Patents -- The Overruling of the Licensee Estoppel Doctrine

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those offenders whose crimes are classified as petty offenses under prevailing constitutional standards should not be deprived of the potential collateral advantages of a military trial and should be excluded from the O'Callahan rule.

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The favored status once enjoyed by patentees before the United States Supreme Court has undergone considerable change in this century. Many of the older concepts have been re-examined in light of the current state of the patent system and the competing demands of other areas of the law. For example, the exclusiveness of the patent grant is repugnant to the free-competition teachings of antitrust policy. These factors have prompted searching reappraisals of the privileges historically inherent in the grant; in some cases, privilege-bestowing decisions of the past have fallen.

More than one hundred years ago, the Supreme Court held that one who had derived benefits from the use of another's patent was estopped to deny its validity when sued by the owner for a share of the profits. The effect of the estoppel doctrine was to shield many questionable patents from attack. In Lear, Inc. v. Adkins the Supreme Court recently disapproved this venerable doctrine. The Court stressed the strong public interest in general circulation and use of ideas not entitled to patent protection and reasoned that the estoppel doctrine was often a bar to the most logical contestant of patentability.

Adkins, while employed by Lear, had designed an apparatus increasing the accuracy of gyroscopes. While his patent application was pending, he licensed Lear to use his invention in return for royalties. After paying royalties for approximately two years, Lear decided that the discovery by Adkins had been fully anticipated by a prior patent and announced that it would no longer pay royalties on production at one of its locations. Lear later discontinued payments altogether. Shortly thereafter, Adkins finally

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3 Id. at 1910-11.
4 Id. at 1911. The high costs of patent litigation and the specter of possible treble damages for infringement under 35 U.S.C. § 284 (1964) can effectively deter a third party from attacking a patent that he desires to use. Although the same hardships may confront the licensee, he has more to gain since he is already utilizing the patent and is saddled with royalty payments.
obtained his patent and sued Lear for breach of the license agreement. The licensee sought to prove its claim of invalidity of the patent, but the California Supreme Court invoked the estoppel doctrine to preclude Lear from asserting this defense.5

The estoppel doctrine had been widely applied by both federal and state courts.6 One theory that has been offered in justification of estoppel is that one receiving bargained-for benefits under a contract cannot contest the validity of those benefits.7 Another theory compares the estopped party to an agent who, having collected money owed his principal, cannot contend that there was no debt and refuse to turn over the funds.8 In other cases, an analogy has been drawn from the doctrine that a tenant in possession cannot dispute the title of his landlord.9

The harshness of the estoppel doctrine was met in many jurisdictions by various exceptions. One of these, the repudiation exception, permitted a licensee to repudiate the license agreement, give notice to the licensor, and then contest the validity of the patent.10 Continued use of the patent, however, would give rise to a cause of action for infringement.11 Another exception, eviction, generally applied only to exclusive licensees12 and arose when the patent was declared invalid in a suit between the patentee and a third party.13 Since the exclusive licensee contracts for a monopoly, the determination of invalidity ousts him from that position because outsiders can then use the invention. The result is a failure of consideration for the license agreement,14 and the licensee can assert the eviction as

8 Id.
11 At least one state required the repudiating licensee to make post-repudiation use of the patent to allow the licensor the option to sue for infringement. Elgin Nat. Watch Co. v. Bulova Watch Co., 281 App. Div. 219, 118 N.Y.S.2d 197 (1953).
12 Appleton Toy & Furniture Co. v. Lehman Co. of America, 165 F.2d 801 (7th Cir. 1948).
14 An exclusive licensee contracts for both a monopoly in the use of the patent
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a defense if sued by the licensor for royalties accruing subsequent to the
determination that the patent is invalid.

Other exceptions to the estoppel doctrine were carved out by several
landmark Supreme Court decisions, some of which left little doubt as to
what the ultimate disposition of the doctrine would be. In *Westinghouse
Electric & Manufacturing Co. v. Formica Insulation Co.*, Formica had
assigned his invention to his employer, Westinghouse. Prior to approval
of the patent application, the inventor terminated his employment and
started his own business, the Formica Company. The patent issued sub-
sequently to Westinghouse. Meanwhile, the Formica Company had be-
gun manufacturing substantially the same product covered by the patent.
Sued for infringement, Formica, although estopped from contesting the
patent's validity, was allowed to show that its only novelty was dependent
upon its encompassment of a two-step process of manufacturing. Since
Formica's product was not novel because it was manufactured by a one-
step process that embraced prior art, it did not fall within the protection
of Westinghouse's patent. The Court said: "Of course, the state of the
art can not be used to destroy the patent and defeat the grant, because
the assignor is estopped to do this. But the state of the art may be used
to construe and narrow the claims of the patent, conceding their
validity."

Although the case involved an assignment and assignor estoppel, courts
have readily applied the *Formica* "narrowing" exception to license situa-
tions. This limitation upon the estoppel doctrine resulted in an anomaly
because it allowed attacks only on patents possessing some novelty while
leaving entirely worthless ones unaffected. However, in many instances

and freedom from an infringement suit by the patentee. A non-exclusive licensee,
however, contracts only for freedom from an infringement suit; by definition, he
has no monopoly. Thus, where a third party succeeds in having the patent declared
invalid, the non-exclusive licensee still has his freedom from an infringement suit.
For a discussion of the eviction concept, see Note, 48 COLUM. L. REV. 1101 (1948).

As the Court said in *Lear*: "Given the extent to which the estoppel principle
had been eroded by our prior decisions, we believe it clear that the patent owner—
even before this decision—could not confidently rely upon the continuing vitality
of the doctrine." 89 S. Ct. at 1913 n.19. See also Note, *Estoppel to Deny Validity—

266 U.S. 342 (1924).

Id. at 351.

E.g., New Wrinkle, Inc. v. John L. Armitage & Co., 277 F.2d 409 (3d Cir.
1960); Midland Steel Prods. Co. v. Clark Equip. Co., 174 F.2d 541 (6th Cir.),

If a patent had *some* novelty *Formica* permitted the old owner to defend
an infringement action by showing that the invention's novel aspects did not
extend to include the old owner's product; on the other hand, if a patent
had *no* novelty at all, the old owner could not defend successfully since he
it necessarily restricted the scope of protection previously enjoyed by many patentees.

Twenty-one years after *Formica*, the Court made additional inroads into the estoppel doctrine. In *Scott Paper Co. v. Marcalus Manufacturing Co.*, the Court held that an assignor of a patent, sued for infringement by the assignee, could defend by showing that the alleged infringing device was copied from a prior patent now expired. The assignor had made the invention sued upon, had assigned his patent application to a third party who in turn assigned it to Scott, and subsequently had begun his own company that produced and sold essentially the same product covered by the patent. Necessarily admitting that the patent that he had assigned was worthless, the assignor contended that his machine was a copy of a prior patent issued in 1912. The Court of Appeals for the Third Circuit, reversing the district court, which had invoked the estoppel doctrine, held that the *Formica* "narrowing" exception allowed the assignor to show the prior art to limit the claims of the assigned patent; and since the earlier expired patent completely anticipated the assigned patent, the latter was limited to no claim at all. The Supreme Court affirmed the holding of no infringement, but on new grounds. It pointed out that once a patent expires, the invention is dedicated to the public. Therefore, the estoppel doctrine could not prevent one from using the invention of an expired patent because

> [t]he public has invested in such free use by the grant of a monopoly to the patentee for a limited time. Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.22

This exception to the estoppel doctrine has since been applied to license cases.23 Thus, while *Formica* avoided the estoppel doctrine by allowing a licensee to show his device to be outside the scope of the licensor's nar-

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20 326 U.S. 249 (1945).
22 326 U.S. at 256.
rowly construed patent, *Scott* evaded the doctrine by permitting licensees to prove that they were using solely the ideas of an expired patent.

Another exception to licensee estoppel was grounded specifically upon antitrust policy. In *Sola Electric Co. v. Jefferson Electric Co.*, the Supreme Court was faced with a license agreement containing a naked price restriction, lawful under the Sherman Act only if supported by a valid patent. The licensor-patentee had sued for royalties and an injunction restraining sales outside the terms of the license agreement. Reversing the lower court's invocation of the estoppel doctrine, the Supreme Court held that the estoppel rule, whether state or federal, must yield to the public policy of the Sherman Act precluding enforcement of such unlawful agreements.

Five years later, the Court went further in deciding *Edward Katzinger Co. v. Chicago Metallic Manufacturing Co.* and *MacGregor v. Westinghouse Electric & Manufacturing Co.*, both of which also involved license agreements with price restrictions. Unlike the licensor in *Sola*, who had sought to enforce the provisions of the license controlling prices, the licensors in *Katzinger* and *MacGregor* were seeking only royalties; indeed, the licensors had made no attempt to enforce the price-fixing clauses. The Court held that the entire agreement was tainted because the price-fixing and royalty provisions were not severable: "Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it." Therefore, the licensees were allowed to attack the validity of the patents. The above exceptions and others that were developed to the estoppel doctrine indicated judicial recognition of the conflict between the stability of contracts and the patentees' privileges on one side, and, on the other, the right of public access to ideas not protected by a valid patent.

The public right of free access to technological improvements falling short of patentability was set out in two far-reaching companion cases, *Compco Corp. v. Day-Brite Lighting, Inc.* and *Sears, Roebuck & Co. v.*
Although these were infringement suits not involving licenses, the Court in Lear relied heavily upon them. In both cases, patentees brought actions in an Illinois district court. They alleged that the defendants were selling articles identical in design to those of the patentees and that these actions constituted infringement and unfair competition. The defendants contended that the patents were invalid; the district court so held but applied the state law of unfair competition and granted injunctions and ordered accountings for damages. The unfair competition holdings rested upon customer confusion over source of the products. The Court of Appeals for the Seventh Circuit affirmed in both cases. On certiorari, the Supreme Court reversed, holding that while a state may impose certain requirements such as labeling to prevent misleading consumers, state prohibition against copying unpatented articles is incompatible with federal patent laws. Justice Black stated that "[w]here inability of the public to tell two identical articles apart is not enough to support an injunction against copying or an award of damages for copying that which the federal patent laws permit to be copied." The analogy to licensee estoppel is clear: Whether the estoppel doctrine is a matter of federal or state law, it cannot, by barring potential litigants, extend patent protection to ideas that federal patent policy demands shall have no protection.

The Supreme Court had previously indicated in Altvater v. Freeman that the federal courts in infringement cases should not hold patents valid if such a holding is unnecessary to disposition of a case. The Court, citing an earlier case, indicated that because there would not be any justiciable controversy it was improper upon a determination of no infringement to proceed further and hold the patent valid. On the other hand, even if a court finds no infringement, it may proceed to find the patent invalid, for such a determination serves the public interest.

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376 U.S. at 359, 363 (1943).


If an alleged infringer can prove that he is not infringing, he has no reason to attack the patent's validity.

Lear's contribution to the demise of patentee privileges is not limited to the overruling of the estoppel doctrine. Besides allowing Lear to attack the patent on remand, the Court made significant new law—and raised profound new questions—in the area of license contracts generally. Adkins had filed his initial patent application in 1954; the license agreement was consummated in 1955; and the patent issued in 1960.\textsuperscript{40} The Court was faced with a provision in the contract calling for Lear to pay royalties until such time as the patent was held invalid. Acknowledging the benefits derived by Lear from the pre-patent licensing, the Court declared that Lear would not be liable for royalties accruing after the 1960 patent issued if he could prove it invalid.\textsuperscript{41} The parties' contract was deemed to be "no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles."\textsuperscript{42} The Court was concerned with the frustration of federal policies that would result if licensees were required to continue royalty payments while challenging patents in the courts. Mr. Justice Harlan, writing for the Court, cited the probable dilatory legal tactics by licensors, the incentive to attack patents that early freedom from royalties would provide licensees, and the undermining effect that similar contract provisions would have on the federal policy favoring full and free use of ideas in the public domain.\textsuperscript{43}

The Court also raised, but did not decide, the question whether Adkins was entitled to 1955-1960 pre-patent royalties. Determination of such an issue ultimately will depend upon "whether, and to what extent, the States may protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties."

The Court deferred decision until the state courts could consider the problem.

Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this reevaluation may revolutionize the law of any particular State in this regard. . . . Given the difficulty and importance of this task, [our definition] should be undertaken only after the state courts have, after fully focussed inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future.

\textsuperscript{40} Lear, Inc. v. Adkins, 89 S. Ct. 1902, 1904 (1969).
\textsuperscript{41} Id. at 1911-13.
\textsuperscript{42} Id. at 1912.
\textsuperscript{43} Id. at 1912-13.
\textsuperscript{44} Id. at 1913.
Indeed, on remand, the California courts may well reconcile the competing demands of patent and contract law in a way which would not warrant further review in this Court.\textsuperscript{46}

The pronouncements on royalties were not necessary to disposition of the case; indeed, as Mr. Justice White, concurring in part, indicated, these issues were not even before the Court.\textsuperscript{46} That these questions were nevertheless reached has implications worth probing. Since \textit{Stiffel} and \textit{Compco} prohibit patent-type protection for ideas not shielded by the patent laws, do they not also prohibit the states from enforcing contracts for payment to inventors in return for disclosures of unpatented ideas? Mr. Justice Black, concurring in part and dissenting in part, answered in the affirmative.\textsuperscript{47}

Since jurisdiction over suits involving royalty contracts, absent diversity, lies exclusively with the state courts,\textsuperscript{48} it was appropriate to allow them preliminary consideration of this problem. However, this consideration may well be perfunctory in view of the Supreme Court's inclinations to restrict patent protection together with the limitations imposed by the \textit{Stiffel-Compco} mandate. If invalidity of the patent disallows royalties after it issues, there seems to be little reason to allow royalties for the period prior to issuance. Moreover, since issued patents are presumed valid\textsuperscript{49} and represent a property right,\textsuperscript{50} payments for their use until they are actually adjudicated invalid arguably rest on stronger ground than do payments for use of ideas not yet patented.

An appealing argument might be made that until a patent grant is issued, the invention is beyond the reach of federal law and, therefore, the rights of contracting parties should be defined exclusively by the states. However, this contention is apparently foreclosed by the holdings in \textit{Stiffel, Compco} and \textit{Lear} that because the federal patent laws deny protection to some ideas, there must be free access to them.

Privileges of the patent grant were affected by \textit{Lear} in three ways.

\textsuperscript{46}Id.
\textsuperscript{46}Id. at 1915.
\textsuperscript{47}Id. at 1914. Justice Black was joined by the Chief Justice and Mr. Justice Douglas.
\textsuperscript{50}James v. Campbell, 104 U.S. 356, 357-58 (1881).
First, the final rites administered to the estoppel doctrine will allow more patent attacks. Second, excusing post-patent royalties if attacks are successful will provide licensees additional incentive to litigate. Finally, the decision portends a probable loss of royalties for the pre-patent period as well. Apparently, the Supreme Court's past benevolent attitude toward the patent system has given way to a disposition of bare tolerance; no doubt, additional incursions into patentees' privileges will be made. The ultimate result will depend upon the extent to which the patent system and conflicting policies, such as those of the antitrust laws, can peacefully coexist.

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Poverty Law—Unconstitutionality of Residence Requirements for Welfare Assistance

The United States Supreme Court in Shapiro v. Thompson\(^1\) recently held that one-year waiting period requirements as a condition precedent to receiving public assistance violate the equal protection clause of the fourteenth amendment by discriminating between two classes of citizens on the basis of residence.\(^2\) In three separate cases\(^3\) district courts, holding the residence requirements unconstitutional, had found that the appellees, the applicants rejected for public assistance, were eligible for benefits in every respect except for the requirement of residence for a full year prior to application. The Supreme Court agreed with the lower courts that the interests promoted by the classification and asserted by the appellants were either interests that cannot be constitutionally promoted by government or that are not "compelling" state interests.\(^4\)

The appellants' primary justification for the waiting periods was protection of the budgetary integrity of state public assistance programs. They defended the residence provisions on the fiscal grounds that people who require welfare assistance during their first year of residence in a

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2 Id. at 638-42.
4 394 U.S. at 627.