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Best Efforts and Implied Obligations in Patent Licenses

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BEST EFFORTS AND IMPLIED OBLIGATIONS IN PATENT LICENSES

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I. INTRODUCTION

In our competitive economy the owner of a patented invention may benefit from the invention in several ways.

The patented invention may be used exclusively by its owner for a period of seventeen years.[1] Or the patented invention may be sold to another with the entire right, title and interest in the invention being assigned to the purchaser.[2] Or the patented invention may be licensed[3] by the owner for an agreed royalty under a contract specifying the several agreements between the parties. The owner of the patented invention is free to make his choice of any of the courses outlined. Where the choice is to license the patented invention, the parties may contract at will, if their agreements do not violate any statutes or are against public policy. A considerable body of case law has developed in connection with patent license agreements. This article will discuss some of the cases in which the licensee's obligation to use his best efforts to promote the patented invention has been in issue.

II. BEST EFFORTS

Often a licensor desires to have a clause in the agreement obligating the licensee to use his best efforts to promote the patented invention. This "best efforts" clause is obviously no more than an expression of the aim of the parties in entering the agreement. However, the inclusion of a "best efforts" clause may have results that neither of the parties to the agreement expected or desired.

The classic case[4] on "best efforts" in patent license agreements is *Eclipse Bicycle Co. v. Farrow.*[5] This case involved an action for an acounting for royalties by one Farrow, the patentee, against the assignee of his patents on an automatic mechanism for coasting and braking bicycles. The assignee was obligated to pay royalties as specified "on all the devices made or sold embodying the invention" and to use "due business diligence in the manufacture and sale of the devices embodied in said letters patent, and to push the sale by all proper and legitimate enterprise." The accounting action sought to bring within the contract for royalty payments two devices of the same general description, one of which was described as the Morrow device and the other

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1 E. Bement & Sons v. National Harrow Co., 186 U. S. 70 (1902).
2 66 Stat. 810, 35 U. S. C. §261 (1952).
3 See note 2 *supra.*
4 The earliest Supreme Court case wherein the issue of best efforts was considered is Thorn Wire Hedge Co. v. Washburn & Moen Mfg. Co., 159 U. S. 423 (1895).
5 199 U. S. 581 (1905).

referred to as Exhibit E 10. The Court of Appeals of the District of Columbia[6] held that royalty was due upon both the Morrow and E 10 devices. The Supreme Court speaking through Justice Holmes laid down the following rule:

> ". . . the fact that . . . The defendant took the risk of the value of Farrow's alleged invention, even when coupled with its covenant to use due business diligence in pushing their sale, did not preclude it from using any later invention, if one were made which superceded Farrow's and did not embody it. Due business diligence would not require it to enter into a hopeless contest, and would not prevent it from avoiding such a contest by purchase. In that event it would not be accountable to Farrow for royalties on the new machine."

In applying the above quoted considerations pointed out by Justice Holmes the court analyzed the Morrow brake mechanism and concluded that it was the mechanical equivalent of the Farrow invention and was no better in operation. The construction of the E 10 mechanism was also reviewed and the conclusion reached that it did not embody the Farrow invention and was a superior or better device. Royalties were therefore required to be paid on the Morrow device but not on the E 10 brake mechanism.

The rule of the *Farrow* case has been followed in numerous decisions and is still the law.

The important point of the *Farrow* case is the Supreme Court ruling that in a suit for royalties due under a contract, the claims of the licensed patents do not have to read on the competitive device being pushed by the licensee. To bring a device under the contract, it is sufficient that it is the mechanical equivalent of the licensed invention and not a superior structure. Where the issue, therefore, is a question of royalties due under a contract and not one of infringement, the license agreement itself will be construed and the prior art will not be considered as limiting the licensed device. This point in the *Farrow* case was particularly noted in *Carbo-Frost, Inc. v. Pure Carbonic.*[7]

In *Carbo-Frost* the question presented was whether certain "Harrisburg" liquifiers for dry ice sold by the licensee required the payment of a royalty. The contract between the parties obligated the licensee to continually use its best efforts to promote the use of the apparatus "covered by the license." The plaintiff contended that irrespective of whether the liquifiers in question infringed the licensed patents the use by the licensee of such devices required payment of royalty to prevent a fraud upon the rights of the plaintiff. The court agreed with plaintiff's contention and referring to the rule in the *Farrow* case said:

> "That rule is that there is liability for royalties here if, and only

[6] 16 App. D. C. 468 (1900).
[7] 103 F. 2d 210 (8th Cir. 1939).

> if, the Harrisburgs substantially embody the device here licensed—such similarity to be determined by a "broad comparison and contrast" of the two devices—and are no better. The issue is not at all one of infringement. It is whether, broadly and generally considered, the Harrisburgs are equivalent to the licensed device. One difference from an infringement issue is that we are not here concerned with the prior art as limiting the licensed device—the licensed device must be taken as stated in the patent. . . ."

The rule of *Farrow* was more recently followed by the Sixth Circuit Court of Appeals in *Reynolds Metals Co. v. Skinner,*[8] the court there stating:

> "The appellant is liable for royalties irrespective of the validity of the claims so long as they have not been held invalid, and irrespective of whether or not certain features of the invention may be found in the prior art."

The court further said:

> "The case is before us on the applications, drawings and specifications which reveal the inventive conceptions not limited by the rules applicable in infringement cases."

The inclusion of a best efforts clause in a license agreement may therefore have the effect of substantially expanding the licensor's rights to collect royalties on competitive devices. And so, under the rule annunciated by the courts the licensee may even be required to pay royalties on a device previously known in the prior art.

What, however, is a better device? Perhaps the alleged better device is only better because it has gained commercial success by an extensive advertising and sales campaign waged by the licensee. If the same effort had been expended to promote the licensed device commensurate or even greater success might have been obtained. What is a mechanically equivalent device? This problem has been considered in numerous decisions. To take a simple example, if the claims of the licensed patent are limited to a device secured together by nuts and bolts, obviously a mechanically equivalent structure could be one held together by screws. However, if a more complicated mechanism is involved, the finding of mechanical equivalency becomes more difficult and uncertain. Therefore, the exceptions to enforcement of a best efforts clause as outlined in the *Farrow* case offer a wide range of argument to the licensee upon which he may base a successful defense if he decides to sell a truant device competitive with the licensed device.

There have been numerous decisions by both Federal and State Courts involving express best efforts clauses in patent license agreements. In *Brogdex Co. v. Wolcott,*[9] two parties were exclusively li-

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[8] 166 F.2d 66 (6th Cir. 1948).
[9] 101 U. S. P. Q. 94, 123 Cal. App.2d 575 (1954).

censed to distribute a wax process for the treatment of vegetables. The licensees were both required to "devote their full time and best efforts . . . and not to engage in any business which would in any way compete with said licensed processes." The court there held that when one of the licensees started to work for a company selling an identical product in direct competition to the wax of the patented process the agreement was breached as the best efforts was personal to each of the licensees.

In *International Aluminum Window Corp. v. Ferri*[10] the licensee had agreed to go into commercial production of windows in acordance with the plaintiff's invention. This he never did and the court held that efforts on his part to induce others to manufacture and produce windows without results was not in accordance with his agreement.

A case decided in favor of the party agreeing to use his best efforts is *Little Rock Surgical Co. v.* Bowers.[11] There the agreement provided "that the buyer shall use its best efforts in the promotion and sale of said product in the designated territory through its agents, representatives, correspondents and other methods at its command." The decision stated that failure to comply with this clause would breach the contract but that the facts indicated that the buyer had extensively advertised the article in question and spent more in this effort than the minimum agreed upon.

In some cases the best efforts clause has been attacked on the grounds that it was too vague and indefinite. This issue was presented in *Stentor Electric Manufacturing Company, Inc. v. Klaxon Company*.[12] The defendant there contended that the article of the agreement providing that the defendant "will use its best efforts to further the manufacture and sale of the article covered by the agreement, and to that end it will maintain an efficient organization for the manufacture and sale of said article" was too vague and indefinite to be enforceable. The court held that the complaint clearly stated a cause of action.

An opposite conclusion, however, was reached in *Daniels v. Brown Shoe Co.*[13] A portion of the controversy there revolved around the fifth clause of the agreement charged to have been broken by the licensee. This clause provided:

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[10] 101 U.S.P.Q. 131, 72 So.2d 31 (Fla. Sup. Ct. 1954).

[11] 42 S.W.2d 367 (Mo. 1931).

[12] 30 F. Supp. 425 (D. Del. 1939). The decision of the District Court adding interest at the rate of 6% up on the jury verdict of $100,000 from the date the action was brought which was affirmed by the Court of Appeals as mandatory under Sec. 480 of the N. Y. Civil Practice Act was reversed by the Supreme Court in 313 U. S. 487 (1940); also see 125 F.2d 820 (3rd Cir. 1942).

[13] 77 F.2d 899 (1st Cir. 1935). The court in its decision stated: "In order for a contract to be specifically enforceable, the acts to be performed must be stated with such precision, or be so precisely ascertainable when the contract is applied to the facts to make its enforcement a practical matter; also the acts directed to be done must be of such character that it is practicable for a court to oversee and compel the performance of them."

"It is mutually agreed . . . that the licensee shall, during the life of this agreement, exercise its best efforts to supply the public demand for boots and shoes embodying the inventions . . . and shall use its best efforts to create and promote such a demand. To this end licensee agrees to cooperate with retail shoe dealers in promoting window displays, and other advertising features, and in other ways and manners to exploit and develop these shoes and the sales thereof."

The court expressed the opinion that this clause did not state the acts to be performed by the licensee with such precision as to make its enforcement a practical matter. It further indicated that the acts directed to be done must be of such character that it is practical for a court to oversee and compel the performance of them.

The decision at best is questionable as it appears that the manner in which the best efforts were to be exerted was clearly stated. Apparently the court felt that the matter would need to be disposed of by a decree which could not be performed immediately and that it would have to continuously supervise the best efforts requirements over a long period of time. Under the facts of the case, the position of the court seems untenable because it would appear that at the time the court had before it the facts on whether the best efforts clause had been breached it could have decided the case on those facts and not concerned itself with any future controversy on best efforts.

A best efforts clause in a patent license agreement has been specifically held enforceable in Wisconsin.[14] The clause considered provided that "the licensee further covenants and agrees that he will as diligently as conditions will permit push the sale of . . . extinguishers in foreign countries." The court held that the defendant was diligent under the facts presented.

In some agreements terms corresponding to the "best eforts" terminology have been employed. For example, in a Michigan case[15] defendant was required to use "reasonable diligence" in the manufacture of glass cheese-safes embracing the novel features of the licensed patents as the demands of the market required. It appeared at the time the license was entered into and thereafter that defendant also sold other cheese-safes than those covered by the licensed patents. The court is placing a meaning on reasonable diligence said:

"It would be grossly unreasonable to hold defendant bound to put these safes on any other footing than other articles kept on sale, or to force them on the market at the expense of other interests. There was no obligation to give them a preference, or to use more than usual diligence to dispose of them. If the trade were informed of them, and of their price, in the usual manner,

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[14] Gessler v. Erwin Co. et al, 182 Wis. 315, 193 N.W. 363 (1923).
[15] Forncrook Mfg. Co. v. Iron Works, 63 Mich. 195 (1886).

> then defendant fulfilled its duty by selling them when applied for . . . defendant cannot be held responsible for not using extra efforts to sell them."

III. Implied Obligations

Where the licensor proposes a best efforts clause and the licensee agrees to accept the clause but insists upon a negative covenant specifying that nothing in the agreement will require the payment of a royalty at any time upon the marketing of a competitive or corresponding device by the licensee, the licensor should consider deleting the express best efforts clause from the agreement. Since the courts have held that there is an implied obligation on the licensee to pay royalties on competitive devices he sells under an exclusive patent license agreement, subject only to the exceptions outlined in the *Farrow* case, the absence of a best efforts clause may not impair the licensor's right to collect such royalty.

The implying of best efforts into a license agreement is based on an equitable doctrine long applied by the courts to contracts in general. The obligation, in fact, rests on both parties to an agreement[16] but most of the cases appear to have considered it in connection with the party agreeing to take a patent license or work some other property right. This doctrine requires that where a party enters into an exclusive agreement to promote a property or property right for a specified return to be paid to the owner there is a covenant or standard of conduct or an obligation implied that the exclusive promoter of the property will work in good faith to make a go of it and produce the income agreed to be paid. This doctrine was fully discussed in *In re Waterson, Berlin Snyder Co.*[17] wherein the court implied a covenant to work a copyright so far as reasonable under the circumstances.

In line with the rule of *In re Waterson* it has been held, for example, that there was an obligation to exploit the subject matter of a contract in good faith where an exclusive license was granted to place the licensor's endorsement of approval on the dress designs of others.[18] The doctrine has been applied in an agreement to transport cargoes,[19] to sink and operate oil wells,[20] to quarry stone[21] and in numerous other

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16 Gessler v. Erwin Co. et al, 182 Wis. 315, 193 N.W. 363 (1923).

17 48 F.2d 702, 709 (2d Cir. 1931). In this case involving royalty contracts with respect to copyrights on musical compositions, the Court of Appeals after reviewing English and United States authorities commented: ". . . where there has been a conveyance upon an agreement to pay the grantor sums of money based upon the earnings of property transferred, the courts have implied a covenant to render the subject matter of the contract productive—if the property was a mine, a covenant to mine, quarry or drill; if it consisted of a patent or copyright, a covenant to work the patent or copyright."

18 Wood v. Lady Duff—Gordon, 222 N.Y. 88, 118 N.E. 214 (1917).

19 Great Lakes and St. Laurence Transportation Co. v. Scranton Coal Co., 239 Fed. 603 (7th Cir. 1917).

20 Harris v. Ohio Oil Co., 57 Ohio St. 118, 48 N.E. 502 (1897).

21 Stoddard v. Illinois Improvement Ballast Co., 275 Ill. 199, 113 N.E. 913 (1916).

cases.[22] The rule, as previously noted, has been applied to both parties to an agreement with the statement that "neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract."[23]

The implied good faith doctrine to promote licensed patents was applied in *Caron v. Nickel Processing Corp.*[24] There the plaintiff contended that the availability of his patents to the defendant was enough to sustain his claim for compensation. The court said that "... there are present circumstances indicating the application of an implied obligation on the defendant's part to use reasonable efforts to exploit the patents." It was also applied in *Driver Harris Co. v. Industrial Furnace Corp.*[25] In that case the District Court in holding for the plaintiff suing for recission of the patent license agreement said: "There are numerous authorities in the state and federal courts that, where a patent is sold to be paid for on a royalty basis, a condition is implied that the patent will be worked to earn the stipulated royalties."

The implied good faith or best efforts rule has also been followed in Wisconsin in *Gessler v. Erwin Co. et al.* In holding that the plaintiff did not carry out his part of the agreement by dealing with another than the licensee the Court said that "There was also an implied agreement by both parties that neither would do any act preventing or tending to prevent its performance." The same rule was also stated in Wisconsin by Mr. Justice Dodge in *Manning v. Gall and Kenning P. M. D. Mfg. Co.*[27]

The application of an implied obligation on the licensee to use rea-

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22 See Brewster v. Langyon Zinc Co., 140 Fed. 801 (8th Cir. 1905); Neenan v. Otis Elevator, 194 Fed. 44 (2d Cir. 1912); Pritchard v. McLeod et al, Fed. 24 (9th Cir. 1913); Barnett Foundry Co. v. Crowe, 219 Fed. 450 (3rd Cir. 1915).; Diamond v. Alkali Co. v. P. C. Tomson & Co., Inc., 35 F.2d 117 (3d Cir. 1929).

23 Uproar Co v. National Broadcasting Co., et al, 81 F.2d 373 (1st Cir. 1936).

24 106 U.S.P.Q. 124 (N.Y. Sup. Ct. 1955).

25 12 F. Supp. 918 (W.D.N.Y. 1935).

26 See note 14 *supra*.

27 141 Wis. 199, 124 N.W. 291 (1910). In this case Justice Dodge said: "But the grant from defendant to plaintiff's assignor was also a contract. It granted an exclusive right to make, use and vend. In all contracts granting property rights or rights of conduct, there is an implied agreement on the part of the assignor that he will do no affirmative act to derogate from his grant. This is implied in the very grant itself. In the nature of things it is inconceivable that the minds of the parties have met on the basis of a grant of something and, at the same time, on negation of that grant, in whole or in part. This principle is very old in law and has been applied to a great variety of circumstances, in many cases being carried to the point of declaring to be implied covenants going much further. The grantor or lessor of land, in absence of statute, covenants for the quiet enjoyment of the property demised, and, even where statutes have negatived such implication, he is still held to have covenanted not to derogate from such grant by his own acts. A contract for exclusive agency implies that the principal will commit no act invasive of the exclusiveness of the agency. The grantor of an exclusive license under a patent is in the same position and subject to the same rule, as has often been decided."

sonable efforts to exploit a patent has been held to be a question of fact.[28] Use and ownership of a competing patent may not necessarily constitute an implied obligation to use due diligence in working the licensed patent. It is a question of fact whether due diligence was exercised.[29] The fact that the processes and devices used by the defendant were not patentable because of anticipation in the prior art do not even, if established, meet the issue of implied obligation to promote.[30] However, where an agreement was terminated pursuant to a statute liquidating the Reconstruction Finance Corporation it was held that the implied obligation under the contract of the defendant to do nothing to impair the contract did not control.[31] *Mechanical Ice Tray Corp. v. General Motors Corp.*[32] expresses the view that the implied obligation to exploit a licensed patent in good faith is subject to the exceptions applied in the *Farrow* case that the licensee is not obligated to compete with a better device which does not embody the licensed invention.

The entire contract must be construed in determining whether an implied obligation exists to make the subject matter of the contract productive to the extent of payment of minimum royalties. If minimum royalties were to be paid the parties would have expressly provided for payment.[33]

In *Neenan v. Otis Elevator Co.*[34] defendant was assigned certain patents relating to elevators under an agreement requiring defendant to test the patented apparatus with reasonable diligence and if such test proved satisfactory "within such further reasonable time as is convenient to put such apparatus into practial use." The court granted recission of the agreement because the defendant wholly neglected to place the tested device into practical use, the court pointing out that the defendant did not intend to push the introduction of the invention "in an enthusiastic and energetic manner" as the complainant had a right to expect. In a case[35] involving a somewhat similar fact situation, the court there was of the opinion that it had not been proved that the licensee had failed to carry out the implied obligation to in good faith use "its reasonable and best efforts to develop, exploit, produce and make sales" of the licensed device. A corresponding case[36] decided by the Minnesota Supreme Court holds that the evidence failed to estab-

[28] See note 24 *supra*.
[29] Dwight & Lloyd Sintering Co., Inc. v. American Ore Reclamation Co., 44 F. Supp. 391 (S.D.N.Y. 1937).
[30] See note 16 *supra*.
[31] Monolith Portland Mid. Co. v. Reconstruction F. Corp., 128 F. Supp. 824 (S.D. Cal. 1955), modified on question of a jury trial in 240 F.2d 444 (9th Cir. 1957), *cert. denied* in 354 U.S. 921 (1957).
[32] 144 F.2d 720 (2d Cir. 1944), *cert. denied* in 324 U.S. 844 (1945).
[33] Tersra v. Holland Furnace Co. 73 F.2d 553 (6th Cir. 1934).
[34] 194 Fed. 414 (2d Cir. 1912).
[35] Brawley v. Crosby Research Foundation, P. 2d 392 (1946).
[36] Dennis Virtue v. Creamery Package Mfg. Co. et al, 114 Minn. 167 (1911).

lish that the patented device was of practical or commercial value, and failed to establish a fraudulent purpose to withhold the patented device from the market.

In a case in West Virginia where an action was brought to recapture the use of certain patents, processes and inventions the demurrer of the defendant was overruled and the court held that the plaintiff was entitled to "a bona fide effort" to have his inventions promoted.[37] The fact that the license was exclusive was persuasive in the matter. A covenant to render a process productive has been held to be plainly implied.[38]

The courts, however, are not all in accord with the implied obligation viewpoint. For example, in a case[39] wherein the complainant assigned his interest in his application for two patents to the defendant who agreed to build machines embodying "said inventions or some of them" and to pay a stated royalty thereon it was held that the defendant was not bound in terms or by implication of any requirement to manufacture and sell machines embodying complainants' inventions in any particular number, or for any particular time, or after a superseding invention arose, or after it became for any reason, a poor business proposition for the defendant to do so and it was stated "... the law implies no such provisions in the contract." This decision is contrary to most of the law on the proposition. The majority view favors an obligation, whether express or implied, on the licensee to use his "best efforts" or "reasonable efforts" or "reasonable diligence" to promote the licensed device where the agreement is exclusive. Such an exclusive agreement under equitable considerations cannot become a burial ground for licensor's patented invention but rather the agreement must be given life and substance.

IV. Misuse

The implied obligation or best efforts concept is the result of the court's interest in seeing that the equities of the agreement between the parties are considered irrespective of the express terms of the agreement. If the parties do not desire the concept to be applied to a particular fact situation they can expressly provide in their agreement against application of the concept. For example, it can be stated in the agreement that the license does not prevent the use of any prior art devices corresponding to the licensed device.

When it is considered that the implied obligation doctrine is court made and based on the equities of the parties' agreement, the court may go beyond the agreement and consider the rights of the public. There-

[37] De Stubner v. Microid Process, 6 S.E. 2d 777 (1939).
[38] Matzka Corporation v. Kelly Dry-Pure Juice Corp. et al, 168 Atl. 70, 19 Del. Ch. 359 (1933).
[39] Briggs v. United Shoe Machinery Corp., 92 N.J.Q. 277, 144 Atl. 538 (1920).

fore, if application of the implied good faith concept would result in the licensee being prevented from selling a device previously known in the prior art under the *Carbo-Frost* interpretation of the *Farrow* case, would this constitute such a misuse of the licensed patent as to make the court feel that the implied obligation concept could not be so extended?

It is now generally recognized that a patent may not be employed to prevent the manufacture, purchase or sale of an unpatented device.[40] In *Mechanical Ice Tray Corp. v. General Motors Corp.*[41] the court went along with the settled law that the implied obligation to promote a patent in good faith is subject to the exceptions applied in the *Farrow* case that the licensee is not obligated to compete with a better device which does not embody the licensed invention. The court there, however, expressed doubt that the obligation of an exclusive licensee to promote the licensed invention survived in a practical sense in view of *Mercoid Corp. v. Mid-Continent Investment Co.*[42] A majority of the court did not believe a decision was necessary on the point, but there is some indication in the case that under certain circumstances the court would require the parties to follow a standard of conduct which would be fair and equitable irrespective of the *Mercoid* case.

The Supreme Court in *Mercoid* barred relief to the plaintiff because it was seeking to expand the patent to unpatented devices. It was pointed out that the patent was a privilege conditioned by a public purpose and that a patent ". . . results from invention and is limited to the invention which it defines." Since the *Mercoid* case was a suit for contributory infringement and not one to recover royalties under an agreement, the *Mercoid* decision should not prevent the application of the implied obligation doctrine to include within the agreement royalty payments for a prior art device.

In those license agreements where express provisions have been included requiring the licensee to abstain from manufacturing any kind of a competing device except those covered by the licensed patent, the courts have taken the position that the patentee was using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles.[43] In *Park-in-Theatres v. Paramount Richards Theatres,*[44] the plaintiff argued that an exclusive licensee is under an implied obligation to exploit the patent in good faith and to refrain from using competing devices. There was also an express provision in the license agreement preventing defendant

[40] Carbice Corp. v. American Patents Corp., 283 U.S. 27 (1931).
[41] See note 32 *supra*.
[42] 320 U.S. 661 (1944).
[43] National Lockwasher Co. v. George K. Garnett Co., 137 F.2d 255 (3rd Cir. 1943).
[44] 90 F. Supp. 730 (D. Del. 1958); *cert. denied* in 185 F.2d 407 (3rd Cir. 1950).

from employing a competitive device. The court stated that this express covenant made the agreement unenforceable under the *Lockwasher*[45] decision and that the implied obligation to exploit could only have existed because of the contract which was unenforceable due to violation of public policy. The last two cited cases raise a serious question as to whether the *Carbo Frost* interpretation of the *Farrow* decision as previously pointed out in this article would ever be carried so far as to include for royalty payment within a license agreement a prior art device.

However, there is another side of the matter that also must be considered. If interpretation of the license agreement is based on a broad consideration of the effect on the public interest, then the court must see that the public is sold the best device. Thus if an exclusive licensee does not act in good faith to exploit the licensed device but instead sells another device which is directly competitive with the patented device but not within the bounds of the licensed patent, then he is able to keep the licensed device off the market. This action would actually deprive the public of the benefit of the patent and possibly of a better device. The rationale of the *Park-In-Theatres* and the *Lockwasher* cases should not be drawn so fine as to carry the doctrine there announced to an unpatented prior art device where the conduct of the licensee is clearly unfair and inequitable as between the parties to the license and possibly injurious to the public in general. In those situations royalties should be required on the prior art device. The courts appear to have followed this rule in the past and it is doubtful that it will be changed in view of decisions such as the *Lockwasher* case because of the wide latitude resting in the courts to consider the equities of the parties and the public.

If a licensee enters into an agreement with the intent, and his intent would seem to be indicated by his lack of promotion of the licensed invention, not to exploit the licensed invention but merely to keep the licensed device off the market, there is an element of fraud or illegality present in the agreement which might support an implied obligation to bring the competitive prior art device under the contract if it was a substantial equivalent and no better than the licensed device. An express covenant to cancel a license contract was enforced in *National Clay Products Co. v. Heath Unit Tile Co.*[46] where by fraudulent statements the licensee had obtained a license to manufacture a product and did nothing with it in order to prevent competition with licensee's own product.

V. Summary

Should a best efforts provision be employed in a patent license

[45] See note 43 *supra*.
[46] 40 F.2d 617 (8th Cir. 1930).

agreement it is obvious from the decisions that the provision must specifically describe the best efforts required so that it is practical for a court to oversee and compel performance. Recognition should be given to the fact that the best efforts requirement will not be breached if the licensee proceeds to sell a competitive device which is better and does not embody the licensed invention. In those agreements where the best efforts provisions will be limited by a negative covenant consideration should be given to deletion of the best efforts clause completely and reliance placed on the implied obligation resting on both parties to do nothing which would abrogate the provisions of the contract. Such an implied obligation may bring under the contract competitive devices which in fact are old in the prior art but which might be eliminated by including negative limitations in a best efforts provision. An express negative covenant in an agreement deliberately entered into excludes the possibility of an implied covenant of a different or contradictory nature.[47]

Whether misuse is in the picture, due to the licensor attempting to collect royalties or rescind an agreement on the basis of employment by the licensee of a prior art device which is no better and embodies the invention, appears to depend upon the intent of the licensee. If the facts establish that he entered into the agreement merely to remove the patented device from the market this would seem to be against public policy and a fraud on the licensor. In such cases it is submitted the equities would favor a decision for the licensor.

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[47] Brimmer v. Union Oil Co. of California, 81 F.2d 437 (10th Cir. 1936)