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Restrictive Licensing of Patents and Trade Secrets Under the Antitrust Laws

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Reduced to essentials, the *Schuster* case presents a situation where the public at large received an important benefit from an act which ultimately cost a citizen his life. It seems entirely just, therefore, that the public should reimburse the family of the citizen for the economic detriment which it sustained as a result of that loss of life.

RESTRICTIVE LICENSING OF PATENTS AND TRADE SECRETS UNDER THE ANTITRUST LAWS

The ideal of free enterprise has been ingrained in the economic fiber of America since its birth as a nation. This concept has always included the element of competition. When the competitive factor is lacking, abuses of the free enterprise system arise: the power to combine increases while the power to compete decreases. Combinations and monopolies are often prejudicial to the public interest because they leave the consumer at the mercy of unscrupulous profiteers. To guard against this, monopolies and combinations in restraint of trade have been declared illegal under the antitrust laws.[1]

But not every monopoly will automatically be condemned. Under the patent laws the holder of a protected property acquires a right to exclude others from making or selling his patented item [2] without his express consent.[3] He has a practical monopoly on his invention.

In like manner, some trade restraints are lawful. The Supreme Court, in *Standard Oil Co. v. United States*,[4] formulated the "Rule of Reason" which declares that only *unreasonable* restraints of trade are prohibited.[5] The difficulty lies in determining whether a given course of action falls within the prohibition of the antitrust laws or is saved because, though it is to some extent a restraint of trade, it is a reasonable one. The problem under consideration here is the reasonableness of certain common restrictions as to resale price and territorial limitations which are imposed on the recipient of a license involving patents or trade secrets. To state the question another way: May the licensor of a patent fix the price at which his licensee may sell the finished product, or the licensor of a trade secret delineate

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[1] See The Sherman Anti-Trust Act, 26 Stat. 209 (1890), 15 U.S.C. §§ 1-7 (1952); The Clayton Act, 38 Stat. 730 (1914), 15 U.S.C. §§ 12-27 (1952).
[2] 35 U.S.C. § 154 (1952).
[3] See Special Equip. Co. v. Coe, 324 U.S. 370, 378 (1945).
[4] 221 U.S. 1, 62 (1911).
[5] See BURNS, A STUDY OF THE ANTITRUST LAWS 7 (1958).

the territory within which his licensee must confine his business activities?

To answer these questions a comparison of the nature of a trade secret and a patent is necessary, especially in the light of certain aspects considered important by the antitrust prosecutor.

The Patent Concept

The authority for the granting of patent rights comes from the Constitution itself, which vests in Congress the ". . . Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries. . . ." [6] The patent laws grant to the holder the right to exclude others from making, using or selling the protected item for a term of seventeen years.[7] They thereby reward inventors and at the same time encourage them to increased effort for the public benefit.[8] It is clear that within its proper scope a patent is a lawful monopoly, and although in a sense it restrains trade within the area of the patent grant, the restraint is lawful.[9] The point of unreasonableness is reached when its use is extended beyond its rightful purpose. The scope of every patent is limited to the invention described in its specifications, and the patent holder is not given exclusive rights to anything else.[10] For example, an attempt to monopolize salt on the basis of holding a patent on an industrial salt injecting machine would clearly be an abuse of the patent's purpose.[11] The Report of the Attorney General's Committee sums up the problem: "[V]iolation of the Sherman Act should, as the cases suggest, require abuse of the patent grant or proof of intent to monopolize *beyond* the lawful patent grants." [12]

The Restrictive Patent License

One of the devices that has been used to extend the patent monopoly beyond its rightful boundaries is the restrictive patent license. A patent has the attributes of personal property,[13] and as

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[6] U.S. CONST. art. I, § 8.

[7] 35 U.S.C. § 154 (1952). It is possible for the term of years to be extended through a Special Act of Congress. See, *e.g.*, Agawam Co. v. Jordan, 74 U.S. (7 Wall.) 583 (1868).

[8] Dr. Miles Medical Co. v. Park & Sons, 220 U.S. 373, 401 (1911) (dictum).

[9] See ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 226 (1955).

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

[11] International Salt Co. v. United States, 332 U.S. 392 (1947).

[12] ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 226 (1955). (Emphasis added.)

[13] 35 U.S.C. § 261 (1952).

such its holder has powers of disposition over it.[14] When he transfers some of his rights under a patent to another he has granted a license.[15] When this is done without the addition of restrictions, no difficulty arises. However, when the patentee demands as a condition of the license that he be allowed to set the minimum rate at which the licensee must sell the product made by means of the patent, the resultant price-fixing seems to run afoul of the provisions of the antitrust laws. And yet a cursory reading of the *Attorney General's Report* would lead to a belief that the law is well settled to the contrary:

> Absent any concert or arrangement aimed at or resulting in industry-wide price fixing, most members believe that a patentee who is engaged in manufacturing and marketing the patented product may fix the prices at which his manufacturing licensee . . . may sell.[16]

Though the earlier cases in the field would seem to support the Committee's statement, more recent developments tend toward an opposite conclusion. The trend in the law can be traced through a brief survey of the landmark cases.

In *Bement v. National Harrow Co.*,[17] an agreement to license the manufacture and sale of certain patented farm machinery contained a price-fixing covenant. The Court held that the restriction was not in violation of the antitrust laws.

> The very object of these [patent] laws is monopoly, and the rule is, with few exceptions, that *any conditions* which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee . . . will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.[18]

This decision was relied on by the Supreme Court in 1926 when it handed down its controversial opinion on the legality of price-fixing under a patent license in *United States v. General Elec. Co.*[19]

The General Electric Case

The General Electric Company had issued a patent license to Westinghouse, its chief competitor, covering the manufacture and sale of tungsten filament light bulbs. The license required Westinghouse

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[14] See Waterman v. Mackenzie, 138 U.S. 252, 255 (1891).

[15] *Ibid.*

[16] ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 233 (1955). But a patentee cannot limit the use of the product once it has been purchased. See, *e.g.*, Adams v. Burke, 84 U.S. (17 Wall.) 453 (1873).

[17] 186 U.S. 70 (1902). "The defendant agreed that it would not during the continuance of the license sell its products manufactured under the license at a less price or on more favorable terms of payment and delivery to the purchasers than was set forth in schedule B. . . ." *Id.* at 72.

[18] *Id.* at 91. (Emphasis added.)

[19] 272 U.S. 476 (1926).

to sell at prices no lower than those charged by General Electric. Though the Government claimed a violation of the antitrust laws, the Court upheld the arrangement, finding that the price-fixing agreement came within the scope of the patent grant.[20] The test for validity of restrictive conditions was held to be whether they are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.[21]

In recent years the *General Electric* decision has come into disrepute. In *United States v. Masonite Corp.*, an opportunity to affirm or deny the legality of price restrictions accompanying a patent license was avoided and the problem dealt with on other grounds.[22] However, *United States v. Line Material Co.*[23] and *United States v. United States Gypsum Co.*,[24] each of which had been decided in the district courts on the basis of the *General Electric* holding, were reversed by the Supreme Court without, however, precisely overruling the *General Electric* case.

In the *Line Material* decision, the Court stated that a majority could not be found either to affirm or overrule *General Electric*[25] but that, though a patentee may have the right to fix prices on sales by a single licensee, where patentees join in a cross-licensing agreement whereby the natural result is control of a large number of other manufacturers, that agreement is illegal per se under the Sherman Act.[26] The *Gypsum* case stated that *General Electric* affords no cloak under which a patentee may license *all* the members of an industry acting in concert to stabilize prices.[27]

The logic in the *Gypsum* opinion led naturally enough to *United States v. New Wrinkle, Inc.*,[28] which held as invalid a patent-licensing agreement fixing prices in *substantially* all of an industry. The Court quoted *Gypsum* liberally and stated: "We see no material difference between the situation in *Line Material* and *Gypsum* and the case presented by the allegations of this complaint."[29] The implications of

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[20] United States v. General Elec. Co., 272 U.S. 476 (1926). "One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. . . . When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.'" *Id.* at 490.

[21] *Id.* at 490.

[22] United States v. Masonite Corp., 316 U.S. 265 (1942). See also Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).

[23] 64 F. Supp. 970 (E.D. Wis. 1946), *rev'd*, 333 U.S. 287 (1948).

[24] 67 F. Supp. 397 (D.D.C. 1946), *rev'd*, 333 U.S. 364 (1948).

[25] United States v. Line Material Co., 333 U.S. 287, 304 (1948).

[26] *Id.* at 314.

[27] United States v. United States Gypsum Co., 333 U.S. 364, 400 (1948).

[28] 342 U.S. 371 (1952).

[29] United States v. New Wrinkle, Inc., 342 U.S. 371, 380 (1952).

this line of reasoning culminated in the Third Circuit's decision in *Newburgh Moire Co. v. Superior Moire Co.*[30] One manufacturer had licensed two others to use its patents and had required the acceptance of price restrictions. Since there were only five competitors in the entire industry, this meant that the patentee was able to control three-fifths of the field. The court held that this was a violation of the antitrust laws:

> The facts of the case at bar are different from those of New Wrinkle for here only three-fifths of an industry, not "substantially all" of it is involved in the price-fixing. But it is difficult to distinguish logically between a situation whereby 85% of an industry, as in the General Electric case, is gobbled up by General Electric and a price-fixing license granted to a single company, Westinghouse, and where at least 90% of the wrinkle finish industry is engrossed by price-fixing licenses issued to two hundred companies.[31]

An analysis of the preceding cases leads to the conclusion that price-fixing by means of the patent license may be a dangerous course of conduct, and will very likely be called an unreasonable restraint. About the only safe practice left seems to be the licensing of an insubstantial percentage of the competition.

Price-fixing is not the only restriction imposed in patent licenses. Restrictions as to territory of sale are also applied, both to the licensing of patents and trade secrets. This form of restraint will be considered in the treatment of trade secrets.

The Trade Secret–Patent Relationship

A trade secret is analogous to a patent in that both involve knowledge having actual value in business, and both are given some kind of protection by law. However, they differ in the nature of the legal protection they receive.[32] The question that arises is whether the arguments advanced in favor of allowing restrictions coupled with patent licenses would also be applicable to the restrictive licensing of trade secrets.

The analogy between trade secrets and patents was made early with regard to retail price control by a manufacturer over his dealers. An attempt was made to distinguish between articles manufactured under a secret process and ordinary products, arguing that the former are similar to patented articles and should come within the then-existing rule which allowed price control over patented items.[33] This

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[30] 237 F.2d 283 (3d Cir. 1956).

[31] Newburgh Moire Co. v. Superior Moire Co., 237 F.2d 283, 293 (3d Cir. 1956).

[32] See Allen-Qualley Co. v. Shellmar Prods. Co., 31 F.2d 293, 296 (N.D. Ill. 1929); Smoley v. New Jersey Zinc Co., 24 F. Supp. 294, 299 (D.N.J. 1938).

[33] See John D. Park & Sons v. Hartman, 153 Fed. 24 (6th Cir. 1907). Whether or not the argument itself had value, the cases applying it were based

approach was absolutely rejected by the Supreme Court when it held that the owner of a secret formula could not fix the resale price of the product manufactured by that formula.[34] An analogy to patent protection was expressly denied.[35] Nevertheless, in the same decision there is dicta to the effect that a secret process will support a *license* accompanied by territorial and price restrictions.[36] These apparent contradictions can be clarified by examining more closely the legal implications of the term "trade secret."

Nature of the Trade Secret

A trade secret has been defined as "an idea, known only to a few, which is reduced to practice in such a manner that it is, or can very readily be made, a source of profit in a trade or business." [37]

But even a good generic definition leaves much to be desired in regard to a concept as wide as this.[38] The term has not been limited to secrets involving manufacturing processes, but has been extended to almost every type of business secret that has value to the owner. An English case held that a table of dimensions was a trade secret,[39] and secret pricing codes,[40] blueprints,[41] and customers lists [42] have all been afforded protection.

Perhaps a better way to classify the concept is to consider what a trade secret is not. Legal protection is not extended to nonsecret

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on a questionable precedent. In John D. Park & Sons v. National Wholesale Druggists' Ass'n, 175 N.Y. 1, 7 N.E. 136 (1903), the article in question was assumed to be a patented medicine and on that basis the court upheld the price-fixing arrangement. Subsequent decisions, however, cited this case in holding that preferential treatment was to be afforded to articles manufactured under a secret process. See, *e.g.*, Wells & Richardson Co. v. Abraham, 146 Fed. 190 (C.C.E.D.N.Y. 1906).

34 Dr. Miles Medical Co. v. Park & Sons, 220 U.S. 373 (1911).

35 *Id.* at 401.

36 *Id.* at 402.

37 See ELLIS, TRADE SECRETS § 6, at 11 (1953).

38 Other definitions of a trade secret are stated: "[A] trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it!" Harris Mfg. Co. v. Williams, 157 F. Supp. 779, 785 (W.D. Ark. 1957); "A process, mode of operation, or use of ingredients, employed in manufacture but not published or divulged. Disclosure of trade secrets by employees, former employees, or others, in breach of confidence or fraudulently, will be enjoined." MERRIAM-WEBSTER NEW INTERNATIONAL DICTIONARY 2684 (2d ed. 1953).

39 Merryweather v. Moore, [1892] 2 Ch. 518.

40 Simmons Hardware Co. v. Waibel, 1 S.D. 488, 47 N.W. 814 (1891).

41 Pressed Steel Car Co. v. Standard Steel Car Co., 210 Pa. 464, 60 Atl. 4 (1904).

42 See Conviser v. J. C. Brownstone & Co., 209 App. Div. 584, 205 N.Y. Supp. 82 (2d Dep't 1924); People's Coat, Apron and Towel Supply Co. v. Light, 171 App. Div. 671, 157 N.Y. Supp. 15 (2d Dep't 1916), *aff'd*, 224 N.Y. 727, 121 N.E. 886 (1918).

technical "know-how" [43] or to slight advances or differences in plant operation,[44] nor of course to anything that is not really a secret. Matters of common knowledge cannot form the basis of a trade secret, and no secret exists when it is readily grasped from an inspection of the product produced by means of the secret.[45] The fact that either or both of the parties calls something a trade secret does not make it one. For example, if the idea of an assembly line is disclosed today as a trade secret under a purported confidential relationship to someone who has never heard of it, no liability would attach if the recipient of the "secret" disclosed the idea to others. The basic fact of secrecy would be lacking, and ". . . a substantial element of secrecy must exist." [46] Various considerations are used in determining whether an alleged trade secret will be protected, such as the amount of money expended in developing it and the care that was used in guarding it.[47]

Basis of Protection

The legal treatment of trade secrets and patents differs in many ways.[48] Patent protection rests on the statutory recognition of a property right,[49] while a trade secret is safeguarded only when it is being used or disclosed in violation of a duty of good faith or by other unconscionable means.[50] At common law, the public was free

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[43] See Detachable Bit Co. v. Timken Roller Bearing Co., 133 F.2d 632, 635 (6th Cir. 1943); Mycalex Corp. v. Pemco Corp., 64 F. Supp. 420, 425 (D. Md. 1946), *aff'd,* 159 F.2d 907 (4th Cir. 1947).

[44] Bell & Bogart Soap Co. v. Petrolia Mfg. Co., 25 Misc. 66, 54 N.Y. Supp. 663 (Sup. Ct. 1898).

[45] Carver v. Harr, 132 N.J. Eq. 207, 27 A.2d 895 (1942). This presumes, of course, that the product is already on public sale.

[46] Mycalex Corp. v. Pemco Corp., *supra* note 43, at 423.

[47] "Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." RESTATEMENT, TORTS § 757, comment *b* at 6 (1939).

[48] Mycalex Corp. v. Pemco Corp., 64 F. Supp. 420, 423 (D. Md. 1946). "It will be seen that the law gives to the owner of a trade secret protection which is in some respects greater and in some respects less, than that afforded by the patent law. That is to say, the protection is greater than that afforded by patents in that it is not limited to a fixed number of years, and does not require novelty and invention as in the case of patents; but it is less, in that actual secrecy of the thing with respect to which protection is afforded, and also impropriety in the method of procuring the secret, are prerequisites, but are not in the case of patents." *Ibid.*

[49] 35 U.S.C. § 261 (1952).

[50] E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102

to copy what it saw,[51] for no property right existed in an unpatented item.[52] Therefore, the owner of a trade secret or unpatented invention had to keep it truly secret to preserve the exclusiveness he needed in order to profit from it.[53] Anyone who acquired knowledge of it honestly was allowed to use it without liability.[54]

The strict requirements of novelty and invention needed to comply with patent law are not applied to trade secrets.[55] Thus, it is quite likely that although a trade secret did not meet the statutory standards of patentability it would still be protected. Nevertheless, even if a trade secret possessed all the elements of a patentable item, in rare instances it might be a wiser course not to patent it. If the secret was capable of useful application without much danger of sacrificing its secrecy, reliance on trade secret protection would obviate any time limit, while patent protection would be lost after seventeen years.[56]

The Restrictive Trade Secret License

Just as a patentee may license his patent, so the holder of a trade secret may license another to use it.[57] But as has been pointed out, the protection afforded a trade secret is not based on a statutory property right, as is patent protection, but on a duty to abstain from unconscionable conduct.[58] Accordingly, it has been a more difficult

(1917) (dictum). Some writers indicate that there can be no property right in a trade secret. See ELLIS, TRADE SECRETS § 8 (1953); RESTATEMENT, TORTS § 757 (1939); WALSH, EQUITY § 45 (1930).

[51] See Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (2d Cir.), *cert. denied,* 281 U.S. 728 (1929); John D. Park & Sons v. Hartman, 153 Fed. 24 (6th Cir. 1907), *petition for cert. dismissed,* 212 U.S. 588 (1908); Jessar Mfg. Corp. v. Berlin, 380 Pa. 453, 110 A.2d 396 (1955).

[52] Marsh v. Nichols, Shepard & Co., 128 U.S. 605, 612 (1888).

[53] See Aktiebolaget Bofors v. United States, 194 F.2d 145 (D.C. Cir. 1951); Newell v. O. A. Newton & Son, 104 F. Supp. 162 (D. Del. 1952).

[54] Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912, 923 (7th Cir. 1953), *cert. denied,* 347 U.S. 953 (1954). See Canfield v. Blaw-Knox Co., 98 F.2d 805 (3d Cir. 1938); Goldin v. R. J. Reynolds Tobacco Co., 22 F. Supp. 61 (S.D.N.Y. 1938). See also International News Serv. v. Associated Press, 248 U.S. 215 (1918) (person acquiring news improperly can be enjoined from using or disclosing it); Colgate-Palmolive Co. v. Carter Prods., Inc., 230 F.2d 855 (4th Cir. 1956) (injunction will be granted against one who receives a secret knowing it was not obtained honestly).

[55] See Smith v. Dravo Corp., 203 F.2d 369 (7th Cir. 1953).

[56] American Dirigold Corp. v. Dirigold Metals Corp., 125 F.2d 446 (6th Cir. 1942).

[57] See ELLIS, TRADE SECRETS §§ 382-85 (1953).

[58] "The word property as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. . . . Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or

task to justify trade restrictions when the licensing of trade secrets is involved. Though price-restricting patent licenses have been plentiful, and there has been dicta to the effect that trade secrets will also support price restrictive licenses,[59] few cases have been found seeking approval of price-fixing under a trade secret license. On the other hand, covenants restricting territory of sales have been common. Since it has been generally conceded that territorial restrictions will be upheld when patents are involved,[60] the old argument by analogy has been used in claiming the same treatment for trade secrets.

At the outset this type of restriction was held valid. In a pre-Sherman Act case, *Fowle v. Park*,[61] a secret process for the manufacture of medicine was assigned with restrictions as to the territory in which sales could be made. The Court stated: "Relating as these contracts did to a compound involving a secret in its preparation . . . we are unable to perceive how they could be regarded as so unreasonable as to justify the court in declining to enforce them." [62] Though the term used in this case was "assignment" and not "license," the decision has been stated as authority for restrictive licensing.[63]

After the passage of the Sherman Act, however, the propriety of the territorially restrictive license came under increased scrutiny. *Thoms v. Sutherland* [64] involved an agreement in which two competing producers of photographic paper divided sales territories in Europe under a secret process license. Antitrust problems were avoided by holding that the restrictive covenant as to territory was equivalent to a sale of the business existing in that territory.

Strong doubts as to the efficacy of a trade secret to uphold a territorial restriction were cast in an indirect way in *Foundry Servs., Inc. v. Beneflux Corp.*,[65] where an English corporation licensed a New York firm to use its secret processes and formulae for the manufacture of fluxes, with the restriction that no products would be exported beyond the United States and Canada without the previous

one of them." E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917) (Holmes, J.) (dictum).

[59] Dr. Miles Medical Co. v. John D. Park & Sons, 220 U.S. 373, 402 (1911).

[60] Brownell v. Ketcham Wire & Mfg. Co., 211 F.2d 121 (9th Cir. 1954). "It is a fundamental rule of patent law that the owner of a patent may license another and prescribe territorial limitations." *Id.* at 128. The federal statute reads: "The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States." 35 U.S.C. § 261 (1952).

[61] 131 U.S. 88 (1889).

[62] Fowle v. Park, 131 U.S. 88, 97 (1889).

[63] See, *e.g.*, Dr. Miles Medical Co. v. John D. Park & Sons, *supra* note 59, at 402 (dictum).

[64] 52 F.2d 592 (3d Cir. 1931).

[65] 110 F. Supp. 857 (S.D.N.Y.), *rev'd on other grounds*, 206 F.2d 214 (2d Cir. 1953).

written consent of the licensor. The district court upheld the territorially restrictive covenant on the ground that the two companies had not been in competition at the time of the license. On appeal, the Second Circuit refused to consider whether the license of the secret process would justify the territorial restriction and reversed on other grounds.[66] However, Judge Learned Hand, writing a concurring opinion, expressly questioned the validity of the restriction:

> I agree that we should refuse a temporary injunction because the contract on which the plaintiff's claim must rest, "provides for an unlawful restraint of trade in violation of the antitrust laws." I do not indeed mean that we should decide that question on this record. . . . Yet . . . I have a serious doubt whether that covenant was valid. . . .[67]

What was formerly a clear distinction between nonsecret technical knowledge or know-how and trade secrets now has lost some of its sharpness. For example, an article in the *American Bar Ass'n Journal* speaks of "know-how" as if it were precisely the same as a trade secret.[68] This problem of terminology has crept into judicial decisions too, and it is sometimes difficult to determine whether the courts' statements about "know-how" are to be applied with equal force to trade secrets. An example of this is seen in the handling of territorial restraints in *United States v. General Elec. Co.*[69] In defending an antitrust prosecution, General Electric attempted to support its territorial restrictions by claiming that "know-how" had been transferred. The court responded: " 'Know-how' as employed by General Electric has not been based upon the sale of a business making the territorial restrictions reasonably ancillary thereto." [70]

Although at this point the court did not say that *trade secrets* could not serve as a legitimate basis for the restrictive license, later in the same case it implied as much. One of the parties to the restrictive covenant defended on the ground that "know-how" *and* trade secrets were exchanged. The court replied: "Such justification of territorial restrictions was disposed of in the discussion of 'know-how' . . . ." [71] This treatment indicates that a trade secret would be no stronger than mere "know-how" as a basis for a license restricted as to territory of sale.

A slightly different position was taken in another case involving territorial restrictions.[72] The court was careful to point out that the

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[66] Foundry Servs., Inc. v. Beneflux Corp., 206 F.2d 214 (2d Cir. 1953). The court held that petitioner had not shown irreparable injury.

[67] *Id.* at 216.

[68] Beach, *A Question of Property Rights: The Government and Industrial Know-How,* 41 A.B.A.J. 1024 (1955).

[69] 82 F. Supp. 753 (D.N.J. 1949).

[70] United States v. General Elec. Co., 82 F. Supp. 753, 846 (D.N.J. 1949).

[71] *Id.* at 889.

[72] United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), *modified,* 341 U.S. 593 (1951).

subject of the license was "know-how" and not a trade secret,[73] stating that a contract to divide the world into exclusive marketing areas could not be defended as ancillary to the transfer of "know-how." [74] But any hope that a different result would have been reached had a trade secret in fact been involved was dampened by the affirming decision of the Supreme Court, which implied that the territorial restrictions involved were in themselves illegal under the Sherman Act.[75]

A subsequent district court decision refused to accept this approach. In *United States v. E. I. du Pont de Nemours & Co.*,[76] it was said: "Plaintiff's argument [that] a territorially limited license under a secret process is *per se* illegal is not accepted." [77] The court went on to say that a trade secret has always been considered a property right, and therefore a territorial limitation is a reasonable restraint on its use. Unfortunately, this argument is weakened by the fact that the case the court cites for the property right theory appears to stand for the reverse.[78] Although the decision was affirmed by the Supreme Court,[79] the majority made no mention of the validity of the restrictions, and the dissent expressly regarded them as invalid:

> The agreement . . . in which the parties agreed to divide the world cellophane market, is illegal *per se* under *Timken Roller Bearing Co. v. United States* . . . . The supplementary agreement providing for the interchange of technological information tightened the cellophane monopoly. . . .[80]

It would appear that the general trend of court decisions as to the validity of a secret process license bearing territorial restrictions is uncertain. However, the opinion of the Attorney General's Committee apparently leans in favor of validity. The Report, after discussing the reasonableness of territorial restrictions, states:

> Private American investment abroad may often be dependent upon opportunities for capitalizing upon patent rights and "know-how" through sale, ex-

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[73] *Id.* at 313.

[74] *Id.* at 314. "During the existence of the tapered bearing patents defendant could not legally allocate markets on processes which were not within the ambit of its patent monopoly. Therefore, it defies all sense of logic to say that upon the expiration of the patents defendant could lawfully engage in like conduct and practices upon the theory of supplying know-how on unpatented processes." *Id.* at 313.

[75] Timken Roller Bearing Co. v. United States, 341 U.S. 593, 598 (1951). See United States v. Imperial Chem. Indus., Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951). "Territorial division is 'in restraint of trade or commerce,' no less than price fixing. It involves 'the denial to commerce of the supposed protection of competition.'" *Id.* at 593.

[76] 118 F. Supp. 41 (D. Del. 1953), *aff'd*, 351 U.S. 377 (1956).

[77] *Id.* at 219.

[78] E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917). See note 58, *supra*.

[79] United States v. E. I. du Pont de Nemours & Co., 351 U.S. 377 (1956).

[80] *Id.* at 419 n.7.

change or licensing of such rights in transactions with foreign companies. . . . This reciprocal interest would normally involve the safeguarding of the investment of each of the participants in the markets at home and abroad where their resources are used to develop such markets.[81]

The Committee apparently feels that a reasonable territorial restriction could be upheld where it is ancillary to an exchange of "know-how." This seems to mean, a fortiori, that it would be upheld in connection with the transfer of a trade secret, because the latter has always been considered a more valuable business possession. However, the Attorney General's Committee has been censured for its liberal approach to many of these questions. Appearing before the House Committee on the Judiciary shortly after the Report was published, Senator Estes Kefauver (D. Tenn.) called it "a gigantic brief for the non-enforcement of the antitrust laws." [82]

Conclusion

It has been seen that the courts tend to regard as illegal almost every contract which demands price-fixing provisions as a condition of licensing, whether the license be based on "know-how," on a trade secret, or on a patent. Nevertheless, as a general rule, a patent will support a license bearing territorial restrictions. The law regarding trade secrets and "know-how" is doubtful.

Though it is difficult to justify price restrictions as reasonable, it is felt that as a practical matter there are many arguments in favor of allowing territorial restrictions when trade secrets and even "know-how" alone are licensed, especially where foreign trade is concerned.[83] Foreign manufacturers are often far more interested in gleaning American trade secrets and "Yankee know-how" than in obtaining patent rights. American production methods are greatly desired by businessmen overseas, and since it is our Government's avowed policy to foster native industry in friendly countries, it would seem only reasonable to permit our own companies, co-operating in this policy, to protect themselves reasonably against foreign competition of their own making.

[81] ATT'Y GEN. NAT'L COMM. ANTITRUST REP. 86 (1955).

[82] Kefauver, *The Attorney General's Committee Report In Perspective,* 7 MERCER L. REV. 258 (1955). Senator Kefauver continued: "It is a massive sedative designed to be absorbed by the enforcement agencies and the courts in the prosecution and trial of anti-monopoly cases. The result can only be complete immobility on the monopoly front. To paraphrase General Sherman, if a complaint is received it won't be investigated. If it is investigated, it won't be brought to trial, and if it is brought to trial, it won't be won." *Id.* at 258.

[83] See BURNS, A STUDY OF THE ANTITRUST LAWS 540-41 (1958).