The Need for Pre-Patent Protection: An Analysis of Lear, Inc. v. Adkins

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In 1954 John Adkins applied for a patent on his plan for a more accurate gyroscope which he had developed soon after being hired by the Lear Corporation. Lear and Adkins entered into a licensing agreement in 1955 in which Lear agreed to pay royalties on Adkins’ idea until the patent application had been refused or the patent was held invalid. In 1957, after Adkins’ patent application had been rejected twice, Lear stopped paying royalties on some of the gyroscopes; two years later it stopped payment altogether. Adkins obtained his patent in 1960 and thereafter sued for royalties accruing before and after the patent was granted. The California Supreme Court1 held that Lear was estopped to deny the patent’s validity due to “one of the oldest doctrines in the field of patent law” which states that “so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor’s patent in a suit for royalties under the agreement.”2 The holding was based on a similar ruling made by the United States Supreme Court seventeen years earlier in Automatic Radio Mfg. Co. v. Hazeltine Research.3 The United States Supreme Court granted certiorari4 to Lear in view of its more recent decisions favoring a strong federal policy allowing free competition in ideas which do not merit patent protection.5 In reversing the California Supreme Court holding, the Supreme Court divided the payments into two groups, those accruing before the patent was issued and those accruing thereafter. It held that Lear must be allowed to attack the validity of the patent as a defense to the payments accruing after the patent was issued. However, as to the payments accruing prior to the issuance of the patent, the Court postponed the question.6

The purpose of this note is twofold: first the history of the

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1. Adkins v. Lear, Inc., 67 Cal. 2d 882, 453 P.2d 321, 64 Cal. Rptr. 545 (1967). The California Supreme Court affirmed the judgment on the verdict for Adkins, and affirmed in part and reversed in part the judgment notwithstanding the verdict for Lear.
2. Id. at 891, 435 P.2d at 325-26, 64 Cal. Rptr. 549-50.
Licensee estoppel was first applied by the Court in *Kinsman v. Parkhurst* in 1855. Basically, the rule prohibits the licensee of a patent to directly challenge the validity of the patent in a suit brought for royalties due under the contract. Thirty-seven years after *Kinsman*, the Court in *Pope Mfg. Co. v. Gormully* created the first and probably most noteworthy exception. The Court refused as a matter of public policy to enforce a contract which denied the licensee the right to contest the validity of the patent. The *Pope* Court stated that the importance of not represssing competition by giving protection to worthless patents was equal to the necessity of offering protection to valuable inventions; use of licensee estoppel to protect a worthless patent would result in the repression of competition, and as such, would be against public policy. The interest in eliminating protection for worthless patents was also a strong factor in the Court's *Lear* decision.

After the *Kinsman* decision, several other notable exceptions to the estoppel doctrine arose. The doctrine of eviction was announced in *Drackett Chemical Co. v. Chamberlain Co.* This exception allowed the licensee to defend an action for royalties by showing that a third party had proved the patent invalid.

In *Scott Paper Co. v. Marcalus Mfg. Co.*, the Court allowed a licensee to deny the validity of patents which had expired, on the ground that to do otherwise would be inconsistent with the patent laws because patent policy dictates that once a patent expires, the idea becomes part of the public domain and is outside protection. It should be noted that the *Lear* Court stated that the *Scott* decision had severely undermined the very basis of the estoppel rule. The *Scott* reasoning applies only to post-patent payments, not to pre-patent payments, since it concerns patents which have expired.

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9. 144 U.S. 224, 234 (1892).
10. Lear, Inc. v. Adkins, 89 S.Ct. at 1911.
12. 63 F.2d 853, 854 (6th Cir. 1933); See also White v. Lee, 14 F. 789, 791 (C.C.D. Mass. 1882).
14. 89 S.Ct. at 1909.
The “anti-trust” exception was created soon after the Scott decision in *Katzinger Co. v. Chicago Metallic Mfg. Co.* and *MacGregor v. Westinghouse Electric & Mfg. Co.* The Court held that price-fixing clauses could not be severed from clauses prohibiting the licensee from contesting the validity of the patent; therefore, the total agreement was rendered invalid, and the licensee was allowed to challenge the validity of the patent. In 1947, Justice Frankfurter concluded that *Katzinger* and *MacGregor* had so weakened the estoppel rule that the Court should have at least given the rule a decent public burial. Ironically, three years after Justice Frankfurter wrote his plea, the estoppel rule was declared to be the “general rule” in *Automatic Radio.* Prior to the *Automatic Radio* decision, the rule had not been applied by the Court since *United States v. Harvey Steel Co.,* decided in 1905. The above noted exceptions had made the rule applicable in “an ever-narrowing set of circumstances.” The doctrine, however, was expressly overruled in the *Lear* decision.

The *Lear* Court divided the suit for payments into two groups. The first group was the post-patent payments. The Court espoused two basic reasons for overruling the “general rule” and allowing the licensee to challenge the validity of the patent. First, it reasoned that since a patent is nothing more than a legal conclusion of the patent office, made without aid of arguments of those who would contest the validity of the patent, it is therefore fair to require the licensor to defend the judgment of the patent office. This is especially true “since the licensor’s case is buttressed by the presumption of validity which attaches to his patent.”

Second, the Court stated that the public interest in allowing full and free competition in the use of ideas outweighed the equities of the licensor. Allowing the estoppel rule to restrain the licensee might continually force the public “to pay tribute to would-be monopolists without need or justification.” The Court

17. *Id.* at 416 (dissenting opinion).
19. 196 U.S. 310 (1905).
20. 89 S. Ct. at 1908.
21. *Id.* at 1911.
22. *Id.*
23. *Id.* See also *Pope Mfg. Co. v. Gormully*, 144 U.S. at 235.
ruled that Lear must be allowed to question the validity of the patent.\textsuperscript{24}

The second group of payments, which the Court believed involved the more difficult question, were those which accrued prior to the issuance of the patent while Lear was under contract with Adkins. Because of the contractual relationship, Lear had obtained special access to Adkins’ ideas which gave it an important benefit not generally made available to licensees. The majority viewed the right of the licensor to enforce the obligation as a question of the power of states to protect the owners of inventions prior to the grant of a patent. Answering this question was postponed until a state court has determined the extent of protection to be afforded the holders of unpatented ideas.\textsuperscript{29}

Justice Black, joined by Chief Justice Warren and Justice Douglas, dissented as to the second group of royalty payments. Black believed that postponing the question of the states’ power to enforce such an agreement (pre-patent royalties) was directly in conflict with the Court’s earlier decisions in \textit{Sears, Roebuck & Co. v. Stiffel Co.},\textsuperscript{26} and \textit{Compco Corp. v. Day-Brite Lighting}\textsuperscript{27} which denied the states the power to give protection “of a kind” which clashes with the objectives of federal patent law.

Prior to the ratification of the Constitution, states had granted patents;\textsuperscript{28} however, the power to grant patents was enumerated in the Constitution as a power of Congress.\textsuperscript{29} The federal courts were given exclusive jurisdiction in cases arising under the patent laws.\textsuperscript{29} Thus a state cannot, consistently with the supremacy clause of the Constitution,\textsuperscript{31} grant a patent or extend the life of an existing patent.\textsuperscript{32} For the states to do so would be a

\textsuperscript{24} As to royalty payments which accrue while contesting the patent, the Court ruled that to require Lear to pay would be inconsistent with the aims of federal patent policy. 89 S.Ct. at 1912. The Court also ruled that if Lear could prove the patent to be invalid, he would be permitted to avoid all royalties accruing after the patent was issued. \textit{Id.} at 1913.

\textsuperscript{25} \textit{Id.} at 1913.

\textsuperscript{26} 376 U.S. 225 (1964).

\textsuperscript{27} \textit{Sears, Roebuck & Co. v. Stiffel Co.}, 376 U.S. 225, 228 (1964); see also 376 U.S. 234 (1964).

\textsuperscript{28} I F. \textit{WALKER, PATENTS} § 7, at 51 (2d Deller ed. 1965).

\textsuperscript{29} U.S. \textit{CONST.} art. I, § 8, cl. 8. \textit{See also} \textit{THE FEDERALIST} No. 43, at 309 (B. Wright ed. 1961) (Madison).


\textsuperscript{31} U.S. \textit{CONST.} art. VI.

direct exercise of control over patents, which is expressly forbidden. On the other hand, for the purpose of determining exclusive jurisdiction of the federal courts, it has been established that actions to set aside, specifically enforce, or to recover royalties on a patent license are not actions arising under the patent laws of the United States. In such actions, the states can exercise valid jurisdiction. The states can therefore exercise an indirect means of control in the patent field, or at least they have the jurisdictional basis to do so.

The question is to what extent, if at all, states can indirectly control articles which are not within the protection of the federal patent laws. In *Sears*, the Court held that an inventor's ideas which do not merit patent protection can be copied and sold by anyone. Such unpatentable articles, as well as those on which the patent has expired, are part of the public domain and are beyond protection from any source, state or federal. Arguably, an article which is simply unpatented would also be subject to the same classification, that is, beyond protection. The *Sears* Court stated: "Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." The Court reasoned that to allow the states to afford protection even to articles which merit protection under the federal patent laws would be to give the states the power to grant articles a perpetual patent. The *Sears* Court seems to have completely prohibited any means of indirect state protection of ideas, even if the idea actually does merit protection.

The *Sears* and *Compco* cases involved ideas which were being openly produced on the market, not ideas which were secret and held only by the inventor, as was the case in *Lear*. The issue in *Lear* was to what extent, if at all, an inventor is protected if he

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37. As is the case in *Lear*, if the states were to offer *full* protection to Adkins during the five year period prior to the issuance of the patent, they would extend his protection from seventeen years to twenty-two years. This is clearly inconsistent with the patent law. *See* 35 U.S.C. § 154 (1965).
contracts to reveal his secret ideas prior to the time he secures a patent for those ideas. To deny contractual protection for the investor's ideas prior to his securing a patent would in effect make the patent itself the only means of protection available to inventors. It may be sound policy to deny protection for ideas which are part of the public domain, such as those on which patents have expired or those that are unpatentable; however, is this logic sound when extended to secret ideas known only to the inventor?

The Lear Court recognized that the process of gaining a patent can extend over a period of years. During this period, if the inventor can be afforded no protection, he may be forced to keep the idea secret until the patent is granted. Under this arrangement, ideas which possibly could make significant contributions to science, industry, or society in general would be withheld from public disclosure to the possible detriment of all concerned. There must be a compromise between giving protection to ideas which in the long run may be worthless, and depriving the public of ideas which might significantly contribute to the betterment of society.

Licensee estoppel was the product of judicial compromise between contract and patent law. In overruling licensee estoppel, the Court has left patent law as the only means of protection available to the inventor. If the inventor has not yet secured a patent, he is completely unprotected if he reveals his secret ideas to a third party.

The importance of the patent laws cannot be overstated; without them, significant ideas have been lost or maintained in secrecy for hundreds of years, depriving society of the benefits that could have been derived from those ideas. However, the importance of the patent laws cannot be allowed to overshadow the need for recognition of the principle that contract law is needed for the protection of pre-patent ideas while the inventor is seeking a patent. The main objective of the patent laws is "[t]o promote the Progress of Science and [the] useful Arts." Since patent protection takes time to secure, there is a need to offer the inventor some measure of protection prior to the granting of the patent.

38. 89 S.Ct. at 1911.
39. Id.
patent so as to avoid the seclusion of ideas and the resultant stalemate to science and the useful arts.

The distinction must be drawn between patent protection, which protects the inventor from infringement by any other party,\(^4\) and contractual protection which acts only between the inventor and the party who has "purchased" the use of the inventor's idea prior to his securing a patent. The purchasing party believes the idea to be meritorious or he would never agree to pay the inventor for the use of it. Once the purchaser enters into the licensing agreement, the basic principles of contract law prohibit him from repudiating his contract simply because he discovers that he has made a poor bargain. It hardly seems unfair to place a burden on the would-be licensee to check into the novelty of such an idea; if he is not convinced of the novelty, he need not enter into the agreement. Under the dissent's approach in *Lear*, the licensee could avoid pre-patent royalties even on ideas which later were patented and successfully defended in an action brought by the licensee. In a case of this type, the licensee would have the use of a patentable idea without payments until the patent was secured—which could be for several years.

Strict licensee estoppel with no exceptions may be contrary to the public policy; however, if no protection of any kind is offered to inventors prior to the grant of a patent, the rate of progress of the sciences and useful arts may be greatly hindered. The problem raised by the rapid development of new ideas and changing technology calls for more expedient ways to circulate new ideas into the mainstream of science and the useful arts, not decisions by the Court which will impede the flow of these ideas. The courts must develop a means to protect new ideas prior to the securing of patent protection. It is suggested that the contract law is a logical means both to protect the inventor and to promote the development of new ideas.

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