the patented method.[8]

Similarly, when a patent owner grants a license to another to use patented material or devices that the user is not going to manufacture itself, a restriction is occasionally incorporated in the license requiring the licensee to purchase all patented material or devices, which it intends to use under its license, only from the licensor or from a manufacturer specified by the licensor. This type of restriction, which is in form an exclusive purchase provision, has been approved in a few decisions.[9]

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[8]Libby-Owens-Ford Glass Co v. Sylvania Industrial Corp, 64 F Supp 516 (67 USPQ 84)(SD NY, 1945), appeal dismissed, 154 F 2d 814 (69 USPQ 29)(CA 2, 1946). Also see: Eastern Venetian Blind Co v. Acme Steel Co, 188 F 2d 247 (89 USPQ 93)(CA 4, 1951); Mobil Oil Corp v. W R Grace & Co, 367 F Supp 207 (180 USPQ 418, 444-53)(D CT, 1973); Federal Sign & Signal Corp v. Bangor Punta Operations Inc, 357 F Supp 1222 (177 USPQ 737, 749-50)(SD NY, 1973). But compare Popeil Bros Inc v. Schick Electric Inc, 356 F Supp 240, 250-1 (176 USPQ 101, 109)(ND IL, 1972), affirmed on other grounds, 494 F 2d 162 (181 USPQ 482)(CA 7, 1974).

[9]Steiner Sales Co v. Schwartz Sales Co, 98 F 2d 999 (38 USPQ 15) (CA 10, 1938); Baldwin-Lima-Hamilton Corp v. Tatnall Measuring Systems Co, 169 F Supp 1, 25-8 (120 USPQ 34, 52-5)(ED PA, 1958), affirmed per curiam, 268 F 2d 395 (121 USPQ 363)(CA 3, 1959); United States v. Consolidated Car-Heating Co Inc, 87 USPQ 20 (SD NY, 1950). Also see Cardinal Films Inc v. Republic Pictures Corp, 148 F Supp 156 (112 USPQ 292)(SD NY, 1957).

process, has frequently been held to be a violation of the antitrust laws.[2]

Tying conditions may also be imposed by offering alternative forms of patent licenses: one requiring the purchase of supplies from the licensor, and the other permitting the purchase of supplies from anyone. Such alternative licensing programs have been condemned by many courts, not only as a misuse of patents, but also as a violation of the antitrust laws, especially when the two forms of licenses have not been equivalent economically.[3] However, several courts have indicated approval of alternative licensing programs under which a licensee has an option to obtain a license permitting the purchase of supplies from third parties without economic disadvantage.[4]

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[2]Mercoid Corporation v. Minneapolis-Honeywell Regulator Co., 320 US 680 (1944); Mercoid Corporation v. Mid Continent Investment Co., 320 US 661 (1944); Rex Chainbelt Inc. v. Harco Products, Inc., 185 USPQ 10, 14-16 (CA 9, 1975); McCullough Tool Co. v. Well Surveys, Inc., 343 F 2d 381 (CA 10, 1965); Switzer Brothers, Inc. v. Locklin, 297 F 2d 39 (CA 7, 1961); Master Metal Strip Service, Inc. v. Protex, 169 F 2d 700 (CA 7, 1948); Landis Machinery Co. v. Chaso Tool Co., 141 F. 2d 800 (CA 6, 1944); Radio Corporation of America v. Lord, 28 F 2d 257 (CA 3, 1928), permanent injunction issued, 35 F 2d 962 (D Del, 1929), affirmed, 47 F 2d 606 (CA 3, 1931); United States v. The Consolidated Car-Heating Co., Inc., 1950-1951 Trade Cases ¶62,656 (SDNY, 1950). Compare: Electric Pipe Line v. Fluid Systems, 231 F 2d 370 (CA 2, 1956); Great Lakes Equipment Co. v. Fluid Systems, Inc., 217 F 2d 613 (CA 6, 1954); Bright Leaf Industries v. Stabler, 158 F Supp 294, 303-4 (MD Ala, 1957), reversed, 261 F 2d 383 (CA 5, 1958); H-P-M Development Corporation v. Watson-Stillman Co., 71 F Supp 906 (DNJ, 1947).

[3]Ansul Company v. Uniroyal, Inc., 448 F 2d 872, 882 fn4 (CA 2, 1971); National Foam System v. Urquhart, 202 F 2d 659 (CA 3, 1953); Dehydrators, Limited v. Petrolite Corporation, Limited, 117 F 2d 183 (CA 9, 1941); Barber Asphalt Corporation v. La Fera Grecco Contracting Co., 116 F 2d 211 (CA 3, 1940); Oxford Varnish Corporation v. Ault & Wiborg Corporation, 83 F 2d 764 (CA 6, 1936); Pyrene Mfg. Co. v. Urquhart, 69 F Supp 555 (ED Pa, 1946), affirmed on other grounds, 175 F 2d 408 (CA 3, 1949); American Lecithin Co. v. Warfield Co. 42 F Supp 270 (ND Ill, 1941), affirmed on other grounds, 128 F 2d 522 (CA 7, 1942); Urquhart v. United States, 109 F Supp 409 (Ct Cl, 1953).

[4]United States Gypsum Company v. National Gypsum Company, 387 F 2d 799 (CA 7, 1967); Printing Plate Supply Company v. The Crescent Engraving Company, 246 F Supp 654 (WD Mich, 1965); Hall Laboratories v. Springs Cotton Mills, 112 F Supp 29 (WDSC, 1953), affirmed on other grounds, 208 F 2d 500 (CA 4, 1953). Also see Arthur J.

notice being given XYZ, but not less than five (5) days' notice shall be given before any such change shall go into effect. It is agreed that the sale of said products by XYZ at prices lower, or on terms or conditions more favorable, than those set forth by ABC shall constitute a breach of this Agreement.

FORM 16.01 PRICE LIMITATION

XYZ agrees to sell Licensed Devices at not less than fifty dollars ($50.00) per unit.

FORM 16.02 PRICE LIMITATION

The license herein granted is conditioned on XYZ selling Licensed Devices at prices, terms and conditions of sale no more favorable to the customers than those followed by ABC in making its sales.

FORM 16.03 PRICE LIMITATION

XYZ agrees not to sell Licensed Devices at less prices or on more favorable terms of payment and delivery to the purchasers than those set forth in Schedule A.

FORM 16.04 PRICE LIMITATION

XYZ agrees that in the event it seeks to sell Licensed Devices to known established customers of ABC, then and in that event, XYZ will not sell or offer to sell such devices to said known established customers of ABC at a price less than or effectively less than the established price of ABC for the same or similar device in similar quantities. ABC shall within ten (10) days of the execution of this Agreement provide XYZ with a list of ABC's current customers and the prices being charged said customers for devices. The restriction provided for in this paragraph shall apply only to the customers named in the aforesaid list.

FORM 16.05 PRICE LIMITATION

ABC reserves to itself, as one of the considerations, conditions and limitations of this Agreement, the right to fix the minimum selling prices of all Licensed Products manufactured and sold by XYZ. XYZ promises and agrees to observe, maintain and cooperate in maintaining said minimum selling prices of Licensed Products established by ABC, and promises and agrees that failure to observe and maintain said minimum selling prices shall render void the license

considerably circumscribed by numerous court decisions. First, it appears that a price fixing agreement is legal only when it is imposed by a licensor who sells the licensed product in competition with its licensee and who would be benefited as a result of such price control.[6]

Secondly, the entire product, on which price control is exercised, must be patented.[7] It is objectionable to fix the sale price of an unpatented product even though it is produced by a patented process or machine.[8] And, in general, a licensor may not fix the selling price of any unpatented products that may be ancillary to, similar to, or competitive to, the licensed, patented product; nor fix the price at which the patented product is to be serviced or repaired by the licensee.[9]

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[6]United States v. Vehicular Parking 54 F Supp 828, 838 (D Del, 1944). Compare Royal Industries v. St. Regis Paper Co., 1970 Trade Cases ¶73,076 (CD Cal, 1968), affirmed, 420 F 2d 449 (Ca 9, 1969).

[7]United States v. General Electric Co., 82 F Supp 753, 813 (DNJ,1949); United States v. General Electric Co., 80 F Supp 989, 1004-5 (SDNY, 1948). Compare General Electric Co. v. Willey's Carbide Tool Co., 33 F Supp 969 (ED Mich, 1940). Also see United States v. New Departure Mfg. Co., 204 F 107 (WDNY, 1913).

[8]Reynolds Metals Co. v. Metals Disintegrating Co., 176 F 2d 90 (CA 3, 1949); Cummer-Graham Co. v. Straight Side Basket Corporation, 142 F 2d 646 (CA 5, 1944); Barber Colman Co. v. National Tool Co., 136 F 2d 339 (CA 6, 1943); Metals Disintegrating Co. v. Reynolds Metals Co., 98 F Supp 201 (D Del, 1951). Contra: Straight Side Basket Corporation v. Webster Basket Co., 82 F 2d 245 (CA 2, 1936). Also see: Sylvania Industrial Corporation v. Visking Corporation, 132 F 2d 947 (CA 4, 1943); United States v. Standard Sanitary Mfg. Co., 191 F 172 (D Md, 1911), affirmed on other grounds, 226 US 20 (1912); Temperato v. Horstman, 1959 Trade Cases ¶69,294 (Mo Sup Ct, 1959).

[9]United States v. United States Gypsum Co. 333 US 364 (1948); United States v. Vehicular Parking, 54 F Supp 828, 836 (D Del, 1944). Contra: General Electric Co. v. Willey's Carbide Tool Co. 33 F.Supp. 969, 977 (ED Mich, 1940). Also see: C-O-Two Fire Equipment Co. v. United States, 197 F 2d 489 (CA 9, 1952); Bond Crown & Cork v. Federal Trade Commission, 176 F 2d 974 (CA 4, 1949); Keasbey & Mattison Co. v. Federal Trade Commission, 159 F 2d 940 (CA 6, 1947); Sylvania Industrial Corporation v. Visking Corporation, 132 F 2d 947 (CA 4, 1943); Consolidated Packaging Machinery Corp. v. Kelly 1957 Trade Cases ¶68,729 (ND Ill, 1957), affirmed, 253 F 2d 49 (CA7, 1958); United States v. New Departure Mfg. Co., 204 F 107 (WDNY, 1913).

The term "amateur reception" , for the purpose of this Agreement, means reception by one not a professional investigator who is more than a mere broadcast listener, and who evidences his interest in the art of wireless telephony by study, investigation, or experiment in the art.

The term "experimental reception", for the purpose of this Agreement, means the use in a laboratory, college, school or scientific society, or in professional investigations, but not in any case reception of messages, directly or indirectly, for business purposes.

The term "broadcast reception", for the purpose of this Agreement, is defined as follows: The reception from radio broadcast stations of news, music, speeches, sermons, advertising, and entertainments, educational and similar matter, or any of them, or combination of any of them, for the purpose of exhibition, entertainment or instruction.

FORM 15.12 EXCLUSIVE LICENSE; CUSTOMER LIMITATION (TERRITORY OF USE)

ABC hereby grants to XYZ an exclusive license to manufacture machines embodying the inventions of said Letters Patents and to sell said machines to purchasers for use solely in the State of Michigan.

FORM 15.13 NONEXCLUSIVE LICENSE; CUSTOMER LIMITATION (TRADE CLASSIFICATION)

ABC hereby grants to XYZ a nonexclusive license under said Letters Patents to manufacture cigar lighters throughout the United States and to sell said cigar lighters to distributors, jobbers and dealers for resale as attachments, replacements, or accessories to automobiles.

It is expressly understood by the parties that the license herein granted does not authorize XYZ to sell said cigar lighters to automobile manufacturers for use as standard equipment on automobiles.

other non-manual means are used to convey fowls into contact with the feather picking apparatus and XYZ specifically agrees that it will not make or sell any automatic apparatus covered by the claims of said Letters Patent during the life of said Letters Patent.

FORM 15.07 EXCLUSIVE LICENSE; RESERVATION AS TO POSSIBLE FUTURE FIELDS OF USE

ABC hereby grants to XYZ the exclusive right and license under said Letters Patent to manufacture, use and sell throughout the United States automatic transmissions for automotive vehicles.

It is understood and agreed that there may hereafter develop other uses for the automatic transmissions than the application of the same as a part of automotive vehicles, which is the subject matter of this Agreement, and XYZ understands and agrees that ABC shall have the unrestricted right to manufacture, use and sell automatic transmissions for such other purposes. It is agreed, however, that if ABC does not itself engage in the manufacture of automatic transmissions for such other purposes XYZ shall have the right to acquire a nonexclusive license to manufacture, use and sell such automatic transmissions upon terms equally favorable with those which ABC may be willing to make to others for the manufacture, use and sale of said automatic transmissions.

FORM 15.08 NONEXCLUSIVE LICENSE; SALES LIMITED TO PRESCRIBED COMBINATION

ABC hereby grants to XYZ a nonexclusive license under said patents and patent application to manufacture and sell throughout the United States swinging wringers and gear mechanisms shown in the attached circular, for use only in connection with and as a part of power-operated washing machines of the general type and design shown in the circular attached hereto and made a part hereof.

XYZ agrees not to sell any of said patented devices separately or as part of any other mechanism than on the washing machines made by it of the general type shown in the attached circular to any per-

ed from the licensee in the product use area throughout the exclusive territory, constitutes a per se violation of the Sherman Act insofar as it attempts to restrict the use of the product by other purchasers.[17]

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[17]Munters Corp v. Burgess Industries Inc, 194 USPQ 146 (SD NY,1977).

Customers can also be classified according to the expected and usual place in which they will either use or resell the device. This type of limitation is useful for example in connection with territorially limited licenses. Ordinarily, a territorially limited licensee is under no obligation to refrain from selling a patented device to a customer who intends to take the device outside of the authorized territory of the licensee.[9] To create such an obligation, a licensor might specify that its licensee can sell patented devices for use in certain areas only or can sell only to customers who normally will use or resell the patented device in the designated area.[10]

Many channels of distribution are available for the sale of various products. Products may be sold, for example, through wholesalers, jobbers, retailers, agents, chain stores, department stores and discount houses, or directly to ultimate users. Judicial decisions indicate that a licensor may properly limit its licensee to selling a patented product or device to one, or less than all, of such outlets--that is, to customers who are of a designated trade classification.[11] A license to manufacture and sell patented radio apparatus to radio amateurs and radio experimenters authorizes only sales *directly* to amateurs and experimenters and not sales through intermediate distributors.[12]

Admiral Corp, 183 F 2d 953 (86 USPQ 289)(CA 7, 1950). Also see: Hampton v. Paramount Pictures Corp, 279 F 2d 100 (125 USPQ 623) (CA 9, 1960); Deering, Milliken & Co v. Temp-Resisto Corp, 160 F Supp 463 (116 USPQ 386)(SD NY, 1958), modified on other grounds, 274 F 2d 626 (124 USPQ 147)(CA 2, 1960); Gamewell Fire-Alarm Telegraph Co v. City of Brooklyn, 14 F 255 (ED NY, 1882); In re Reclosable Plastic Bags, 192 USPQ 674 (ITC, 1977).

[9]Hobbie v. Jennison, 149 US 355 (1893).

[10]Dorsey Revolving Harvester Rake Co v. Bradley Mfg Co, 7 Fed Case 946 (ND NY, 1874). Also see Elliot Co v. Lagonda Mfg Co, 205 F 152 (WD PA, 1913), modified, 214 F 578 (CA 3, 1914).

[11]United States v. General Electric Co, 272 US 476 (1926); Coats Loaders & Stackers Inc v. Henderson, 233 F 2d 915 (109 USPQ 332) (CA 6, 1956); Sinko Tool & Mfg Co v. Casco Products, 89 F 2d 916 (32 USPQ 618)(CA 7, 1937). Also see: Rubber Co v. Goodyear, 76 US 788 (1869). But compare United States v. Crown Zellerbach Corp, 141 F Supp 118 (110 USPQ 399)(ND IL, 1956).

[12]Westinghouse Electric & Mfg Co v. Tri-City Radio Electric Supply

or use the patented process for making or processing any styles of the product, other than those licensed.[3] One lower court has held that clauses in a patent settlement agreement specifying that each party would "not depart from its present engineering and manufacturing know-how in the direction" of the other's patented unit, standing alone, do not justify a finding of misuse.[4]

However, a covenant by a licensee not to make, use or sell any products, or use any processes, that are competitive to the licensed subject matter has been held to be improper. The imposition of such a restriction is a misuse of the licensed patent.[5] And, a license agreement embodying this type of restriction may be illegal under the Sherman Act.[6]

Numerous patented devices are adapted to be incorporated with other mechanisms and, in such cases,

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[3]Bement v. National Harrow Co, 186 US 70 (1902); Campbell v. Mueller, 159 F 2d 803 (72 USPQ 295)(CA 6, 1947); Reliance Molded Plastics Inc v. Jiffy Products, 215 F Supp 402 (137 USPQ 134)(D NJ, 1963), affirmed per curiam, 337 F 2d 857 (143 USPQ 312)(CA 3, 1964); Harte & Co Inc v. L E Carpenter & Co, 138 USPQ 578 (SD NY, 1963); Shaw v. E I duPont de Nemours & Co, 152 USPQ 364 (Vt Sup Ct, 1966), on reargument, 152 USPQ 723 (1967). But compare Prestole Corp v. Tinnerman Products Inc, 271 F 2d 146 (123 USPQ 242)(CA 6, 1959). Also see: Clancy v. Troy Belting & Supply Co, 157 F 554 (CA 2, 1907); Libbey Glass Co v. McKee Glass Co, 216 F 172 (WD PA, 1914), affirmed per curiam, 220 F 672 (CA 3, 1915).

[4]Pet Inc v. Kysor Industrial Corp, 193 USPQ 492 (WD MI, 1975).

[5]McCullough v. Kammerer Corp, 166 F 2d 759 (76 USPQ 503)(CA 9, 1948); National Lockwasher Co v. George K Garrett Co, 137 F 2d 255 (58 USPQ 460)(CA 3, 1943); Stewart v. Mo-Trim Inc, 192 USPQ 410 (SD OH, 1975); Triumph Hosiery Mills Inc v. Alamance Industries Inc, 191 F Supp 652 (128 USPQ 471)(MD NC, 1961), affirmed on other grounds, 299 F 2d 793 (132 USPQ 414)(CA 4, 1962); Chamberlain v. Clark Bros, 96 F Supp 498 (89 USPQ 49)(SD CA, 1951); Park-In Theatres v. Paramount-Richard Theatres, 90 F Supp 730 (85 USPQ 353)(D DE, 1950), affirmed per curiam, 185 F 2d 407 (88 USPQ 165)(CA 3, 1950); Steffin v. W J Schoenberger Co, 90 F Supp 710 (85 USPQ 207)(ND OH, 1950). Also see Zajicek v. Koolvent Metal Awning Corp of America, 283 F 2d 127 (127 USPQ 227)(CA 9, 1960). Compare: North Drive-In Theatre Corp v. Park-In Theatres, 248 F 2d 232 (114 USPQ 474)(CA 10, 1957); Flexwood Co v. Faussner & Co, 145 F 2d 528 (64 USPQ 261)(CA 7, 1944).

[6]United States v. US Gypsum Co, 333 US 364 (76 USPQ 430)(1947). Also see: Dole Refrigerating Co v. Kold-Hold Mfg Co, 185 F 2d 809 (88 USPQ 4)(CA 6, 1950); Daniels v. Brown Shoe Co Inc, 77 F 2d 899

would appear to be within the scope of the machine or process patent. This reasoning, however, has not been adopted by all courts, and doubt remains as to the legal status of quota limitations on unpatented products resulting from a patented machine or process.[3]

FORM 14.01 NONEXCLUSIVE LICENSE; QUANTITY LIMITATION

ABC hereby grants to XYZ the nonexclusive right and license to make, use and sell throughout the United States, its territories and possessions, one hundred (100) automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.

FORM 14.02 NONEXCLUSIVE LICENSE UNDER PROCESS; QUANTITY LIMITATION

ABC hereby grants to XYZ a nonexclusive license to use throughout the United States, its territories and possessions, the process covered by said Letters Patent to make not in excess of one thousand (1000) clutch plates each year during the term of this Agreement.

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[3]Approved: Q-Tips, Inc. v. Johnson & Johnson, 109 F Supp 657, 660-1 (DNJ, 1951); Ethyl Corporation v. Hercules Powder Company, 232 F Supp 453 (D Del, 1963). Disapproved: United States v. General Electric Co., 82 F Supp 753, 814 (DNJ, 1949). Also see: American Equipment Co. v. Tuthill, 69 F 2d 406 (CA 7, 1934).

FORM 13.01 EXCLUSIVE LICENSE; TERRITORIAL LIMITATION

ABC hereby grants to XYZ the exclusive right, license and privilege to manufacture, or cause to be manufactured, solely in the State of Michigan, automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.

XYZ agrees not to sell, or offer for sale, any such automatic transmissions outside of the State of Michigan.

FORM 13.02 EXCLUSIVE LICENSE; TERRITORIAL LIMITATION

ABC hereby grants to XYZ the exclusive right and license to manufacture, use and sell automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof, in the entire territory comprising the United States of America with the exception of the State of Michigan.

FORM 13.03 NONEXCLUSIVE LICENSE LIMITED AS TO PLACE OF MANUFACTURE

ABC hereby grants to XYZ a nonexclusive license to make in its principal place of business wherever situated, and at no other place or places, and to use and sell in the United States and throughout the world automatic transmissions embodying the inventions claimed in said Letters Patent.

FORM 13.04 NONEXCLUSIVE LICENSE LIMITED AS TO PLACE OF MANUFACTURE

ABC hereby grants to XYZ the nonexclusive right and license to manufacture Licensed Products solely at XYZ's factory in Detroit, Michigan, and to sell such Licensed Products throughout the United States, its territories and possessions.

(3) by county;[5]
(4) by city;[6]
(5) by plant location.[7]

The grant of a license to make and sell within a defined territory does not of itself constitute a prohibition against selling outside that territory.[8] However, a licensee's permitted territorial activities may be circumscribed by the express terms of the granting clause. As one example, a license to "manufacture, use, and sell to others for use throughout the United States" patented apparatus does not authorize the licensee to sell such apparatus in foreign countries for use there.[9] As another example, a license to practice a patented invention at the licensee's "own establishment" authorizes the licensee to use the invention himself solely at his own establishment, and does not authorize the licensee to use it in conjunction with others or at an establishment occupied by himself and others.[10] The licensee's activities may be further circumscribed by an express negative covenant. Several courts have indicated approval of a covenant on the part of the licensee that it will not export patented articles to, or sell patented articles in, unlicensed territories.[11] Also, a li-

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chine Tool Co v. Miami Window Corp, 234 F 2d 301 (109 USPQ 461)(CA 5, 1956); Brush Electric Co v. California Electric Light Co, 52 F 945 (CA 9, 1892).

[5]Rice v. Boss, 46 F 195 (ND NY, 1891).

[6]Adams v. Burke, 84 US 453 (1873).

[7]Rubber Co v. Goodyear, 76 US 788 (1869); Buffalo Specialty Co v. Indiana Rubber & I Wire Co, 234 F 334 (CA 7, 1916); Cassidy v. Evan L Reed Mfg Co, 293 F 797 (ED IL, 1923); H M Chase Corp v. Idaho Potato Processors, 185 USPQ 106 (ID Sup Ct, 1974).

[8]Blohm & Voss AG v. Prudential-Grace Lines Inc, 346 F Supp 1116, 1134 (174 USPQ 484, 499)(D MD, 1972), reversed on other grounds, 489 F 2d 231 (180 USPQ 165)(CA 4, 1973).

[9]Elliott Co v. Lagonda Mfg Co, 205 F 152 (WD PA, 1913), affirmed, 214 F 578 (CA 3, 1914).

[10]Rubber Co v. Goodyear, 76 US 788, 799 (1869).

[11]Dunlop Co Ltd v. Kelsey-Hayes Co, 484 F 2d 407, 417-8 (179 USPQ 129, 136)(CA 6, 1973); Brownell v. Ketcham Wire & Mfg Co, 211 F 2d 121, 129 (100 USPQ 338, 343)(CA 9, 1954); American Optical Co v. New Jersey Optical Co, 58 F Supp 601 (65 USPQ 114)(D MA, 1944). Also see: Melard Mfg Corp v. Chase Brass & Copper Co Inc, 1959 Trade

FORM 12E.01 NONEXCLUSIVE LICENSE; COMPLETE UNITS ONLY

ABC hereby grants to XYZ the nonexclusive right and license to make, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions claimed in said Letters Patent.

It is understood and agreed by the parties hereto that the license herein granted does not authorize XYZ to sell parts of said automatic transmissions to other manufacturers separate and apart from complete automatic transmissions.

FORM 12E.02 NONEXCLUSIVE LICENSE; COMPLETE UNITS ONLY

ABC hereby grants to XYZ a nonexclusive license to make, use and sell throughout the United States spectacles embodying the inventions covered by said Letters Patent, subject to the terms and conditions hereinafter set forth.

The Rimmed Type Of Spectacle Unit shall include a front having two end pieces and also a pair of temples. The fronts and temples may be either assembled or unassembled as long as the component parts of each complete unit are delivered in one shipment. Fronts suitable for use in making complete units embodying the same patented inventions are not to be sold separately without temples. The Rimless Type of Spectacle Unit shall include a pair of end pieces and a pair of temples. The component parts of each unit shall be delivered in one shipment. Temples only for rimmed or rimless units may be sold as such for replacement parts.

FORM 12E.03 RESTRICTION ON SALE OF COMPONENTS

XYZ agrees that it will not sell blank extrusions to any firm or person of such shapes and sections as may be stamped or processed into Licensed Devices except to those persons or firms as are licensed to produce Licensed Devices under said patent.

FORM 12C.01 NONEXCLUSIVE LICENSE; MANUFACTURE LIMITED TO LICENSEE

ABC hereby grants to XYZ a nonexclusive license to manufacture itself, and not to have manufactured for it by any one else, and to use and sell throughout the United States, devices embodying the inventions claimed in said Letters Patent.

FORM 12C.02 EXCLUSIVE LICENSE; QUALIFIED RIGHT TO HAVE MADE

ABC hereby grants to XYZ the exclusive right and license to manufacture and sell, and with ABC's prior written approval to cause to be manufactured and sold, in said Territory, cargo handling gear covered by said Letters Patents.

FORM 12A.01 NONEXCLUSIVE LICENSE; MAKE AND USE ONLY

ABC hereby grants unto XYZ the nonexclusive right and license to make and use, but not sell, throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by said Letters Patent 8,765,432 and any reissue or extension thereof.

FORM 12A.02 NONEXCLUSIVE LICENSE; MAKE, USE AND SELL LIMITATIONS

ABC hereby grants to XYZ a nonexclusive license under said Letters Patent with the privilege to manufacture and use said products in XYZ's factory in Detroit, Michigan.

XYZ covenants and agrees not to manufacture for sale, sell nor offer for sale in anywise any of said products during the continuance of this Agreement, except in a local retail way from XYZ's factory in Detroit, Michigan.

FORM 12A.03 EXCLUSIVE LICENSE; MAKE AND LEASE ONLY

ABC hereby grants to XYZ the sole and exclusive right and license to manufacture, lease and let Licensed Products throughout the United States, its territories and possessions, subject to the terms and conditions hereinafter set forth.

XYZ shall under no conditions sell any Licensed Products which it shall manufacture under the terms hereof but such Licensed Products shall be leased or rented by it on a per month basis to its customers.

seek damages,[6] injunctive relief[7] and/or termination of the license.[8]

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[6]See: Reliance Molded Plastics Inc v. Jiffy Products, fn 1; Aktiebolaget Bofors v. United States, fn 2.
[7]Vulcan Mfg Co v. Maytag Co, 73 F 2d 136 (23 USPQ 96)(CA 8, 1934); Cassidy v. Evan L Reed Mfg Co, fn 2. Also see Prestole Corp v. Tinnerman Products Inc, 271 F 2d 146 (123 USPQ 242)(CA 6, 1959).
[8]Eureka v. Henney Motor Co, fn 2.

FORM 11.07 EXCLUSIVE LICENSE SUBJECT TO FUTURE LICENSES

ABC hereby grants to XYZ a license under said Letters Patent and under such patents as may be granted upon and from said applications for United States Letters Patent or any renewals or reissues thereof, and under any other United States patents or foreign patents now or hereafter owned or controlled by ABC covering or relating to automatic transmissions (hereinafter referred to as ABC's Patent Rights), to manufacture, use and sell automatic transmissions covered by ABC's Patent Rights for the entire life of this Agreement; and ABC agrees that it will not during the term of this Agreement itself manufacture, or have manufactured for it, use or sell automatic transmissions covered by ABC's Patent Rights, or grant any license or licenses to any other person, firm or corporation, except as provided for in the next paragraph, to manufacture, use or sell automatic transmissions covered by ABC's Patent Rights.

ABC reserves the right to license MNO Manufacturing Company to make for itself, or to have made by any of its branches or subsidiaries, for use only upon motor vehicles made by itself or any of its branches or subsidiaries, automatic transmissions covered by ABC's Patent Rights, and ABC further reserves unto itself the right to grant licenses to manufacture, use and sell automatic transmissions covered by ABC's Patent Rights in any or all foreign countries, provided that no such license shall be so made as to exclude the rights of XYZ hereunder or any American manufacturers procuring automatic transmissions from XYZ to sell any American made motor vehicles equipped with said automatic transmissions in said foreign country.

FORM 11.01 NONEXCLUSIVE LICENSE UNDER PATENT

ABC hereby grants unto XYZ the nonexclusive right and license to make, have made, use and sell throughout the United States, its territories and possessions, automatic transmissions embodying the inventions covered by said Letters Patent 8,765,-432 and any reissues or extensions thereof.

FORM 11.02 EXCLUSIVE LICENSE UNDER PATENT APPLICATION

ABC hereby grants unto XYZ the exclusive right throughout the United States, its territories and possessions, to make, use and vend all forms of automatic transmissions covered by the aforesaid application for Letters Patent, or any division or continuation thereof, or substitute therefor, and the Letters Patent that may be issued thereupon, for the full term of said Letters Patent or any reissues or extensions thereof.

FORM 11.03 EXCLUSIVE LICENSE UNDER PATENT APPLICATION

ABC hereby grants to XYZ an exclusive license to manufacture, use and sell automatic transmissions constructed in accordance with said pending application and the Letters Patent which may be issued thereon, for the time during which said application is pending and the full term for which said Letters Patent may be granted, upon the terms and conditions hereinafter more specifically set forth.

FORM 11.04 EXCLUSIVE LICENSE SUBJECT TO RETAINED RIGHT BY LICENSOR

ABC hereby grants unto XYZ an exclusive right and license to practice and use the method and apparatus covered by said Letters Patent subject to the retained right of ABC to practice and use said method and apparatus in its plant at 1000 East Adams Street, Chicago, Illinois.

of the right granted the licensee.[5] But a covenant by a licensor not to compete with the licensee in the promotion of products or processes which are outside the scope of the licensed invention improperly extends the patent monopoly and renders the licensed patent unenforceable under the misuse doctrine.[6]

Also in the absence of contrary provisions, the grant of an exclusive license impliedly precludes the licensor from granting other licenses.[7] And it is proper for a licensor to agree expressly not to grant other licenses.[8] However, a covenant by the licensor that other licenses will not be granted without the consent of the immediate licensee has met with mixed judicial reaction.[9]

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[5]Brownell v. Ketchum Wire & Mfg Co, 211 F 2d 121 (100 USPQ 338)(CA 9, 1954).

[6]Compton v. Metal Products Inc, 453 F 2d 38 (172 USPQ 263)(CA 4, 1971); McCullough v. Kammerer Corp, 166 F 2d 759 (76 USPQ 503)(CA 9, 1948); Touchett v. E Z Paintr Corp, 150 F Supp 384 (113 USPQ 16)(ED WI, 1957).

[7]Rollman v. Commissioner of Internal Revenue, 244 F 2d 634 (113 USPQ 356)(CA 4, 1957); Blohm & Voss AG v. Prudential-Grace Lines, 346 F Supp 1116, 1134 (174 USPQ 484, 499)(D MD, 1972), reversed on other grounds, 489 F 2d 231 (180 USPQ 165)(CA 4, 1973).

[8]Bement v. National Harrow Co, 186 US 70 (1902).

[9]Moraine Products v. ICI America Inc, 191 USPQ 65 (CA 7, 1976)("Rule of Reason" analysis must be applied). •Disapproved: United States v. Krasnov, 143 F Supp 184 (110 USPQ 411)(ED PA, 1956), affirmed per curiam, 355 US 5 (115 USPQ 70)(1957); United States v. Besser Mfg Co, 96 F Supp 304 (88 USPQ 421)(ED MI, 1951), affirmed, 343 US 444 (93 USPQ 321)(1952). •Approved: Watson v. Heil, 96 F Supp 61 (88 USPQ 536)(D MD, 1953); United States v. Parker-Rust-Proof Co, 61 F Supp 805 (65 USPQ 563)(ED MI, 1945). •Also see: Hendricksen v. Cory Corp, 1964 Trade Cases ¶71,007 (CA 7, 1964); Noll v. O M Scott & Sons Co, 169 USPQ 336, 340-51 (SD OH, 1971), affirmed on misuse issues, 467 F 2d 295 (175 USPQ 392)(CA 6, 1972); Allied Research Products Inc v. Heatbath Corp, 300 F Supp 656 (161 USPQ 527, 538-9)(ND IL, 1969); Old Dominion Box Co v. Continental Can Co, 273 F Supp 550 (155 USPQ 70)(SD NY, 1967), affirmed on other grounds, 393 F 2d 321 (157 USPQ 353)(CA 2, 1968); Malco Mfg Co v. National Connector Corp, 151 USPQ 255 (D MN, 1966); Benger Labs Ltd v. R K Laros Co, 209 F Supp 639 (135 USPQ 11)(ED PA, 1962), affirmed per curiam, 317 F 2d 455 (137 USPQ 693)(CA 3, 1963); Well Surveys Inc v. McCullough Tool Co, 199 F Supp 374, 393 (131 USPQ 179, 193-4)(ND OK, 1961), affirmed, 343 F 2d 381 (145 USPQ 6)(CA 10, 1965); Mason City Tent & Awning Co v. Clapper, 144 F Supp 754 (111 USPQ 330)(WD MO, 1956);

group of patents, the establishment of a sliding scale of royalties, bearing a realistic relationship to the number and importance of the patents involved, should be considered. To avoid a charge of illegal extension of expired patents under a package license, consideration should be given to either providing for termination of the license at the expiration of the licensed patent first to expire or establishing decreasing royalty rates applicable as the licensed patents successively expire.

§10. Package Licensing

This is a term applied to the practice of including two or more patents in a single license agreement. Ordinarily, a license under a group of patents is not, standing alone, objectionable.[1] However, compulsory or mandatory package licensing--as arises when a licensee is required to accept a license under unwanted patents in order to obtain a license under desired patents--has been held to be improper.[2] One court has established an exception to this rule when the mandatory package licensing involves blocking or interlocking patents.[3]

Also, courts have disapproved offers of licenses having the effect of economically coercing the licensee to accept a license under all patents of a package. Such coercion may exist when the royalty rate is the same regardless of the number of patents licensed, or when the royalty rate for less than all patents of a group, although lower than the royalty rate for all patents, is not proportionately lower in relation to

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[1]Automatic Mfg. Co. v. Hazeltine Research, Inc. 339 US 827 (1950); Shea v. Blaw-Knox Co., 388 F 2d 761 (CA 7, 1968); McCullough Tool Co. v. Well Surveys, Inc., 343 F 2d 381 (CA 10, 1965); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F 2d 252 (CA 7, 1960); Apex Electrical Mfg. Co. v. Altorfer Bros. Co., 238 F 2d 867 (CA 7, 1956); Hazeltine Research v. Avco Manufacturing Corp., 227 F 2d 137 (CA 7, 1955); Sbicca-Del Mac v. Milius Shoe Co., 145 F 2d 389 (CA 8, 1944); Ransburg Electro-Coating Corp. v. Ford Motor Company, 245 F Supp 308 (SD Ind, 1965); Eversharp, Inc. v. Fisher Pen Co., 204 F Supp 649, 670 (ND Ill, 1961); Carter Products Co. v. Colgate-Palmolive Company, 164 F Supp 503, 525 (D Md, 1958), affirmed on other grounds, 269 F 2d 299 (CA 4, 1959). Also see Baker-Cammack Hosiery Mills v. Davis Co., 181 F 2d 550 (CA 4, 1950).

[2]American Securit Co. v. Shatterproof Glass Corp., 268 F 2d 769 (CA 3, 1959); United States v. General Electric Co. 82 F Supp 753 (DNJ, 1949). Also See: United States v. Loew's,Inc., 371 US 38 (1962); Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 US 827, 831 (1950); United States v. Paramount Pictures, 334 US 131 (1948); Ethyl Gasoline Corporation v. United States, 309 US 436, 459 (1940); Houdry Process Corp. v. Sinclair Refining Co., 121 F Supp 320 (ED Pa, 1954). Compare Hendricksen v. Cory Corp., 1964 Trade Cases ¶71,007 (CA 7, 1964).

[3]International Manufacturing Co. v. Landon, Inc., 336 F 2d 723 (CA 9, 1964).

free from outstanding license agreements except as otherwise indicated hereinafter, of certain inventions and improvements relating to automatic transmissions disclosed in Letters Patent of the United States and in applications for Letters Patent which are identified in the attached schedule marked Exhibit A and which are hereinafter referred to as "ABC's Patent Rights";

WHEREAS, ABC has heretofore, under date of June 1, 1999, granted a nonexclusive license to MNO Manufacturing Company, to make, have made for it, use, sell, and to sublicense others to make, use and sell, automatic transmissions and parts therefor embodying the inventions disclosed in ABC's Patent Rights, a copy of which license agreement is attached hereto and marked Exhibit B;

WHEREAS, XYZ desires to obtain an exclusive license under ABC's Patent Rights for the manufacture of automatic transmissions, subject only to said outstanding agreement set forth in Exhibit B; and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, the parties hereto mutually covenant and agree as follows:

FORM 6B.10 PARTIAL RECITALS; KNOW-HOW

WHEREAS, ABC has or controls certain confidential information and trade secrets, including engineering and technical data, manufacturing data, designs, skills, methods, procedures, facilities, information and know-how in the manufacture, sale, distribution and use of Automatic Transmissions;

WHEREAS, XYZ desires to obtain and to continue to obtain during the life of this Agreement said confidential information and trade secrets, and ABC is willing to convey to XYZ said confidential information and trade secrets, all upon and subject to the terms and conditions herein set forth.

WHEREAS, XYZ is desirous of acquiring a nonexclusive license under ABC's Patent Rights throughout the United States, its territories and possessions (hereinafter referred to as the "Licensed Territory"), to make, have made, use and sell automatic transmissions and parts thereof covered by ABC's Patent Rights (hereinafter referred to as "Licensed Devices"); and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, for and in consideration of the sum of five dollars ($5.00) by each to the other this day paid, receipt of which is hereby acknowledged, and in further consideration of the mutual covenants and agreements hereinafter contained, the parties hereto mutually covenant and agree as follows:

FORM 6B.05 PARTIAL RECITALS; DEFINITION OF "LICENSED PATENTS"

"Licensed Patents" shall mean all patents and patent applications owned or controlled by ABC and relating to automatic transmissions, and shall include patents and patent applications of third parties to the extent to which ABC has the right to grant licenses without payment to such third parties.

FORM 6B.06 PARTIAL RECITALS; APPLICATION IN PROCESS

WHEREAS, ABC is the owner of the entire right, title and interest in and to a certain invention relating to automatic transmissions upon which he is about to file an application for United States Letters Patent under the title of "Automatic Transmission" through the office of [name and address of patent attorney] under the attorney's Docket No. 10,000.

FORM 6B.07 PARTIAL RECITALS; PRIOR AGREEMENT SUSPENDED

WHEREAS, under the date of June 1, 1999 the par-

releases for past infringement [see §§24-25]; a description of any prior relevant business or research relationship between the parties; an identification of a prior agreement between the parties when the prior agreement is being cancelled or superseded by the current agreement, when it is being suspended during the life of the current agreement, or when it is to be incorporated in the current agreement; a statement to the effect that the current agreement is subject to another agreement between the licensor and a third party if such is the case; or a reference to know-how when the transfer of such is comprehended by the license. [See §31.]

FORM 6B.01 EXCLUSIVE LICENSE OF PATENT; WARRANTIES BY LICENSOR

WHEREAS, ABC represents and warrants that it is the owner of the entire right, title and interest in and to United States Letters Patent No.8,765,432, granted June 4, 1999, for Automatic Transmissions, together with any reissues or extensions thereof;

WHEREAS, ABC represents and warrants that it has the sole right to grant for the United States, its territories and possessions, licenses under said Letters Patent No.8,765,432, reissues and extensions, of the scope hereinafter granted;

WHEREAS, XYZ is desirous of acquiring the exclusive right and license in the United States, its territories and possessions, to make, have made, use and sell Automatic Transmissions embodying the inventions covered by said Letters Patent No.8,765,-432; and

WHEREAS, ABC is willing to grant such a license upon the terms hereinafter set forth;

NOW, THEREFORE, in consideration of the foregoing, and of the mutual covenants, terms and conditions hereinafter expressed, the parties hereto agree as follows:

FORM 6A.01 LICENSOR: INDIVIDUAL;
LICENSEE: CORPORATION

This Agreement is made and entered into by and between ALERT B. CONCEIVER, residing at 1000 East Adams Street, Chicago, Illinois (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a Delaware corporation, with an office at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ").

WITNESSETH:

FORM 6A.02 LICENSOR: TRUSTEE;
LICENSEE: PARTNERSHIP; SPECIFICATION OF DATE OF EXECUTION; DESIGNATION OF PLACE WHERE MADE

This Agreement, made and entered into at Chicago, Illinois, on this 1st day of July, 1999, by and between ABC BANK and TRUST COMPANY, at 1000 East Adams Street, Chicago, Illinois, as Trustee under a trust Agreement, dated June 30, 1999, executed by John Wilson (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a partnership composed of John Brown and John Smith, and having its principal place of business at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ");

WITNESSETH:

FORM 6A.03 LICENSOR AND LICENSEE: CORPORATIONS; SPECIFICATION OF EFFECTIVE DATE; FOR USE WITHOUT RECITALS

Effective as of July 1, 1999, ABC MANUFACTURING COMPANY, a corporation organized and existing under the laws of the State of Delaware and having its principal place of business at 1000 East Adams Street, Chicago, Illinois (hereinafter referred to as "ABC"), and XYZ MANUFACTURING COMPANY, a corporation organized and existing under the laws of the State of Delaware and having its principal place of business at 100 Baker Street, Detroit, Michigan (hereinafter referred to as "XYZ"), agree as follows:

3. Terms of agreement subject to
   a. Approval of foreign government
   b. U. S. laws and court decrees
   c. Opinion of validity by counsel
4. Foreign patent costs
   a. Filing
   b. Prosecution
   c. Maintenance
5. Improvements by licensee
   a. License of foreign rights
   b. Assignment of U. S. rights
6. Agreement by licensee not to participate in opposition, revocation or compulsory licensing proceedings
7. Marking of origin and license
8. Termination
   a. Governmental interference
   b. Change in voting power of existing stockholders
9. Governing factors
   a. Law of place of principal activities
   b. English version of agreement
10. Foreign formalities of execution and registration

H. Agency and similar relationships (§45)
   1. Negation of such relationships
   2. Statement that licensee is independent contractor
   3. Agreement by licensee not to act for licensor
I. Entire agreement and modifications (§46)
   1. Merger of prior discussions
   2. Negation of implied warranties
   3. Written modifications only
J. Assignment (§47)
   1. Authorized
      a. One or both parties
      b. Limitations
      c. Release of assignor from liability
      d. Assumption of obligations by assignee
   2. Prohibited
K. Governing law (§48)
L. General assurances (§49)
M. Notices (§50)
   1. Written
   2. Manner of service
   3. When effective
N. Execution of agreement (§51)
   1. Recital of execution
   2. Date of execution
   3. Signatures of parties
   4. Notarization

VI. Special Agreements and Provisions
   A. Option to enter into license agreement (§53)
      1. Term of option
      2. Consideration
      3. Warranties by licensor
      4. Obligations of licensor
         a. Furnish drawings
         b. Provide copies of patents and applications
      5. Offset of option consideration against future royalties

N. Prosecution of licensed application (§36)
   1. Responsibility for prosecution
      a. Direction of prosecution
      b. Expenses of prosecution
   2. Effect of non-allowance of claims on royalty payments
O. Foreign exploitation by licensee (§37)
   1. License under foreign patents
      a. Responsibility for patent costs
      b. Sublicensing rights
   2. Authority to export
   3. Prohibition of exports
P. Option to purchase patent (§38)
   1. Outright option
   2. First right to purchase

V. Duration, Termination and Subsidiary Formal Provisions
   A. Duration (§40)
      1. Effective date
      2. Term
         a. Life of patent
         b. Specified period
         c. Initial period subject to renewal
      3. Option to cancel
         a. At any time on notice
         b. Within an initial period
         c. After a stated period
   B. Termination for cause (§40)
      1. By licensor
         a. Any default of licensee
         b. Bankruptcy etc. of licensee
         c. Nonpayment of royalties
         d. Nonpayment of minimum royalties
         e. Failure to render royalty and production reports
         f. Failure to enforce patent
         g. Failure to exploit
      2. By licensee
         a. Any default of licensor
         b. Failure to enforce patent
         c. Claims held invalid

3. Furnishing advisory services
   a. Time limitations
   b. Compensation for licensor
4. Responsibility for damages and injuries by acts of licensor
5. Employment of licensor or retention as consultant

J. Exploitation of licensed invention (§32)
1. Duty to exploit
   a. Fill demand only
   b. Create demand also
   c. Payment of minimum royalty as satisfaction of duty
2. Specific obligations
   a. Production facilities
      (1) Time of completion
      (2) Capacity
   b. Production and sales
      (1) Time of commencement
      (2) Product standards
      (3) Minimum units
   c. Advertising
      (1) Approval by licensor
      (2) Minimum budget
   d. Servicing
      (1) Facilities
      (2) Repair parts
3. Remedy for default
   a. Cancellation of exclusiveness
   b. Termination of agreement
4. Exchange of commercial information

K. Patent marking (§33)
1. Form of notice
   a. As specified by statute
   b. As specified in agreement
   c. As specified by licensor during term of agreement
2. Position of notice on products

d. Examination of records
(1) Licensor or independent accountant
(2) Time limitation
(3) Information confidential
(4) After termination

IV. Other Principal Rights and Obligations
A. Release for past infringement (§24)
1. Licensee; licensee's customers
2. Absolute or conditioned
a. On continuance of agreement
b. On payment of prescribed sum
3. Specific or general release
B. Warranties by licensor (§25)
1. Ownership of Licensed Patent
2. Right to license
3. Commercial utility
4. Invention patentable
5. Validity of patent
6. Non-infringement of other patents
C. Most favored licensee (§26)
1. Scope of clause
a. All terms generally
b. Royalty terms only
2. Application of more favorable terms
a. Automatically
b. At licensee's option
3. Original licensee entitled to
a. Notification of later license
b. Copy of later license
D. Sublicensing (§27)
1. Prohibited
2. Permitted
a. Terms and duration
b. Copies to licensor
c. Rights and liabilities regarding royalties
E. Acknowledgment of validity unenforceable (§28)

E. Quantity limitations (§14)
   1. Minimum
   2. Maximum
      a. Fixed number
      b. Percent of industry sales
      c. Percent of licensor's sales
F. Field-of-use limitations (§15)
   1. Style or size of product
   2. Sale solely in specified combination
   3. Sale for limited uses
   4. Sale limited to prescribed customers
   5. Sale for use in limited areas
   6. Sale through specified trade channels
G. Price limitations (§16)
H. Tying arrangements (§17)

III. Monetary Consideration
A. General problems
   1. Pre-issuance payments (§18A)
   2. Unreasonable payments (§18B)
   3. Discriminatory payments (§18C)
   4. Post-expiration payments (§18D)
B. Fixed consideration (§19)
   1. Lump sum
   2. Fixed sum payable in installments
   3. Fixed periodic payments
   4. Interest on overdue payments
   5. Acceleration on default
C. Variable consideration (§20)
   1. Rate
      a. Direct proportion
      b. Descending
      c. Ascending
      d. Differential
      e. Temporarily low
   2. Base
      a. Number of units
         (1) Manufactured, sold or processed
         (2) All units or patented only
         (3) Definition of "sold"
         (4) One payment per unit

spire to monopolize any part of interstate or foreign trade or commerce shall be deemed guilty of a misdemeanor. [15 U.S.C. §2.] Section 3 of the Clayton Act makes it unlawful to sell or lease commodities, whether patented or unpatented, on condition that the purchaser or lessee will not deal with the products of the seller's competitors, where the effect of such condition may be to substantially lessen competition or tend to create a monopoly. [15 U.S.C. §14.] Finally, Section 7 provides that no corporation shall acquire the stock or assets of another corporation, where the effect of such acquisition may be to substantially lessen competition or tend to create a monopoly. (15 U.S.C. §18.][5] Section 5 of the Federal Trade Commission Act prohibits unfair methods of competition and unfair or deceptive acts or practices in commerce. [15 U.S.C. §45.]

Relevant decisional law concerning the application of the patent misuse doctrine and the antitrust laws to patent license agreements will be noted throughout this book in the discussion of specific types of agreements and contract provisions thereof.

In connection with the foregoing, one important point must be continually borne in mind: a particular license restriction is seldom considered in isolation by the judiciary, but usually is viewed against the background of the motivation of the patent owner in issuing the license embodying the restriction. The purpose for which a patent license is issued, and the intent of the parties entering into a patent license agreement, are very important factors in the determination of whether a license restriction is valid. In general, unless a restriction in a patent license is imposed for the sole purpose of securing to the patent owner the legitimate benefits of the patent laws, difficulty will be experienced in defending the restrict-

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[5]The words "acquire" and "assets" are "generic, imprecise terms encompassing a broad spectrum of transactions whereby the acquiring person may accomplish the acquisition by means of purchase, assignment, lease, license, or otherwise." United States v. Columbia Pictures, 189 F Supp 153, 181-3 (SDNY, 1960).

may carry with it an implied license to make and use the invention.[4]

Licensor-Licensee Relationship: A license under one patent ordinarily does not include an implied license under any other patent.[5] However, a licensee may acquire an implied license under another patent (owned by the licensor) that would otherwise interfere with his practicing the subject matter of the express license. In certain circumstances, courts have held that a licensor is estopped to assert against the licensee a later-issued dominating patent,[6] or an earlier-issued dominating patent acquired by the licensor after the date of the license.[7]

Seller[8]*-Purchaser Relationship:* The sale of an element of a patented combination or process ordinarily does not carry with it an implied license to use the element in the combination or process.[9] However, the sale of formulations with instructions to use them in carrying out the steps of a patented method gives the purchaser an implied license to use the patented method.[10] The sale of an article that is covered by one set of claims usually does

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[4]Martin v. United States, 37 USPQ 55 (Ct Cls, 1938).

[5]See: Eastern Rotorcraft Corp v. United States, 384 F 2d 429 (155 USPQ 729)(Ct Cls, 1967); Lockheed Aircraft Corp v. United States, 190 USPQ 134, 148-55 (Ct Cls Trial Div, 1976), modified on other grounds, 193 USPQ 449 (Ct Cls, 1977).

[6]Minnesota Mining & Mfg Co v. E I duPont de Nemours & Co, 448 F 2d 54 (171 USPQ 11)(CA 7, 1971); Green v. Aerosol Research Co, 374 F 2d 791 (152 USPQ 657)(CA 7, 1967). Also see Kearney & Trecker Corp v. Giddings & Lewis Machine Co, 285 F Supp 483 (159 USPQ 433) (ED WI, 1968).

[7]AMP Inc v. United States, 389 F 2d 448 (156 USPQ 647)(CtCl, 1968).

[8]In each case, we will assume that the seller is the patent owner or an authorized licensee.

[9]Woodward Co v. Hurd, 232 US 428 (1914); General Electric Co v. Continental Lamp Works Inc, 280 F 846 (CA 2, 1922); United Nickel Co v. California Electrical Works, 25 F 475 (D CA, 1885). The mere fact that a purchaser has an implied license to use certain components does not give the purchaser a license to use those components in reconstructing a patented combination. General Electric Co v. United States, 191 USPQ 594, 620 fn 11 (Ct Cls Trial Div, 1976).

[10]Rohm and Haas Co v. Dawson Chemical Co Inc, 191 USPQ 691, 696 (SD TX, 1976).

resulting from government-sponsored research concerning arms control and disarmament,[9] coal development,[10] saline water conversion,[11] solid waste disposal,[12] helium technology,[13] and water resources.[14]

In addition, many courts have ordered compulsory patent licensing at a reasonable royalty as relief in antitrust cases;[15] a few have even ordered dedication or compulsory royalty-free licensing.[16] (Consent decrees in civil government antitrust cases have frequently required compulsory licensing and dedication of patents.[17]) And, in a number of patent infringement suits, the courts have refused injunctions on the grounds of public health,[18] public safety,[19] public convenience,[20] or unusual hardship on the infringer with no corresponding benefit to the patent owner.[21]

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[9] 22 USC 2572.
[10] 30 USC 666.
[11] 42 USC 1959d(d).
[12] 42 USC 3253(c).
[13] 50 USC 167(b).
[14] 42 USC 1961c-3.

[15] Eg, United States v. United States Gypsum Co, 340 US 76 (87 USPQ 276)(1950); Hartford-Empire Co v. United States, 323 US 386 (64 USPQ 18)(1945). When the obtaining and use of a patent have been found to violate §5 of the FTC Act, the Commission may order compulsory licensing of the patent at a reasonable royalty. Charles Pfizer & Co v. FTC, 401 F 2d 574 (159 USPQ 193)(CA 6, 1968).

[16] United States v. General Electric Co, 115 F Supp 835 (99 USPQ 76)(D NJ, 1953); United States v. American Can Co, 1950-1951 Trade Cases ¶62,679 (ND CA, 1950).

[17] For a list of such decrees, consult Lindstrom and Tighe, Antitrust Consent Decrees, The Lawyers Co-Operative Publishing Co, 1974, Category 2226.

[18] Vitamin Technologists v. Wisconsin Alumni Research Foundation, 146 F 2d 941 (63 USPQ 262)(CA 9, 1944)(dictum); City of Milwaukee v. Activated Sludge, 69 F 2d 577 (21 USPQ 190)(CA 7, 1934); Guthard v. Sanitary District, 8 F Supp 329 (23 USPQ 336)(ND IL, 1934).

[19] Bliss v. Brooklyn, 3 Fed Cas No 1544 (ED NY, 1871).

[20] Nerney v. New York NH & HR Co, 83 F 2d 409 (29 USPQ 456)(CA 2, 1936); Thatcher v. Mayor of Baltimore, 219 F 909 (D MD, 1915); McCreery Engineering Co v. Massachusetts Fan Co, 180 F 115 (D MA, 1910); Ballard v. City of Pittsburgh, 12 F 783 (WD PA, 1882); Blake v. Greenwood Cemetery, 3 Fed Cas No 1497 (ED NY, 1877).

[21] Foster v. American Machine & Foundry Co, 492 F 2d 1317 (182 USPQ 1)(CA 2, 1974); Nerney case, note 20, supra; Landis Tool Co v. Ingle, 286 F 5 (CA 3, 1923); Thatcher case, note 20, supra; Electric Smelting & Aluminum Co v. Carborundum Co, 189 F 710 (WD PA, 1900). Also see Allied Research Products Inc v. Heatbath Corp, 300 F Supp 656 (161 USPQ 527)(ND IL, 1969).

§3D. When a License May Be Granted

It is self evident that a patent license may be granted under an issued patent. Also, an applicant for a patent may properly assign or license his rights in the invention described in the patent application, prior to the application maturing into a patent.[1] The validity of such agreement does not require that letters patent be first issued.[2] A license under an application becomes one under the patent as soon as it is issued.[3] Moreover, a valid license may be entered into prior to the filing of an application for letters patent.[4]

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[1]See §18A.

[2]Gayler v. Wilder, 51 US 477, 493 (1850); B. F. Gladding & Co., Inc. v. Scientific Anglers, Inc., 245 F 2d 722 (CA 6, 1957); St. Louis Street F. M. Co. v. Sanitary Street F. M. Co., 178 F 923, 926 (CA 8, 1910); Brush Electric Co. v. California Electric Light Co., 52 F 945, 963 (CA 9, 1892); 35 USC §261 (1952).

[3]L. L. Brown Paper Co. v. Hydroiloid, Inc., 118 F. 2d 674, 677 (CA 2, 1941); Kelly v. Porter, 17 F 519 (D Cal, 1883).

[4]Keystone Type Foundry v. Fastpress Co., 272 F 242, 245 (CA 2, 1921); Fur Grooving & Shearing Co., Inc. v. Turano, 39 F Supp 877 (SDNY, 1941).

§3B. How a License May Be Granted

Although statutory patent rights may be involved, a patent license agreement itself does not have any statutory basis. Licenses are a creature of the common law and are governed by general principles of contract law.[1] Accordingly, informal letters may constitute in legal effect a license agreement.[2] And, that a more formal contract is contemplated will not deprive an informal letter agreement of its legal efficacy.[3] Moreover, a license need not be in written form, but may be entirely oral.[4] However, an oral agreement that is not to be performed within one year may be unenforceable or void if found to be within the Statute of Frauds in force in most states.[5] Furthermore, a license may be granted by conduct as well as contract.[6] Finally, although Patent Office Rule 331 authorizes the recording of licenses under specified conditions, licenses are not recorded as a general rule because recording, at least with respect to agreements that are not in legal effect assignments, does not afford constructive notice of the agreement.[7]

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[1]L. L. Brown Paper Co. v. Hydroiloid Incorporated, 32 F Supp 857, 868 (SDNY, 1939), on appeal, 118 F 2d 674 (CA 2, 1941); Farmland Irrigation Co., Inc. v. Dopplmaier, 113 USPQ 88, 93 (Cal Sup Ct, 1957).

[2]DeForest Radio Telephone Company v. United States, 273 US 236, 241 (1927); Reynolds Metal Co. v. Skinner, 166 F 2d 66 (CA 6, 1948).

[3]Frost Railway Supply Company v. T. H. Symington & Son, Inc., 24 F Supp 20 (D Md, 1938).

[4]St. Louis Street F.M. Co. v. Sanitary Street F.M. Co., 178 F 923, 926 (CA 8, 1910).

[5]Shick Service v. Jones, 173 F 2d 969, 977 (CA 9, 1949); Matthews v. Continental Roll and Steel Foundry Co., 121 F 2d 594 (CA 3, 1941); Duggan v. Mills Novelty Co., 53 USPQ 123, 125 (WD Pa, 1942); International Patents Development Co. v. Penick & Ford, Ltd., Inc., 15 F Supp 1038 (D Del, 1936), affirmed per curiam, 94 F 2d 1018 (CA 3, 1938).

[6]De Groff v. Comr. Internal Revenue, 444 F 2d 1385 (CA 10, 1971).

[7]Talbot v. Quaker State Oil Refining Company, 28 F Supp 544 (WD Pa, 1938), affirmed, 104 F 2d 967 (CA 3, 1939). For a discussion of the distinction between a license and an assignment, see Waterman v. Mackenzie, 138 US 252 (1890).

and ornamental design for an article of manufacture [35 U.S.C. §171 (1952)].

The patentee's right in his invention has two primary components: a common law right and a statutory or patent right.

An inventor, independently of patent law, has a common law right to make, use and sell his invention. This common law right is neither absolute nor exclusive. It is not absolute because it cannot be exercised if the invention comes within the scope of an unexpired patent. It is not exclusive because anyone who independently conceives the same invention cannot be restrained from practicing it by the first inventor. The common law right of an inventor serves only to protect him against those who obtain the invention from him improperly, for example, by breach of confidence.

To supplement this common law right an inventor may avail himself of the patent laws. Under the patent laws, an inventor or patentee obtains the right to *exclude* others from making, using or selling his invention or discovery within the United States, its territories and possessions. [35 U.S.C. §154 (1952).] The period during which the patent right of exclusion may be exercised depends upon the type of patent involved. A utility or plant patent has a term of seventeen years from the date of grant of the patent, while a design patent has a life of three and one-half, seven or fourteen years, at the option of the applicant.

When granting a license or an assignment, the patentee releases to the extent agreed upon, not only his patent right of exclusion, but also his corresponding common law right. For convenience, and consistent with popular usage, the term "right to make, use and sell" unless otherwise qualified, will be used herein to designate both the patent right and the common law right.

CHAPTER 3

MONETARY CONSIDERATION

18. Prefatory
    A. Pre-Issuance Payments
    B. Unreasonable Payments
    C. Discriminatory Payments
    D. Post Expiration Payments
    E. Royalty Sharing
19. Fixed Consideration
20. Variable Consideration
21. Minimum and Maximum Payments
22. Reports and Related Accounting Matters

CHAPTER 4

OTHER PRINCIPAL RIGHTS AND OBLIGATIONS

23. Prefatory
24. Release for Past Infringement
25. Warranties by Licensor
26. Most Favored Licensee
27. Sublicensing
28. Acknowledgment of Validity and Admission of Infringement
29. Invalidity of Licensed Patent
30. Enforcement of Licensed Patent
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32. Exploitation of Licensed Invention
33. Patent Marking
34. Indemnification and Defense of Infringement Suits
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36. Prosecution of Licensed Application
37. Exploitation of licensed Invention in Foreign Countries
38. Option to Purchase Licensed Patent

PREFACE

The object of this book is to assist the legal profession in the planning, preparation and examination of patent license agreements.

The text incorporates a discussion of applicable principles of contract law and antitrust law. This discussion is supplemented by a collection of representative contract forms. The composite presentation is intended to aid the practitioner by identifying all major negotiable subjects, by outlining the legal status of principal contract provisions, and by providing illustrative contract phraseology to minimize the time required to reduce an agreement to writing.

In the following presentation, the first five chapters are concerned with provisions that frequently appear in conventional patent license agreements while Chapter 6 is directed to various agreements and provisions of a special nature.