

P R O C E E D I N G S

ARGUMENT ON BEHALF OF PETITIONER

By Mr. Crews

Mr. Crews: If it please the Court: This case comes up on certiorari through the First Circuit. The court below, with a dissenting vote by Judge Woodbury, affirmed an interlocutory judgment granted by District Judge Ford on motion for summary judgment which ordered the percentage royalty payments, an accounting, and an injunction against future breach of a patent license agreement. The court granted certiorari to pass on five questions, which are printed on page 9 of our brief here.

The motion for summary judgment brought by the plaintiff Hazeltine alleged that Automatic Radio was using in its radio set manufactured four of Hazeltine's patents. This was denied by Automatic Radio, thereby raising an issue of fact which precluded a recovery on summary judgment for the use of patents. Summary judgment was nevertheless granted because the license agreement contains a provision that the licensee will pay royalties on all sets made by it regardless of whether they use any of the plaintiff's patents in those sets. That provision in that license agreement requiring the payment of royalties regardless of whether patents are used is, we submit, a misuse of the patent, and that is the first question presented here.

We submit that that is particularly true in the case of a patent-holding company such as Hazeltine. Hazeltine has the right to grant licenses under approximately 570 patents and 200 patent applications owned by itself and five other owners. It has outstanding under these patents approximately 130 license agreements, all in standard form, to various manufacturers of radio receivers.

Automatic Radio was one of the licensees whose license was assigned in 1942. At the same time the parties exchanged mutual releases settling all previous differences between them.

The specific point on which Judge Woodbury dissented below was this first point I mentioned, namely, whether it is a misuse of patents to charge royalties on sets which do not use those patents.

The second, third and fourth questions presented here also go to the question of misuse of patents.

Hazeltine attempts to restrict the uses which may be made of the radio sets sold to the public by its licensees.

The second question is whether a patent owner can, by means of his patent, restrict the use that may be made of a device manufactured under the patent after it has passed into the hands of the public in the ordinary channels of trade, in this case across the counters of retail stores.

Your Honors may recognize that as one of the two questions which was before this Court and considered twice but left

unanswered in the General Talking Pictures case.

The third question was also presented but left unanswered in the General Talking Pictures case and has to do with whether a patent owner can control the uses of a device in the hands of the public after its sale by means of a restrictive use notice which is placed on that device.

The particular license here, license provision, is found at page 8 of the record -- and at this point of the record the record page numbers are the numbers that appear in the corners of the pages and not those that appear at the center of the pages.

The license agreement grants a license to Automatic Radio -- "a personal, indivisible, non-transferable and non-exclusive license to manufacture at its factory located at 122 Brookline Avenue, Boston, Massachusetts, and not elsewhere without previous written permission obtained from licensor, the apparatus specified in Section 2 hereinafter and to sell * * * and for resale for such uses."

In other words, the license agreement, the patent holder under the license agreement, attempts to control the uses to which a patented device may be put in the hands of the public after its sale and title has passed.

The particular uses which are permitted under this license agreement are stated immediately following Section 2 on the same page:

"The apparatus for which the said license is granted is as follows; the use in each case is limited to use in homes, use for educational purposes and private non-commercial use."

So, in essence, these radio receivers, sold by these 130 manufacturers, may be used in homes and schools, but they may not be used in restaurants or railroad stations, and so forth.

The restrictive-use notice which is required by Hazeltine to be put on all of the radio sets made and sold by these manufacturers contains that same language, and the specific wording of it is printed on page 3 of my brief. It says:

"Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications, followed by the word 'patent' and the number of the patents which are, in the opinion of the licensor, involved in apparatus of the types licensed hereunder manufactured by one or more licensees of licensor."

So that not only is this restriction as to use put on these sets but the sets are marked with a large number of patents which have no application to those sets as the patent marking includes all patents used by all licensees in the manufacture of any radio set.

We have in the record at page 257 one of the patent marking notices that has been sent out by Hazeltine for use by its licensees and it contains a list of 72 patents which

those licensees are required to mark on their sets, although Automatic Radio in this case is charged with using only four Hazeltine patents in its sets and denies using any.

The fifth question presented here goes to the question of whether Automatic Radio has the right to challenge the validity of the patents it is charged with using. We assert that a licensee under a pool of patents, here 570 patents and 200 applications, has the right, when sued for royalties under a license agreement, to challenge the validity of the patents he is charged with using.

The Government in this case has filed a brief as Amicus Curiae in support of the petitioner's position, as it did also in support of the petitioner's position in the General Talking Pictures case.

Justice Jackson: Are the same questions involved here as were involved in the General Talking Pictures case?

Mr. Crews: Two questions are involved here, word for word, with two of the issues involved in the General Talking Pictures case.

Plaintiff, Hazeltine, is a company which was organized in about 1924 to exploit the invention of the neutrodyne circuit, which was invented by Professor Allen Hazeltine of the Stevens Institute of Technology. Professor Hazeltine is very widely known as the man who took the squeals out of radio. Your Honors may recall, in the early 1920's, how the radio

used to holler and squeal, and particularly sometimes if you reached your hand next to it, to tune it, they hollered like a stuck pig, and Professor Hazeltine, by the neutrodyne, the invention of the neutrodyne circuit, took the squeals out of radio. It was a great invention.

He was granted three patents on that invention. Those patents were in litigation, all of them were held valid and infringed, by the courts. Professor Hazeltine himself and Hazeltine Company made millions of dollars out of them.

The neutrodyne circuit became obsolete in 1927, and I might say that the patents, those neutrodyne patents, have now expired many years ago, but they became obsolete in 1927 with the introduction of the screen grid tube, and starting about 1929 they were no longer used.

Under those circumstances Hazeltine found it necessary, if it wanted to have its licensees continue to pay royalties, to find some other means to force or encourage those royalties. It had bought other patents in the meantime, and it had hired engineers and put them to work in its laboratories, in an attempt to make other inventions, and partly through habit, and partly through other reasons, it was able to maintain its licensing position, and today, as I said before, still has 130 licensees who are paying it royalties.

Now, in 1927 it found itself, Hazeltine found itself, in the position of having to go in the business of making inventions as a commercial proposition. In other words, to take a certain amount of money and hire a number of engineers and find out if they could make enough inventions and get good enough patents to keep the organization going, with royalties equal to the cost of obtaining them. That is a position which I believe to be economically impossible, except with miraculous luck, because of our tax setup, and our other setup; it is just not in the cards.

Automatic Radio has an affidavit in this case to the effect that of the royalties which the public pays on account of Hazeltine licenses, Hazeltine puts into research on radio approximately three to five per cent. That is disputed by Hazeltine but they do not give us the figures, the correct figures on their side. We do have some figures, however, from which we can determine that those are pretty close to the correct figures.

Hazeltine boasts of the fact that it spends a half million dollars a year for research, but in the year 1946 it paid its officers and directors over a quarter of a million dollars. And there is in the record a financial statement of Hazeltine for that year, showing, on page 263, that it made a distribution of \$444,000 as a distribution to stockholders from provision for amortization of patents; that it

paid dividends of \$437,000; on the next page, page 265, that it set aside a provision for Federal taxes on income, of \$592,000; and it carried to surplus a balance of \$886,000.

When it is realized that a license fee paid by a manufacturer is a manufacturing expense, and is a part of the mark-up all the way to the public, and that mark-up amounts to something like 2-to-1 to 3-to-1, it is seen that the figures, Automatic Radio figures, of about three to five per cent of the royalty income going into research, are not far wrong.

The Chief Justice: What is the importance of that in this case?

Mr. Crews: The significance of that, your Honor, is this: it is, in other words, to give some explanation of how it is possible that a company could have 570 patents and yet not have any patents which is used by a company which is manufacturing radio receivers. The patents they have obtained are these little piddling patents on this and that, which no company need use.

The Chief Justice: I didn't understand the significance of it.

Mr. Crews: I think, your Honor, that there is some intellectual satisfaction in trying to understand how these things can be, while it doesn't actually, as I feared, directly affect the legal proposition of whether the collection

of royalties on sets which do not use patents is proper.

Now, the way Hazeltine has been able, through the years, to continue collecting royalties is twofold, really. In the early days it filed many suits against dealers and distributors. In one case it sued 26 Atwater Kent dealers simultaneously. The primary way it has done it, however, has been by making all of its patent infringement suits inordinately expensive and thereby holding a threat over that portion of the industry which does not want to take licenses, the threat of these terrificly expensive suits.

In the twenty years since the neutrodyne patents have become obsolete Hazeltine has sued on ten different patents. Every one of those ten patents has been held invalid or not infringed or both.

The citations for those cases are on pages 4 and 5 of my brief.

Despite the fact of this continued failure to enforce its patents it has kept these licensees in line, that is, the small licensees. The big companies, for the most part, do not take Hazeltine licenses or pay Hazeltine royalties. There are two exceptions to that, namely, the Radio Corporation of America and Zenith.

But the record shows that Hazeltine grants licenses under patents which are owned by both of these companies; and, independently of that, Hazeltine's licenses have no

"favored nation" clause, so that the large companies get very favorable royalties as compared to the small companies, independently of any special arrangement, due to special patent licensing.

I would like to read to your Honors a statement -- before I say that, let me say this: It was in 1937 that, due to this continued failure to be able to sustain any of its patents in the courts, that Hazeltine changed its licensing system to call for this payment of royalties on every set made, regardless of whether it used any of its patents, and it has since that time used that form of license.

Now, I have made the statement, I think I have made it here already, that these ten patents that it has sued on, and that have been held to be invalid or not infringed, are the best patents it has, and I have made the statement that it makes its patent infringement suits inordinately expensive. I get those facts from a statement made in court by Mr. Dodds, Executive Vice President and trial attorney for Hazeltine, in 1947, in a trial against General Motors. That statement is quoted on page 6 of my brief, and reads as follows:

"Now, contrary to your Honor's impression, it is not the weak patents which get to the court, it is the strong patents, and the reason for that is economics. We cannot afford, because it is economically unsound, to bring an

infringement action on a minor patent. Each of these patents which has been stricken down enjoyed the prima facie validity of a grant by the Patent Office. Each was evaluated by our patent counsel highly enough to risk an expensive infringement litigation, which we have found runs in excess of \$100,000 per case * * * "

"Now, it has been testified that we own about 450 patents. Of these, somewhat less than 100 are in use, and of those only a handful are of the importance of the patents which we have here in suit."

And those two patents which were there in suit were in turn held invalid by the District Court, affirmed by the Sixth Circuit Court of Appeals, and since then also held invalid in the Seventh Circuit.

The first question now is the question of whether it is a misuse of patents by the holder or Administrator of a pool of 570 patents to charge royalties on the total production of its licensees, whether any of those patents are used in those sets or not.

Now, the broad principle which we rely on in support of the proposition that that is a misuse of patents is that the monopoly of a patent may not be extended in any way to cover anything beyond the scope of what that patent itself covers.

I think it would be very clear if Hazeltine had only a single patent, let's say a refrigerator patent, that it could

not collect royalties from the entire production of 130 radio manufacturers without in fact extending the scope of that patent beyond the limits of the patent itself.

I think it is equally clear that it does not get extra rights to collect royalties without extending the scope simply by reason of having extra patents where those patents in their turn also are not, do not cover the apparatus on which the royalties are paid.

Now, this scheme of collecting royalties on one patented apparatus is simply one more of a very great many schemes for tying in unpatented materials to patents, which this Court has condemned for many years.

Those tying-in cases have taken the form of positive and negative tie-ins. That is, a licensee, under a patent, or a lessee of a patented machine, or a purchaser of a patented article, is required to purchase unpatented supplies from the patent holder; or the negative form is that he is required to refrain from purchasing unpatented supplies from a certain source.

The same tie-in principle has been applied to attempts to control one patented device by another patent which did not cover it. In the Esso gasoline case.

It has also been applied to the attempt to control a copyrighted article by another copyright which did not cover it. In the Paramount Pictures case, which this Court referred

to as "block booking".

One of the cases in which this tie-in occurred was the Motion Picture patent case in which the purchaser of a patented motion picture machine was required to purchase unpatented film from the patent holder in order to get the right to use the machine. And this Court condemned that as an improper extension of the patent monopoly.

In the United Shoe Machinery case the lessee was given the right to lease and use a patented machine only with unpatented supplies bought from the lessor. That was condemned by this Court on the same ground that it was an attempt to extend the monopoly beyond what was covered by the patent itself.

Justice Frankfurter: This is a mode of determining royalties, isn't it?

Mr. Crews: Yes, your Honor.

Justice Frankfurter: That is very different from the shoe machinery case.

Mr. Crews: It is the same as the shoe machinery case in that a patent is used in order to get payment, the payment being based on something the patent does not cover.

Justice Frankfurter: How do we know that?

Mr. Crews: You know it because this case arose on motion for summary judgment and it is disputed as a question of fact that Automatic Radio was using any of Hazeltine's

patents --

Justice Frankfurter: How do we know that the mode of determining the royalties does not cover the use of that which they did use? They could have imposed a flat royalty.

Mr. Crews: Maybe they could, your Honor, but they did not.

Justice Frankfurter: They could?

Mr. Crews: I suppose your question is whether that is proper?

Justice Frankfurter: Yes.

Mr. Crews: If it was a flat sum per year I think it would be proper, your Honor.

Justice Frankfurter: Although you wouldn't use it?

Mr. Crews: Although we would not be using it, yes, your Honor. I think a flat rate per year would be proper. There are considerable differences between the two.

But I want to be sure that I have completely answered your Honor's previous question. There is no dispute here that these royalties are measured by unpatented material; that the licensee is required to pay royalties, percentage royalties, on every set he makes, whether or not he uses the patent. That is undisputed, that that is the situation here, and that was the specific grounds on which Judge Woodbury dissented below.

Justice Frankfurter: What I mean is, how do we know

that the royalty which is measured in that way isn't compensation for the patent enjoyment which the licensee gets?

Mr. Crews: Your Honor --

Justice Frankfurter: How do we know that that isn't a fair compensation for whatever is valuable in the patents that are used?

Mr. Crews: I think your question, your Honor, may be answered in this way, that a flat sum is proper, and that these royalties might in some particular year amount to exactly the same amount of money as they would amount to if a flat sum had been charged, then it would seem to be proper, that that would be a proper measure.

The fact is that they may amount to almost anything. They may amount to 10 or 50 or 100 times more than that, even though the patents are not used at all.

Justice Frankfurter: Is there anything in the record or in the data on the basis of which the summary judgment was entered which indicates what the relationship is between the cost of the laboratories which produce all these patents, or any of them, and the multiple patents?

Mr. Crews: That was the question I went into a while ago, your Honor, and said that it was disputed on the record. The Automatic Radio figures are that Hazeltine puts something like three to five per cent of the money paid by the public on account of Hazeltine royalties back into research on radio

receivers, but that is disputed on the record, and I went into that and showed it.

Justice Frankfurter: That does not answer the question whether, even though three or five per cent may be attributable to the expenditure to produce all these patents. The difference in cost is so difficult to ascertain that Judge Ford said, below, that nobody can measure it. He didn't say you can use any or all because it costs the same whether you use any or all.

Mr. Crews: Well, this Court said, in the United States against General Electric case, that the royalties charged must bear a reasonable relation to the value of patents licensed.

This license here, under these terms, bears no relationship whatever to the value of the patents licensed. A manufacturer might be turning out two models, one of which used a Hazeltine patent, and one of which did not. He might be manufacturing equal quantities of each. He might discontinue the one that used the Hazeltine patents and add two more models, neither of which used the Hazeltine patents. So that his total production would go up enormously; his royalties would go up enormously but his use of Hazeltine patents would go down to zero.

Justice Frankfurter: But you have the availability of the patents, which, so far as Hazeltine is concerned, may

be the same whether you used one or three patents.

Mr. Crews: We do have the availability if we want to use them. In this case we did not want to use them and the license contains a provision that where we do not mark the Hazeltine patents they are not licensed and do not come under it. We did not mark them. Nevertheless, they insist we must pay royalties.

Justice Frankfurter: Which would be true if they charged you a flat rate?

Mr. Crews: Yes, your Honor.

These tying-in cases continued. There was the IBM case, in which the unpatented cards were tied in with the right to use the patented machine. The Barber Asphalt case, in which the patent holder sold unpatented asphalt for use in practicing the patented method. This Court held there that the patents were misused.

Morton Salt against Suppiger, a case in which the purchase of unpatented salt tablets was tied in with the use of a patented machine.

The Eythl Gasoline case, in which one patent was tied in with another, very much as is attempted to be done here, in that case this Court made the following statement:

"The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another than for the exploitation of an unpatented article or for the

exploitation or promotion of a business not embraced within the patent."

B. B. Chemical Company v. Ellis tied in unpatented materials supplied by the patent owner for use in a patented method.

The Mercoid cases were two more cases that tied in. In each of those cases the patent owner, the licensee had to pay money. In each case he got something for his money. In each case what he got for his money that he was required to pay was something that the patent did not cover. And that was the phase of those cases, each of those cases, which this Court found to be improper, as I read them, and that is exactly what the patent owner is here doing.

Automatic Radio is paying money. For that money it is getting the right to manufacture sets which do not use any Hazeltine patent. Therefore, it is against a right which is outside of the scope of any patent Hazeltine has, a right which Hazeltine is not entitled to deny it under its patents.

Justice Reed: I didn't understand the word you used. It is paying for the privilege?

Mr. Crews: It is paying money for the right which Hazeltine grants it to make sets which do not use any Hazeltine patents.

In other words, a right which Hazeltine has no right to

exclude it from. Yet, that is what it is getting for its money. It is getting for its money something which is entirely outside of and beyond the scope of any patent held by Hazeltine.

Justice Burton: It could be said it is paying it on the number of articles that it might use a patent on; isn't that it?

Mr. Crews: If it was, it would be paying it on a basis which bore no relation whatsoever to the Hazeltine patent.

Justice Burton: Here is a man that wants a license and may want to use Hazeltine patents on all his products, and then pays this rate.

Mr. Crews: In this case before your Honors it is paying it without using any Hazeltine patents.

Justice Burton: He has the right to, but chooses not to use it, but he protects himself with the right to use it if he wants to; isn't that true?

Mr. Crews: Then that raises the question of whether a future patent right -- if you are thinking about the inventions that have not yet come out of the laboratory --

Justice Burton: I wasn't.

Mr. Crews: That is one of the arguments that Hazeltine makes.

Justice Burton: They are in there, too.

Mr. Crews: They are in there, too. Those, of course, are things they do not have the right to stop us from using now.

The complimentary type of control I mentioned before, of tying in patents with rights not covered by the patent, the negative type, was held to be bad by the Third Circuit Court of Appeals in RCA v. Lord, and in National Lockwasher Company v. G. K. Garrett, where the licensee made an agreement not to deal in competing products, and it was stricken down.

It was also held bad by this Court in the Shoe Machinery case, and in the case of the United States against U. S. Gypsum, and in the Gypsum case this Court said:

"The patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products and through regulation of distribution."

So this royalty scheme which Hazeltine has set up tends to and does discourage the production of competing apparatus, because it is a tax on that competing apparatus, competing unpatented apparatus. It reduces the chance that its patents will be challenged. It makes the royalties low; increases the likelihood to take a license, and reduces the opportunity to challenge its patents.

The royalties bear no relation to the value of the patents and good patents are caused to support bad ones.

For those reasons, that I have stated, we submit that the first question should be answered that Hazeltine's royalty

scheme is a misuse of patents.

The second and third and fourth questions go to the misuse of patents.

The second question is whether it is a misuse of patents for a patent holder to restrict the uses of a device in the hands of a purchaser in the ordinary channels of trade.

The third question is whether he may do so by use of a restrictive use notice which is required to be affixed to the patented device.

And the fourth question is whether it is a misuse of patents for him to require that restrictive use notice to be attached to the device.

This business of attempting to restrict the uses which may be made of a patented device go back for more than one hundred years, and for more than one hundred years this Court has consistently stricken down every attempt so to control the uses.

The question first came up in 1846, in the case of *Wilson v. Rousseau*; at a time when the law permitted extension of the term of a patent. There a purchaser bought a patented device within the original term and the patent owner tried to enforce his patent against that purchaser during the extended term and this Court held in that case that he could not do so on the ground that once the patented device had been sold and title had passed the monopoly of the patent was exhausted and

could no longer be exercised.

In 1852, in the case of *Bloomer v. McQuewan* the case came up of the purchaser from a licensee whose license was limited to the original term of the patent, whether he had the right to use that patented device in the extended time, whether the extended term belonged to someone else, and this Court again said that having bought the device and paid for it it was his to use for any purpose, and the monopoly of the patent was exhausted, could not thereafter be exercised against the patented device.

The question came up again on restrictions in the place of use of patented devices. In the case of *Adams against Burks*, in 1873, the purchaser bought a patented article from a licensee who was licensed to sell it only in a restricted territory, and the question was whether that purchaser could use that device elsewhere than in that restricted territory, and this court held that it could, having bought it and having paid for it the monopoly of the patent was exhausted and he could use it anywhere he pleased.

Another angle of the same question came up in *Hobbie v. Jennison*, in 1893, where the purchaser bought a patented article from a licensee licensed to sell it only in one State and used it in another State, where the exclusive right to sell that patented article belonged to another, and this Court held that that was perfectly all right, and the patent monopoly was

exhausted by the sale of the device by one who had the authority to sell, even though his authority to sell was limited to a single State, the purchaser having bought it, the patent monopoly was exhausted and he could use it anywhere.

In the case of Standard Folding Beds, in 1895, it was held that the purchaser from a territorially limited licensee could take the patented device into another State and could sell it there, although the right to sell in that State belonged to someone else.

Then we had a series of cases in this Court on the control of retail prices. Bauer v. O'Donnell, arising in the District of Columbia, where the patent holder put a notice on bottles of a product sold in O'Donnell's drug store limiting the price at which those bottles could be sold to \$1, and sued for infringement where O'Donnell sold them for less than a dollar. This Court held that a patent owner could not control the retail price of a device, again for the same reason, that once the patent owner had sold the device the full title passed, and he could not thereafter exercise any control whatever over the uses of the sales price of that device.

In Straus v. Victor Talking Machine Company -- this brings us down to 1917 -- the licensee patent holder conveyed through his licensee a license to use the phonographs for the life of the patents provided a fee of \$200 was paid. This Court saw through that as simply another attempt to control the retail

price and held that the devices had been sold and the attempt to control the price of \$200 on the retail was beyond the monopoly of the patent.

And in Boston Store against American Graphophone, there was another variation of that.

Then we come to the Motion Picture Patent case, which followed by five years the Henry v. A. B. Dick Company case, and specifically overruling it.

In the Motion Picture Patent case the attempt was made to control the uses to which a patented device could be put after it had been sold by one with authority to sell. This Court held that the uses could not be controlled by analogy to the retail prices, the retail price could not be fixed, the re-use of the device could not be controlled, purchaser having bought it the monopoly was exhausted.

Those last four cases I mentioned, Bauer, Straus, Boston Store and Motion Picture, the patents all involved the use of a restrictive use notice applied to the patent device, the same type of notice that Hazeltine requires here, and that question was before this Court as to whether those restrictions could be saved by the use of a restrictive use notice, and this Court held that they could not.

It said that the statute contains no provision for such a notice, and the patent can derive no aid from it.

That Motion Picture Patent case, I think, is controlling

here on the second and third questions presented, despite the fact that since it was decided this Court has had before it the General Talking Picture case.

The General Talking Picture case, the two questions presented were not answered, on the ground that they were not in the case.

This certiorari has been granted here on the ground that they are in the case here. And as I read the Motion Picture patent case, and what the majority there had to say, it is in direct -- I mean the General Talking Pictures -- it is in direct conflict with the Motion Picture Patent case.

And this Court has repeatedly, in recent years, cited with approval the Motion Picture Patent case, thereby reaffirming the doctrine of that case.

Notably, all three opinions of the Court in the Line Materials case cited the Motion Picture patent case with approval.

So that I submit that under the Motion Picture Patent case the questions two and three here should be answered in the negative.

The fourth question here is closely tied in to questions two and three, namely, is it a misuse of patents for the Administrator of a patent pool to require this restrictive use notice to be used.

Now, all of these cases I have just reviewed for one

hundred years have consistently held throughout that time that the various restrictions attempted were bad because they were attempts to extend the monopoly of the patent beyond that which the patent covered.

The recent misuse cases in this Court, Morton Salt against Suppiger, B. B. Chemical versus Ellis, Carbice Corporation, and so forth, have all held that any attempt to extend the monopoly of a patent beyond the monopoly set by the grant of the patent itself constitutes a misuse.

Therefore on those two lines of cases I submit that the fourth question should be answered in the affirmative.

Now, the fifth question presented raises the question of whether Automatic Radio may in this case challenge the validity of the patent it is charged with using.

Justice Burton: Is it your position that if there was a clause against the restrictive use of the product by licensee, that that is also a defense against paying a royalty on it?

Mr. Crews: Yes, your Honor, and this Court held in the Sola case, in the MacGregor versus Westinghouse Electric case, that it was a defense to a suit for royalties to show that the patents were invalid where they were being used for a purpose which would constitute a misuse of the patent if they were not valid.

Justice Burton: You mean the licensee has its defense against paying the royalties because the man to whom he sold

it is misusing the patents?

Mr. Crews: No, your Honor. No; I am afraid I haven't made myself clear there.

The licensee has a defense when sued for royalties where the licensor, the patent holder, has enforced conditions in his license which conditions, the enforcement of which conditions constitute a misuse of the licensor's patents. It is the patent holder, the licensor in each case who has misused his patent by his actions with respect to them.

Justice Burton: There is no claim in this case as to that?

Mr. Crews: That is not directly in the case in the sense that there is no re-user in this case. However, these previous cases have held that such re-use may not be controlled and have so held for the last hundred years. Nevertheless these restrictive use notices go right on being used and right on being held over the heads of the public for whatever effect they have. There appears to be no way of stopping the use of such restrictive use notices unless in a case such as this.

For the fifth question --

Justice Frankfurter: Before you move on --

Mr. Crews: Yes, sir.

Justice Frankfurter: Judge Magruder says, in his opinion, that the judgment on appeal here does not require the affixing of these notices.

Mr. Crews: The judgment granted an injunction specifically requiring the complying with certain provisions of the license agreement. The notice, license notice, clause in the license agreement was not one of those clauses which was mentioned as requiring specific performance of it.

Justice Frankfurter: That is not in the judgment.

Mr. Crews: The judgment does not require that that notice be affixed. Hazeltine, however, asserts that we have to pay royalties on these sets whether we use that license notice or not.

Justice Frankfurter: If that provision is not required by the judgment, then the presence of it, not enforced, it would seem to me would invalidate the license.

Mr. Crews: Merely because this particular judgment in this particular case did not enforce that particular provision, where it is denied that we use any Hazeltine patents, it seems to me that has no effect on the question of whether it is a misuse of the patent to include that provision in all 130 of their licenses.

Justice Frankfurter: Suppose you do not affix these notices. You would not be violating this injunction?

Mr. Crews: The specific language of it, no, sir. We would, however, have to pay royalties on the sets to which we fail to affix the notices.

Justice Frankfurter: I understand that.

Mr. Crews: The fifth question, whether we may challenge the validity of the patents which we are charged with using. For that question I go back to the case of Pope versus Gormully, decided by this Court in 1892. In that case the patent holder sued for royalties allegedly due under a patent license where the license agreement contained a provision that the licensee would not challenge the validity of the patents. This Court held that that license agreement was illegal, was unenforceable, because of the presence of that provision in it, saying that it was against public policy to prohibit the challenge of the validity of 65 patents which were there involved.

Now, if that is true there, then it seems to me, necessarily to be true here, that in the case of 570 patents we may either challenge the validity of those patents or the agreement is necessarily invalidated and may not be enforced.

That case of Pope against Gormully has been cited by this Court repeatedly in recent cases, thereby reaffirming its authority, and I believe it applies here.

ARGUMENT ON BEHALF OF RESPONDENT

By Mr. Dodds

Mr. Dodds: If it please the Court, there are just six points which I hope to have an opportunity of covering in our argument, and I believe these six points will show that there is no merit in the defenses of petitioner and that there is no substance in them.

The first point which I would like to make, point number one, is that Hazeltine Research -- that is, respondent here -- is not engaged in any activities which would lead to any sort of violations of the anti-trust laws. It is not now engaged in and never has been engaged in the general manufacture or sale of apparatus in competition with petitioner or in competition with any of its licensees.

Point number two is that respondent is not now and never has been engaged in building up a monopoly of patents. What it now does is to offer simple non-exclusive licenses to all manufacturers under all of its patents, under the same terms and conditions.

In fact, we believe that respondent has substantially added to the competition in the radio and television industry by supplying to many small companies and medium-sized companies, who could not afford extensive research, the technical know-how, engineering assistance, and design information which enabled them more readily to compete with some of the larger and better

integrated companies.

Now, a third point is that the past relations between petitioner and respondent here comprise only a series of successively broken contracts by petitioner. We believe this justifies viewing with considerable skepticism the defenses which petitioner has, that they are actually raised in good faith.

As point number four, we believe the method of computing the license fee as a nominal percentage on the sales of radio apparatus petitioner is making is one which is a purely private transaction. It represents an evaluation as between licensor and licensee as to what is a fair return for the use of Hazeltine's patents. We think it does not in any way impinge on the public interest and does not in any way create or extend a monopoly.

As point number five, we believe that the license notice provision, which Mr. Crews has discussed, is of the form which is expressly approved by this Court in the General Talking Pictures case, and we believe further that insofar as the facts of this case raise the issue, it is also within the dissenting opinion of Mr. Justice Black in the General Talking Pictures case.

But, in any event, the license notice issue is not presented to this Court for decision, because some five years ago Hazeltine waived it in writing to petitioner and also

licensees. That license provision has not been used by anyone for five years. It is not before the Court. It is purely an academic and moot question.

Point number six. Some considerable argument has been made that the license agreement requires the application of such a license notice to unpatented apparatus. We say the language of the agreement is perfectly clear that we do not have that right, we have never urged that right, and we have never insisted upon it.

Now, when I take up these points in order, point number one, we say that Hazeltine has no manufacturing monopoly or anything that even points in that direction. Petitioner here is not a manufacturer. It conducts research and development work in the radio and television fields. It has laboratories in Little Neck, Long Island, in Chicago, and in Los Angeles, in which it gives engineering assistance and technical know-how to manufacturers who are located in those respective sections of the country.

This research and development work has extended back over a period of nearly 25 years, and Hazeltine spent many millions of dollars in that effort, and the record shows in the last year preceding filing of this complaint some \$500,000 was spent by Hazeltine in this direction. That represents a figure which is way beyond what many small or medium-sized radio manufacturers could afford to spend; and, yet, they

collectively receive the benefits of this engineering work.

Now, on this point I should mention parenthetically that the figures which Mr. Crews read to you are not figures of respondent. They are figures of Hazeltine Corporation, which includes a number of subsidiary corporations engaged in quite different activities. There is nothing in the record whatever to indicate any of these figures with respect to respondent here.

Point number two -- we say we have not engaged in any activities which tend to build up a monopoly of patents. The inventions which we have acquired have been from this research and development work. We freely license to anyone, any company that is interested in a license -- all they have to do is ask for a license and we give it to them. They have a license under all patents, with no strings attached. The same terms and conditions apply to every licensee. It is a free open-ended license with the entire industry, with anyone who seeks to take advantage of it.

Now, we believe that this nominal royalty that we have charged is only a fair consideration for the license under the patents and for the engineering and know-how which all these licensees acquire by virtue of a license agreement. We believe that it aids and promotes competition in the radio industry because it tends to put some of the smaller companies and some of the medium-sized companies more closely on a par with the

huge companies who can afford to expend sums of the some order of magnitude we have been talking about. It puts them more nearly on an equal footing and on equality with them.

Now, while it is true that the majority of the Hazeltine licensees are smaller companies and medium-sized companies, at the same time our contributions have been recognized by many of the larger companies in the industry. As Mr. Crews mentioned, the Radio Corporation of America is a licensee, Westinghouse, Zenith, Stromberg-Carlson.

I would like to negative any imputation that there is any special deal, because every one of those companies has the same agreement which Automatic has, or its later revised form. There are no special terms or conditions.

Point number three. We believe that the past relationships between the parties have indicated a decided lack of good faith. Let me just trace the history briefly.

Back in 1935 petitioner first decided it would like to have available the licenses and engineering information of Hazeltine. It took a license agreement. What happened? Immediately after it took a license agreement, it wrote to our counsel: "We are not using any of your patents, we won't pay you any royalties." Not a year after or two years after, but immediately after.

What happened? We were forced to bring suit in a Massachusetts State court, and as a result of interrogatories filed

in that suit, it turned out rather than that they were not using any, that they were using 27 of our patents in their receivers.

A consent decree was entered into to that effect, and they paid royalties. They paid royalties a little over two years, although every single time we had to dun them, and they were late in reporting. We had to insistently demand the payment of those royalties.

They did that for about two and one-half years, and then they stopped. We went to court and asked for a final decree. The consent decree was an interlocutory decree. That same decree was made final and it continued in substance the prior decree. At that time there was a settlement made. The licensee took a second license for a five-year period. The agreement was entered into. Then after that final decree, there were extended negotiations, which I mentioned, entered into, and there was -- I think I skipped one point -- there was a first settlement at the time of the consent decree and a second license, and at the time of the final decree there was a second settlement and a third license agreement that was finally entered into in September, 1942, and at that time we were at war and the manufacture of civilian apparatus of that type was all prohibited; so that the license was more or less in suspense or abeyance, in any event.

At that time they took their license and they say this

was a second settlement agreement. What happened? Immediately after the war, while the license agreement was still in effect, as soon as the war was over they came with the same cry: "We are not using your patents. Therefore, we won't pay you royalties."

But when we got into the case at bar, there were exchanges of interrogatories filed. They supplied us voluntarily with circuit diagrams of their receivers saying, "Tell us what we are using."

We pointed out they were using ten of our patents. Now, Mr. Crews has said they deny they use any of the patents. The only basis for that denial is the fact that he alleges a general statement in his answer that they were not using any of our patents.

In this motion for summary judgment, I may add, they filed a counter motion for summary judgment, agreeing there were no facts in dispute and asking the court to decide the case on the record.

In connection with that motion and counter motion for summary judgment, they filed voluminous affidavits. They filed two affidavits -- three affidavits of their president -- no, they filed two affidavits of their president, Mr. Houseman, three affidavits of their counsel, an affidavit of their chief engineer, and an affidavit of their technical expert; and in that affidavit of their technical expert, that affidavit is

devoted entirely to consideration of these patents which we pointed out in our answers to their interrogatories were in use. That affidavit points out at length all the reasons why those ten patents are invalid, but there is not a single suggestion that any of them are not in use.

As a matter of fact, it goes further as to one of the patents. The technical expert, their own expert, says it is in use. I refer to page 212 of the record. They are talking with respect to a Wheeler patent, Number 2015327, and it says:

"The language of these claims is directed to the structure of a vacuum tube, and the claims do not include any structure except the structure of the tube itself. The tubes shown in the exhibits attached to plaintiff's answers to defendant's interrogatories which use the structure are the following:"

Then there it points out the tubes in the various circuits which use the invention of the Wheeler patent, and yet Mr. Crews says they are not using any of our patents.

Now, the fourth point, your Honors, is this question of the royalties. The facts are, briefly, that the license agreement, which is a simple, non-exclusive license, grants a right to the licensee to use any one or more or all of the Hazeltine patents as it sees fit, and it also grants it the right or privilege of using any of the future inventions which come out of the Hazeltine laboratories.

The Hazeltine laboratories have been operating nearly 25

years, they probably will continue to operate, they have made many inventions which have contributed to the progress of the art in the past, and they will probably continue to do so. It is quite probable that many of the licensees that accept the license of the type we are talking about, carrying as it does such a nominal royalty, might do it as well as a matter of insurance. They do not know what inventions might come out of the laboratories tomorrow that might be extremely valuable, and by agreeing to pay this nominal royalty, with the right or privilege of using any of the inventions which come out of the laboratories, it is a relatively cheap form of insurance.

Justice Frankfurter: What do you mean by "nominal royalty"?

Mr. Dodds: The royalty, Your Honor, is somewhat less than one percent.

Justice Frankfurter: One percent of what?

Mr. Dodds: Of the manufacturer's selling price, which is something less than one-half of one percent of the device as it is sold over the counter to the public.

Justice Black: I do not understand yet.

Mr. Dodds: Your Honor, it is this: Due to the mark-ups which are allowed distributors, dealers, and so forth, a radio which you buy across the counter would generally sell for approximately twice the manufacturer's selling price.

So if we charge a royalty -- suppose a manufacturer's

selling price were \$50. That would sell across the counter at \$100. We would charge one percent of the \$50, which is 50 cents, and that is one-half a percent on the retail selling price across the counter.

Justice Black: What do they have to pay if they do not manufacture?

Mr. Dodds: If they do not manufacture any, they do not pay anything except there is a minimum royalty of \$2500 a year, which is fairly small, for continuity, which preserves the license agreement in force.

Justice Black: I have not understood yet precisely what this contract is. Do they have to make a contract in order to manufacture? Would you mind explaining it?

Mr. Dodds: I think that is a helpful question. This license agreement is both offered and voluntarily accepted. As Mr. Crews pointed out, there are quite a number of companies who do not operate under license agreement from Hazeltine. We think the majority do. They do because they think they get value received, but it is purely a voluntary proposition on their part whether they do or not accept the license.

Justice Black: What is that value?

Mr. Dodds: The license agreement itself is a license which gives the manufacturer a right to manufacture and sell various apparatus, particularly radio receivers, under any of the patents which Hazeltine owns or acquires or under patents

or inventions which may in the future come out of the research laboratories.

Justice Black: Suppose he says, "I only want one." What can he do?

Mr. Dodds: He wants to use only one invention?

Justice Black: He wants to get a license to manufacture one invention.

Mr. Dodds: That instance has arisen, and there are one or two special instances where licenses have been granted under a single patent for a single purpose.

Justice Black: What are the facts here on that?

Mr. Dodds: No facts one way or the other.

Justice Black: I understood from the other side they had to sign this one form or get none at all. Is that wrong?

Mr. Dodds: That is wrong.

Justice Frankfurter: Judge Magruder in his opinion says that it is nowhere alleged that Automatic had sought and had been refused a license covering less than all these patents. This particular contention has now been presented on appeal as a separate ground for defense.

Mr. Dodds: I had forgotten that. That covers the point.

Justice Black: What is meant by this number one here, the contention about misuse, that it is a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications in the radio art to force the radio industry and

the public -- and so on. You just say that is not correct.

Mr. Dodds: I say most definitely that is not correct, your Honor.

Justice Black: Suppose the record shows it to be correct. Would you say that is a violation of the law or not?

Mr. Dodds: I am not quite sure I understand your question, your Honor.

Justice Black: Would you say that was a misuse of the patent if the record shows that your company has done what this question assumes it has done?

Mr. Dodds: That is a little difficult to answer, Your Honor, because I think that question is heavily loaded. It is like, "Have you stopped beating your wife?"

If I might slightly rephrase it --

Justice Black: May I ask this: What I understood you to say is you have 570 patents --

Mr. Dodds: Approximately.

Justice Black: -- and the people who want to use one of your patents have to sign a contract to take them all.

Mr. Dodds: That is definitely not right, your Honor.

Justice Black: If that were true, would that be a misuse?

Mr. Dodds: I think that would be a misuse.

Justice Frankfurter: That is the Shoe Machinery law?

Mr. Dodds: That is correct. If we said in order to use invention A, you also have to use invention B and invention C

and invention D, I think that would be misuse, but I think there is one thing we should make clear, and that is a license compelling the licensee to use inventions A, B, and C and those giving him the privilege of using any of those that he wishes -- and that is the form our license agreement takes -- he is not obligated to use any. He has the privilege of using any, as many as he wishes.

Justice Black: And he has to pay for all the general tribe, whether he uses any or not.

Mr. Dodds: He pays a flat uniform rate, irrespective of the extent of use. That is correct.

Justice Frankfurter: As I understand the Shoe Machinery situation, they had X number or a hundred patents in the Shoe Machinery field. The manufacturer in Massachusetts or elsewhere could not lease one of the machines without leasing them all. Is that right?

Mr. Dodds: I understand that is correct.

Justice Frankfurter: You say that is not true here?

Mr. Dodds: That is not true of this instance. There is no compulsion on the part of the licensee to use any invention, to make any particular apparatus, to sell any particular apparatus or not to make or not to sell any particular apparatus. He has complete freedom with respect to what he manufactures and what he sells.

Justice Frankfurter: But you have a uniform fee for the

sum total of your patents, and he can use what he wants or not use them at all; is that right?

Mr. Dodds: Exactly, your Honor.

Justice Black: You mean, if I understand your answer to that question, you say he can use what he wants to or not use any at all. Do you mean you will not give him a license unless he will agree to take this uniform contract you have and pay this uniform amount?

Mr. Dodds: No, I do not. As I mentioned a moment ago, we have a few special licenses under that lease in that group, but what happened is that the royalty rate is such that the average manufacturer is not interested in a license under only one patent. He wants freedom. He does not want to take a license under patent A and then be threatened with a suit next week because he changes his mind and decides to use patent B. He wants complete freedom. He is interested in having complete freedom of design, so he does not worry about what he is making. He has complete freedom of design insofar as the Hazeltine patents are concerned.

Justice Burton: Is there not a practical consideration involved in your royalty rate in a situation where you have hundred or more patents? You cannot tell what they are using and they cannot tell what they are using, and you have to stop and figure what they are using; if you had to do that, you never would figure it out.

15 Mr. Dodds: That is right. We could do it, but to do it that would cost the licensee more and would cost us more than the royalties that are involved. The radio is a pretty technical art. We have some hundred-odd licensees. Each licensee ordinarily brings out five, ten, twenty different models every year. It changes seasonally like clothing, like spring hats. Every time he changes his receiver design, it would mean a redetermination, a re-review of each of those many models, hundreds, practically thousands in the country as a whole, during the year, with each of the several patents to see what is used.

It just seemed a practical expedient and an easier expedient and one which certainly does not impinge on the public interest to say, "O.K., you pay us a nominal fee, you can use anything you want, we will not have to be bothered," and in the case of the licensee Automatic, "You will not have to hire a high-powered patent counsel to tell you what patents you are using and you will not have to get an accounting department to differentiate between whether this set or that set pays royalty." It is a practical expedient.

Justice Burton: It is like a flat royalty except a big user has to pay more than a little user.

Mr. Dodds: That is quite right. That also has a practical significance, because obviously the benefits which a licensee gets vary with the extent of his use. If he is a big licensee,

the value of the engineering service and use of patents is obviously worth more than to a little licensee. So what he pays is roughly proportionate to the benefits he gets from his license.

Now, as I pointed out in my brief at pages 18 and 22, this is not a new proposition. This form of license agreement has come up again and again in the courts and it has uniformly been approved and it has never been disapproved. I have cited in my brief decisions by the Federal courts in New Jersey, Pennsylvania, New York, Massachusetts, California, Illinois, the District of Columbia, and Ohio -- eight courts in as many States, and no court has disapproved this type of provision.

We submit that such rare unanimity is nearly conclusive of the soundness of the rule.

We think that one of the cases I mentioned in the brief -- I would like particularly to call it to your Honors' attention -- that is Hazeltine versus De Wald, in which the defendant was represented by Mr. Crews, who is counsel here. That is interesting because it is a decision by the New York Supreme Court and is a statement, therefore, of the New York law. This license agreement expressly states that it is to be governed by the New York laws. Justice Hofstadter of the New York Supreme Court expressly approved this form of royalty payment.

Now, there is one point I would like to make note of, which occurred since respondent's brief was filed last week. The

Appellate Division of the New York Supreme Court on appeal in the DeWald case reversed Justice Hofstadter in those respects with which he disagreed with the Automatic case in the Court of Appeals and granted summary judgment and brought the decision in all fours with the decision of the Court of Appeals in the First Circuit.

We think that is significant as a statement of the New York law by a higher court of the State of New York.

Justice Frankfurter: Is that reported in the Appellate Division?

Mr. Dodds: That has not been reported yet.

Justice Frankfurter: It is not in the Law Journal?

Mr. Dodds: It was mentioned in the Law Journal, but not published in full.

Justice Reed: Do you have the date in mind?

Mr. Dodds: Yes, it was on last Wednesday. I do not recall the calendar date. That is when that decision came out. I have copies I would be glad to leave with the clerk if anyone is interested.

Justice Frankfurter: May I refer back to the notice. You said that for five years that provision has been practically a dead letter and has been universally waived.

Mr. Dodds: It has been universally waived.

Justice Frankfurter: Is that in the record?

Mr. Dodds: That is in the record but, unfortunately,

belatedly. There is an affidavit by the President of respondent Hazeltine, setting forth that fact and reproducing a copy of the letter which was sent to all licensees, including petitioner, and that is printed as an appendix in respondent's brief.

Justice Frankfurter: You mean it was not before the court below?

Mr. Dodds: It was not before the court below, and the reason for that, your Honor, was that as a practical matter that never assumed any importance until it got up here and the Department of Justice interested itself in it. It was never pleaded in the answer or in the amended answer in the District Court.

Justice Black: Does it still appear in the contract?

Mr. Dodds: I beg your pardon?

Justice Black: Does it still appear in the contract, these contracts that are being made now?

Mr. Dodds: It still appears in the new contracts, and the reason is this.

Justice Black: I thought you said you had waived it.

Mr. Dodds: We have waived it by letter to each new licensee. We have not formally deleted it from the license, for the reason that this simplified form of license notice, which we have, which says, "Licensed under Hazeltine Corporation patents," has never been interpreted by any courts as a

compliance with the patent-marking requirements of the Revised Statutes. The statutes put a duty upon the licensee to mark that notice on his apparatus. That license notice, that simplified form, which is not, I believe, subject to any criticism, has never been approved by any court.

Therefore, we have been a little reluctant to adopt that formally. The license agreement is not in the exact form which was approved by this Court in the General Talking Pictures case. If and when this Court approves the simpler form, I think there will be no question but what the form in the agreement itself will be changed.

Justice Black: You still have in your contracts a statement that it can only be used by the ultimate consumer for certain purposes and in a certain way?

Mr. Dodds: The license notice, which has been read -- I do not think that is quite a correct characterization of it, but that appears in the printed agreement, but the practice is when we send out the agreement, we send a letter with the agreement.

Justice Black: I understand that. Do I understand that your contract with the people which you make still carries a statement that they must put a notice on the machine manufactured that it can only be used by the man who buys it and pays his money for it for certain purposes?

Mr. Dodds: That is not quite correct in two respects.

I believe the letter we sent out with the executed contract is a part of that contract and waives that provision.

Justice Black: But if it waives it, why do you put it in there, if it is not to be held over the public to threaten them? Why should you put it in there and put a letter out?

Mr. Dodds: Nobody has used it.

Justice Black: If it is not used, why do you put it in your contract?

Mr. Dodds: Maybe our reason is not good. Our reason was that the simplified form, which we have given them permission to use, has never been approved by the courts. We were reluctant to depart from a form which had been approved by the court to one which had not been approved by the court.

Justice Black: Do you think the law requires that you put on a patented article the use to which a man who buys it in the open market can put it?

Mr. Dodds: That is not quite the point, your Honor. The license notice now in use merely says, "Licensed under the patent rights of Hazeltine Research."

That license notice has never been approved by any court authority as complying with the patent-marking requirements of the statutes. Therefore, as I say, we have not formally adopted it and substituted in our formal written contract as against one which had been specifically approved by the court.

Justice Black: I frankly do not quite understand. You

understand my views on it because they were expressed in the General Talking Pictures case.

Mr. Dodds: Very clearly.

Justice Black: I expressed them as strongly as I could. Now, I cannot understand what you mean by it. At least, you leave me with the impression that somehow you think the law requires you to put in your contract a statement that the man who manufactures it must tell the public, the user, the ultimate consumer that buys it out of the store, how he can use it and when he can use it and what he can use it for.

Mr. Dodds: We do not feel that way, your Honor. We perhaps could adopt some intermediate form of license notice between that which we have been talking about here and one which is actually in use. What I said is that I am not sure that the -- I think this will clarify it, your Honor.

This license notice we have been talking about was accompanied with a list of patents which were in use by the licensees. Mr. Crews referred that to you, and it is reproduced in the record. That, we thought, did comply with the patent statutes. That was a listing of the series of patents in use by the Hazeltine licensees, and that went along as a part of the license notice.

When we waived that license notice dealing with the question of use, we also waived the requirement of this rather long list of patents, so that the notice which is now used by the

licensee contains no reference to any patents by numbers. It merely says, "Licensed under the patent rights of Hazeltine Research, Inc.," and that, as I say, is the form of license notice which has not had court approval to date.

Justice Burton: You would have no doubt about the adequacy of your present notice if you added on the number and left out this language about home use?

Mr. Dodds: That is correct. That is a practical matter. The reason we left off the patent numbers was the licensees complained that it cost too much to print up numbers every six months to take care of patent expirations and new patents. There was a fairly long list of patents, and it was a nuisance. We used to revise that list every six months.

Justice Frankfurter: Where does your notice differ from that which was sustained in the General Talking Pictures case?

Mr. Dodds: We think the parallel is exact. We think the notice is exact. We do not think it restricts the use of the device in the hands of the user. We think it only constitutes a notice of the extent of the licensee's license.

It is merely informative of the scope of the licensee's license. We have never enforced, we have never sought to enforce it against a user.

Justice Black: Why put it in the contract?

Mr. Dodds: The reason for that is --

Justice Black: You say that it is licensed by the Hazeltine Corporation only for use in homes or for educational purposes and in private and non-commercial use. I understand you to say you have written them they do not have to do that, but you still keep putting it in the contracts.

Mr. Dodds: We keep putting it in the contracts and keep waiving it.

(Laughter.)

Justice Black: You keep waiving it. You notify all of them that, "here it is", but you then send them a letter and say, "We don't mean it, but here it is in the contract."

Mr. Dodds: We waive it. I will tell you why it was originally adopted. You raise the question why we used that.

The reason is quite simple.

Justice Black: I am raising the question as to why you use it now, when in answer to his argument that it should not be considered, that it is kind of moot because you have notified them they do not have to pay it, but you still use it.

Mr. Dodds: The practical answer to that is that it is an anachronism that crept in and stayed. Since 1945 it has never been enforced either against the licensee or against any user or any purchaser. Hazeltine has no incentive in restricting anything in the hands of the user. It does not sell. They are not competing with them. All they are interested in is getting as many manufacturers as possible to take licenses, pay royalties, and use inventions.

Justice Black: You have an interest in seemingly dividing it up and letting one do this -- one manufacturer at this place and one at another.

Mr. Dodds: Yes.

Justice Black: And you manufacture it, and when it is sold to this eventual person, he can use it for a certain kind of educational speech and the other man can use it for a certain kind of music in his home.

Mr. Dodds: There are two points involved. One is the question of what the licensee can do and, second, any notice which might carry over to the purchaser from the

licensee. As between the licensees, there is a very good and practical reason for limiting a licensee; Licensee A, for example, to build home receivers and Licensee B, for example, to build commercial receivers. They are different animals, different kinds of dogs.

In one case you go into a radio store and you buy a twelve ninety five table model radio and bring it home and put it on your desk. If you are going to buy a shipboard radar set, which costs tens of thousands of dollars, or if you are going to buy a receiver to use in a commercial airplane, you have an entirely different kind of animal, operating on a different frequency band, constructed differently, having different performance and different requirements.

Justice Black: I can understand your argument now. You are defending it. I can understand that. But the argument you made a while ago was we should not consider it at all because you waived it and you are sending them a letter that they do not have to abide by it.

Mr. Dodds: There, your Honor, I think perhaps our license notice may be a bit anachronistic.

Justice Black: I do not know what you mean by that.

Mr. Dodds: It is like Topsy, and it just grew. It has been there a long time, nobody criticizes it, this Court approved it in the General Talking Pictures case, nothing ever happened to it.

I might say that waiver back in 1945 had nothing to do whatever with any of the criticism that we have been discussing here. The waiver was solely due to the fact that the licensees objected to this frequent change of this long list of patents. It just cost them money in changing labels and nameplates.

Justice Frankfurter: Why don't you accept Justice Black's suggestion? You say you stand on this decision of this Court, which was reaffirmed on rehearing. Why should you be so apologetic about it?

Mr. Dodds: We do not care whether we use this license notice or another. Anything the licensee wants to use is all right with us. It does not have the slightest consequence to us which form of license notice we use.

Justice Burton: As a practical matter, which form of license notice is on the machines the public buys?

Mr. Dodds: The license notice which is on all of the machines the public buys is a simple legend stating, "Licensed under U. S. Patent rights of Hazeltine Research, Inc."

Justice Burton: There is nothing about home use?

Mr. Dodds: Nothing about the field of use, nothing about patents, no restrictions, just a simple license.

Justice Minton: The terms of this contract are not applied to this petitioner?

Mr. Dodds: I beg your pardon?

Justice Minton: The terms of the contract are certainly not applied to this petitioner.

Mr. Dodds: I believe that is certainly correct, your Honor.

Justice Black: Are they in the contract?

Mr. Dodds: I am sorry?

Justice Black: Are they in his contract?

Mr. Dodds: They are in his contract, except it has been waived by letter. Petitioner received a letter.

Justice Black: Was there any consideration for the waiver?

Mr. Dodds: I doubt whether consideration is necessary there.

Justice Black: How would he know what would happen to him in the future under that contract? Do you think you could enforce it against him?

Mr. Dodds: I beg your pardon?

Justice Black: Do you think you could enforce it against him?

Mr. Dodds: No.

Justice Black: Even though you had written that letter.

Mr. Dodds: No.

Justice Black: Why not? Law suits are very expensive

in patent litigation, particularly when you have the terms of a contract; is that correct?

Mr. Dodds: That is correct. But I think after having expressly waived it in writing to licensees, I believe, if nothing else, we would be estopped because I think all licensees have been acting in reliance upon that waiver.

Justice Black: I can understand you to say the Court passed on it. Maybe they did. I can fully understand that. However, I do not quite get the other.

Mr. Dodds: You mean why we still use it?

Justice Black: Why you put it in your contracts, send it out to the public, and then accompany it or send a letter later and say, "Well, we didn't mean it in there."

Mr. Dodds: We do not send it later, we send it at the same time, in the same envelope.

Justice Black: "It is in the contract, but we do not mean it."

Mr. Dodds: I think that is not too uncommon a situation where you have a printed form. Usually in each license agreement there are modifying letters to meet special circumstances. Rarely is there an agreement, a license agreement, which is not modified.

Justice Black: Are there any special circumstances here or do you waive this with respect to everybody?

Mr. Dodds: We waive it with respect to everybody.

Justice Reed: Maybe you had a lot of contracts printed up.

Mr. Dodds: That is true.

Justice Black: Is that the reason you did it?

Mr. Dodds: I would like to say yes, but I am afraid I cannot.

If I may get back just for a moment to this question of the royalties on the sales of the apparatus of the type licensed, the Department of Justice's criticism of this provision appears to us to be largely economic rather than legal, and it also seems to us that it stems from a number of erroneous factual assumptions and premises.

First, it assumes that this provision for paying royalties by a licensee on his manufacture across the board inherently and necessarily, and I quote, "levies a toll on unpatented apparatus."

Now, we say that there is absolutely no evidence to that at all. The evidence in this case shows that petitioner is using ten of our patents, and there is no evidence to indicate that the receivers which the other licensees were making are in any way different from the ones which petitioner is making.

In the final analysis, a radio receiver now has become pretty well uniform and standardized, a pretty standardized piece of merchandise, and there is no evidence in this case

that any licensee ever made and sold any receivers on which they paid royalties which did not embody the Hazeltine inventions. We believe that the assumption in this respect is completely unjustified and unfounded.

Then, further, the Department considers only the present patented inventions and completely disregards the rights under inventions coming from continued research and development work of the company. We maintain that that alone is an adequate and legal consideration for the payment of the royalty, and by the mere addition of rights under our present patents, it does not convert what was a perfectly legal contract into an illegal one. He gets these additional rights for no additional compensation, no additional consideration.

Justice Frankfurter: Is this a device or means of assessing or determining royalties in this industry? Is it a device peculiar to this industry?

Mr. Dodds: I think not, your Honor. As I pointed out a moment ago, there have been at least eight other cases in which it has arisen. They were all in different industries, none in the radio industry. They were all in different industries.

I think it might be fair to say that it is probably not the ordinary, I think it is the unusual situation. If a patent owner has one patent on a refrigerator, there really probably is not any justification for a provision of

this sort, because it becomes readily and easily determined as to whether he is or is not using the patent, and the burden is not great. You are looking only at one patent with a few claims, and you do not have the large range of models of refrigerators as you do in the case of radio receivers.

I think it is an unusual provision, but it certainly is not unique.

Justice Frankfurter: Is the common factor in the use of that the multiplicity of patents, where such arrangements have been devised?

Mr. Dodds: I think that is a factor, and I think another factor is the wide range of models and types of apparatus involved in the license agreement. I think probably even multiplicity of patents might not justify it if there was only one device and the manufacturers kept making that same device year after year after year.

It boils down in the final analysis -- the brief of the Department suggests this Court should reexamine or reverse the General Talking Pictures case. We think that whether they do or not does not have any effect on the decision of the Court in this case, because we feel that the questions there presented are not really presented here.

You will recall that the General Talking Pictures case was an action for infringement against a purchaser from a

licensee for uses outside of the field of the license and outside the field of the license notice.

This Court enforced that license notice against a purchaser, and the reason they did it was because they thought the purchaser had knowledge and he was not acting in good faith.

But in this case there is no purchaser, nor any interest of any purchaser, which is in any way concerned. All we are talking about is between licensor and licensee.

We say, further, that if this Court is going to reverse the General Talking Pictures case we think it may well have very serious and widespread and disastrous consequences on industry generally, which we do not concern ourselves with, which we are in no position to present, and which we are in no position to evaluate and adequately defend.

We believe if there is going to be any reversal of the General Talking Pictures case, that should await a case where the issues are squarely presented, which we think they are not here. We think, just incidentally in passing, that the Department of Justice may have overlooked one consequence of its suggestion that the General Talking Pictures case be reversed, and that is this:

I believe your Honors might take judicial notice of the fact that the Government itself acquired thousands of licenses from its wartime contractors and developments with

respect to inventions which were made in the performance of those contracts. Every single one of those thousands of license agreements is restricted to governmental uses. If you are going to outlaw licenses for limited uses, you will invalidate those thousands of license agreements which the Government now holds.

Therefore, I would just like to reiterate, in closing, that we believe Hazeltine has not contributed to or engaged in the building up of any monopoly in any type of manufacture, has not contributed to or engaged in the building up of a monopoly of patents, and we believe that the license fee provision providing for the payment of royalties on all apparatus of the type licensed is purely a private affair and does not in any way impinge upon the public interest.

Finally, we believe that the license notice provision is one expressly approved by this Court and that, in any event, it has been waived for a great many years.

ARGUMENT ON BEHALF OF RESPONDENT

By Mr. La Follette

Mr. La Follette: May it please the Court, I will not trespass on your time by overtalking this case. I would like to underwrite one point in particular.

That is, the Department of Justice's brief in this case emphasizes the question of monopoly, and if it does not sound personal, I would like to say I think I have as good

a nose for monopoly as the next fellow, and I am an officer and director of this company, have been since 1945, and that Hazeltine, point No. 1, does not manufacture anything excepting for the Government of the United States, the Armed Forces. It has no motive, no purpose in monopoly of any kind in terms of manufacture.

So far as patents are concerned, all of its patents are available to any comer and, if I may trespass a little on Mr. Justice Black's time, I would like to emphasize as far as I can see it, this case before this Court comes even within his dissent and that what Hazeltine has done is not to waive its rights between the licensor and the licensee. If I may supplement Mr. Dodds' point, that is what we have preserved, the right between licensor and licensee, because that is the method of determining the royalty rate.

What we have waived is any rights as against any third persons. That is why we do not feel this case comes within the Talking Pictures case, even within your dissent, sir.

REBUTTAL ARGUMENT ON BEHALF OF PETITIONER

By Mr. Crews

Mr. Crews: If the Court please, I would like to have it very clearly understood that there is a dispute of fact on this record as to whether the Automatic Radio Manufacturing Company is using any of Hazeltine's patents.

On page 195 a statement is made in Mr. Woodworth's

affidavit:

"Defendant has used no valid patents of Hazeltine in any sets made by it at any time."

Mr. Dodds referred to the Appellate Division as reversing Justice Hofstadter's decision in New York. That reversal was by a vote of four to one. There was one dissenting Judge. The four-Judge majority relied specifically on the Automatic Radio case as their authority and followed it. Therefore, we have four Judges who did not decide the case independently, while we have one Judge who did independently decide it in our favor.

With respect to this license notice, which Mr. Dodds says that they have waived continuously for many years, that appears in the appendix to Mr. Dodds' brief at page 79. It is Mr. Binn's affidavit, which is there printed, and prints one of the letters, and says that a letter like this has been sent every year for five years and each of the letters read substantially as follows. Then he quotes the letter and in the letter he quotes that license notice is waived for a period of three months or four months from September 5, 1945, to January 1, 1946.

So what they are doing, apparently, is repeatedly waiving this license notice for a period of months and doing it revocably, so that whenever this Court decides this case, they simply stop sending out these waiver notices, and the

provisions of the license agreement come into full force and effect and may be enforced.

Justice Frankfurter: I could not quite follow. This Court has what?

Mr. Crews: If this Court should decide in this case that the patent-marking notice, restrictive notice, is proper, then all they have to do is stop sending out these waiver notices and they can then force their licensees to mark these restrictive-use notices on the sets they make.

Justice Frankfurter: They have no emphatic notice that these restrictive notices do not apply to the purchaser?

Mr. Crews: You mean Mr. Dodds?

Justice Frankfurter: Yes. Both said this is not the Talking Pictures case, this is not intended to bind buyers from the licensee.

Mr. Crews: I understood Mr. Dodds to say this license, this restrictive-use notice, was on all fours with the one in the General Talking Pictures case, applied to the users directly.

Justice Frankfurter: We have had the most solemn assurances that it is not intended to apply to consumers.

Mr. Crews: Your Honor, the language is there to be read.

Justice Frankfurter: I am only suggesting that it may find its way into an opinion of the Court in view of what

has been said before the bar.

Mr. Crews: That may be true, but the license agreement says it is licensed only for use in the home, and they may enforce it regardless of the representations made here.

Justice Frankfurter: Regardless of what this Court says in its opinion?

Mr. Crews: Of course not, your Honor.

Justice Black: I asked your opposing counsel -- this No. 1 point in your petition for writ of certiorari, on page 3:

"Is it a misuse of patents by the Administrator of a pool of 570 patents and 200 patent applications in the radio art, to force the radio industry and the public, by means of its 'standard' licenses outstanding to 130 manufacturers, to pay royalties on the entire production of its licensees, amounting to tens of millions of radio sets, even though none of the patents is used?"

On what do you base that?

Mr. Crews: I base that question on the fact that Hazeltine has 130 licensees now outstanding and in force in the radio industry. Those licenses are all of a standard form. Those licenses all require each of those 130 licensees to pay royalties, percentage royalties, to Hazeltine on their entire production of radio receivers, even though no Hazeltine license is ever used in any single one of those sets

made by those 130 manufacturers.

Justice Black: Where do you get the words "to force the radio industry"? I understood Mr. Dodds to say they did not require that in the contract.

Mr. Crews: Of course, they have 130 standard contracts outstanding, your Honor. I see your Honor's interpretation of the word "force", as to whether the license must be taken in this form.

Justice Black: That is correct.

Mr. Crews: Now, there are 130 licenses outstanding, all of which are in this form. They are a standard printed form. They have for 25 years been a standard printed form, which all of Hazeltine's numerous licensees over the years have signed.

Mr. Dodds says they have a few special ones. Now, those, I imagine -- I do not know anything about those from this record -- I imagine they are not licenses to manufacturers of radio receivers.

I imagine they are licenses to manufacturers of radar equipment for the Government, or something like that. I do not know anything about them. I know they have 130 in this form.

Justice Black: Did you allege here or is there proof, by affidavit or otherwise, that you tried to get a different form of contract and that you could not get a different form

of contract?

Mr. Crews: Yes, there was.

Justice Black: Where is that?

Mr. Crews: That was disputed, and, therefore, not an issue. That was alleged as part of our motion for summary judgment. That was disputed and, therefore, it raised an issue of fact upon which we could not base a motion for summary judgment. Therefore, it was dropped from the case.

Justice Frankfurter: Therefore, it is not in the case?

Mr. Crews: Therefore, it is not in the case, that is correct, but it is in the case that all of these 130 manufacturers have to pay royalties on all of their devices, whether they use any patent at all or not.

Justice Black: If they have the contract.

Mr. Crews: Yes, if they have a contract, and 130 of them have this standard printed form of contract.

Justice Black: But you have no proof or allegation that they had to sign this in order to get any of the rights to utilize any of the patents?

Mr. Crews: No, your Honor. Where I find the tie-in here is in the fact that we have to pay royalties, even though we use none of the patents. Now, if they had a Grade B patent, which they forced us to take, and we had to pay on those for half of our production, that would be a tie-in; but they do not have a Grade B patent.

If half of our production uses none of their patents or if all of our production uses none of their patents, we nevertheless have to pay royalties.

Justice Black: If you voluntarily make a contract to do that and you did not have to, how can you charge them with the responsibility for your having entered into the contract?

Mr. Crews: Your Honor, I think the licensee voluntarily entered into the contract in the Sola case and in the Westinghouse against MacGregor case. Nevertheless, he was permitted to challenge the validity of the patents he was charged with using.

Justice Frankfurter: So far as this record goes, for all we know, you desired to have the benefits of these 130 patents, to choose which ones you would use, which ones to use at your free will; is that right? That is, as far as this record goes?

Mr. Crews: I do not think that is quite true, your Honor. This record shows that Hazeltine -- the small manufacturers have been forced to take these Hazeltine --

Justice Frankfurter: We are not talking about the other people. So far as you are concerned, for all we know, it was to your advantage to have the opportunity of using any of the 130 patents.

Mr. Crews: No, your Honor. There is an affidavit in

the record by Automatic Radio patent counsel, which says that it was his opinion, after careful study, that Automatic Radio was using no Hazeltine patents in its sets, but he advised his clients that they must sign a Hazeltine license because the cost of litigation would be prohibitive and they had no choice but to do so. That is in the record.

Justice Frankfurter: But there is a finding by the Court of Appeals that there was neither allegation nor proof that you could not have obtained some patent that you wanted to use and not be bound to use all of the others.

Mr. Crews: That is correct.

Justice Minton: You took this contract in order to be sure that you saved yourself some expense.

Mr. Crews: Expense of patent litigation, and we had either to sign the contract or go out of business.

Justice Minton: You were not forced to make the contract, except as a business expediency.

Mr. Crews: Or go out of business.

Justice Burton: I want to get this clear. You referred to pages 78 and 79, about this notice. However, I do not find anything about three months' notice. It says if they decided to use the old notice instead of the new notice, they would have to revise a list of patents by 1946, but that the whole procedure of the waiver here has no time limit on it.

Mr. Crews: It says this list will be effective until January 1, 1946. In the event you do not wish to use this license, then use the simple form.

Justice Burton: Yes, but if you do use the old form with the list, then you must revise that every so often, because you have the numbers on there and must revise it within three months after that notice, but if you do not use the numbers at all, then you use the waiver form, and that is good forever.

Mr. Crews: I would not so read it, your Honor. There is a time limit on the list, and it says if you do not use the list, use this.

Justice Burton: This carries no time limit?

Mr. Crews: It carries no numbers, yes.

Justice Burton: It has no time limit?

Mr. Crews: But it says it is to be used as a substitute for the list, which list is effective only for three months.

Justice Burton: If you use the number list, you have to change it at the end of three months to be up to date, but if you do not use the number list, I understood you use the short form.

Mr. Crews: That is what Mr. Dodds says, as I understood him, yes, sir.

Justice Burton: That is what I thought this said.

Mr. Crews: There is one other fact in the case not mentioned on either side, and that is that Automatic Radio repudiated its license under Hazeltine's patents. It has set itself open to be sued for infringement and to meet the challenge in that way. Instead of that, they sued us for royalties here.

The Chief Justice: That would save you at least perhaps the expense in suit.

(Whereupon, at 4:15 p.m., oral argument in the above-entitled cause was concluded.)