has been made with the passage of the Butler laws.[18] These provide for either a "pegged" levy of a fixed amount of taxes or a levy at a fixed rate, whichever method will provide the most revenue. This guarantee of a minimum revenue might appear to insure the payment of all tax warrants issued on its basis. However, under the construction of the Warrant Act put forward by the court in the present case, the Butler laws under certain circumstances fail to protect the warrant holders where, as here, the warrants are attacked on the ground of overissue. Should the levy be made under the new law by adopting the statutory rate at a time when the assessed valuation for the current year is unknown, the situation in the principal case might conceivably recur. Though the necessary revenue could be obtained, since the statute allows increasing the rate to that necessary to produce the "pegged" amount of taxes, the rate as originally "levied" might be held to govern the validity of the warrants, thus leaving the holders remediless despite the fact that sufficient money to pay their claims lay in the treasury.

The holding in the present case is further evidence that in cases involving municipal securities courts are often faced with the problem of balancing two peculiar and conflicting considerations. Constitutional and statutory debt limits have been imposed on municipalities. The issuance of tax warrants after these limits have been reached is in effect an evasion of the limitations. However, courts have evidently recognized the need of municipalities to borrow by means of warrants when all other methods have been exhausted and have tacitly approved this device.[19] On the other hand, the same desire to prevent excessive taxation which led to the enactment of debt limitations makes courts reluctant to allow an increase in municipal indebtedness. Both of these objects are partly achieved in the present case at the expense of the holder of municipal securities. Such a policy, however, may result in the discrediting of these securities and add more difficulty to the already confused state of many municipal finance systems.[20]

Patents—Extent of Use of Patent—Validity of Requirement of Assignment of Improvement Patents—[Federal].—The defendant patentee granted the plaintiff an exclusive manufacturing license for ten years, renewable at the licensee's option every five years thereafter. As a condition of the license the plaintiff was required to promise to assign to the licensor any improvement patents which he might obtain pertinent to the machine covered by the defendant's original patent, reserving an exclusive license to himself. The contract, including both the original and the improvement licenses, was terminable in case of breach by the plaintiff or its reorganization under Chaper X of the Bank-

[18] Ill. Rev. Stat. (1945) c. 105, § 333.19.

[19] Tax Anticipation as a Device for the Evasion of Constitutional Restrictions on Municipal Indebtedness, 45 Harv. L. Rev. 704, 710 (1932).

[20] For a comprehensive analysis and criticism of the taxing systems in Illinois, see the symposium in 35 Ill. L. Rev. 621 et seq. (1941).

ruptcy Act. Upon the plaintiff's failure to assign certain improvement patents, the defendant exercised its power to terminate. In the plaintiff's suit for a declaratory judgment to invalidate the license provisions relative to the assignment of improvement patents, in which the defendant counterclaimed for assignment of the patents, the district court held the contract valid and ordered the assignment. On appeal to the Circuit Court of Appeals for the Second Circuit, *held*, the assignment provisions were illegal. Judgment reversed, one judge dissenting. *Stokes & Smith Co. v. Transparent-Wrap Machine Corp.*[1]

Under general notions of restraint of trade, substantial lessening of competition caused by a lease or sale on condition that the lessee or buyer purchase other goods only from the lessor or vendor is unlawful. This restriction is embodied in Section 3 of the Clayton Act,[2] which specifically prohibits the tie-in of a purchasing requirement in the sale of patented as well as unpatented articles. That tying provisions in patent licensing agreements, although not covered by the terms of the Clayton Act, are generally not enforceable has been established by a line of cases beginning with *Motion Picture Patents Co. v. Universal Film Mfg. Co.*[3] Furthermore, tie-in agreements as a part of a license may result in at least the temporary loss of the enforcement rights of a patent,[4] and may be found to be illegal even though there is no showing that they have resulted in a substantial decrease in competition in the tied-in articles of trade.[5] In this respect courts have dealt more severely with tie-in clauses in patent licenses than those found in ordinary agreements of lease or sale.[6]

The promise by a licensee to assign improvement patents has not previously been held invalid.[7] In the instant case, however, the court found that since the

[1] 156 F. 2d 198 (C.C.A. 2nd, 1946) cert. granted, 67 S. Ct. 62 (1946).

[2] 38 Stat. 731 (1914), 15 U.S.C.A. § 14 (1940). Although the Clayton Act in terms prohibits only a condition that the lessee or buyer refrain from purchasing from a competitor, the interpretation has always been that the prohibition applies to agreements to purchase from the lessor or vendor as well. International Business Machines Corp. v. United States, 298 U.S. 131 (1936); United Shoe Machinery Co. v. United States, 258 U.S. 451 (1922).

[3] 243 U.S. 502 (1917). Subsequent cases include Morton Salt Co. v. Suppiger, 314 U.S. 488 (1942), and Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27 (1931).

[4] Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27 (1931).

[5] Morton Salt Co. v. Suppiger Co., 314 U.S. 488 (1942), noted in 9 Univ. Chi. L. Rev. 518 (1942); B. B. Chemical Co. v. Ellis, 314 U.S. 495 (1942).

[6] The stringent judicial treatment of tie-in clauses in patents seems to result from the notion that since a patent is an exception to the general disfavor of the law toward monopolies any attempt to extend that exception should be summarily dealt with. See Morton Salt Co. v. Suppiger, 314 U.S. 488, 492 (1942); Wood, The Tangle of Mercoid Case Implications, 13 Geo. Wash. L. Rev. 61 (1944). An attempt has been made to distinguish between the restriction imposed by the Clayton Act and the restrictions upon restraints outside of the four corners of a patent grant; but it would appear that the latter restrictions are in turn dependent upon anti-trust theories.

[7] Cf. Allbright-Nell Co. v. Stanley Hiller Co., 72 F. 2d 392 (C.C.A. 7th, 1934); American Refining Co. v. Gasoline Products Co., 294 S.W. 967 (Tex. Civ. App., 1927). In Hartford-

improvement patents would necessarily survive the expiration of the original patents, the licensee would perforce have to continue under the contract even after the original patents had expired if it wished to remain in business. On the other hand, if the contract were terminated, the licensee would be compelled to purchase the rights to the improvements which it had invented, although the use of the original machine was no longer restricted. It was in the fact that the licensee would be forced to purchase rights not covered by the original patent, which he would not be forced to purchase if it were not for the bargain achieved by the original patent, that an illegal tie-in was found.[8] Tie-in agreements found illegal in the past have customarily involved an obligation of the licensee to purchase tangible commodities.[9] The decision in the instant case is thus a limited extension of the tie-in rule in two respects. First, a promise to put oneself in a position where it is economically necessary to purchase is placed on a par with a direct promise to purchase. Second, no distinction is made between a promise to purchase patented articles and a promise to purchase the right to manufacture the same articles.

The tie-in of a promise to license improvement patents is frequently encountered in cross-licensing agreements whereby each licensee is required to license back his present and future patents in the technological field covered. Where a licensing authority is established, as is the case in numerous patent pools,[10] the licensee, as a condition of his receiving a license, may be required not merely to license back but rather to assign back to the licensing authority his improvement patents. The court in the principal case in holding that the requirement that the licensee assign his improvement patents was an illegal tie-in clause has

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Empire Co. v. United States, 323 U.S. 386, 424 (1945), the Court seemed to indicate the validity of a requirement for the assignment of improvement patents when it modified the decree of the lower court to permit use of requirements "that rights to improvements and inventions covering licensed machinery or processes or methods shall become the exclusive property of the lessor or vendor" with regard to certain patents.

[8] In his dissenting opinion Judge Swan, in addition to urging the reasonableness of the defendant's demands, finds the agreement analogous to contracts whereby an employee promises to assign inventions to his employer. Guth v. Minnesota Mining & Mfg. Co., 72 F. 2d 385 (C.C.A. 7th, 1934), cert. den. 294 U.S. 711 (1935). Even assuming the legal analogy, it is apparent that such agreements operate at most to strengthen an individual firm, whereas the agreement in the present case operates in the inter-firm area, lessening competitive forces between the parties. But, perhaps more significantly, the promise to the employer is not obtained through the bargaining power of a patent.

[9] Morton Salt Co. v. Suppiger Co., 314 U.S. 488 (1942); B. B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); International Business Machines Corp. v. United States, 298 U.S. 131 (1936); Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27 (1931); United Shoe Machinery Co. v. United States, 258 U.S. 451 (1922); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

[10] On patent pools in general, see Hamilton, Patents and Free Enterprise, T.N.E.C. Monograph No. 31 (1941); Wood, Patents and the Antitrust Law (1942); Hodges, The Antitrust Act and the Supreme Court (1941).

inevitably cast grave doubt upon the status of such patent pools. The present case, however, probably does not touch the license-back feature of most patent pools, for the court stated that there would have been no objection if the requirement of the original license had been merely that the licensor was to have a license under the improvement patents, rather than an assignment of them.[11]

Doubt is also cast by the court in the instant case upon the status of patent pools in which a licensee to obtain the use of a patent he needs must also purchase the right to use other patents which he does not desire. This is a common feature of patent pools where the licensing is not by individual patent but by technological fields; under such agreements the licensee is not permitted to designate the particular patent rights he would secure but is compelled to license the whole "package." In three respects the court has here indicated the doubtful legality and possible unenforceability of package license agreements. In the first place it has reiterated the rule that a patentee "may not use a patent to force others to buy of him things outside of its four corners."[12] Secondly, the court has made it clear that an illegal tie-in provision may relate not only to an agreement to purchase tangible commodities but also to an agreement to purchase the right to stay in business or to conduct the business in a particular way. And finally, since in the instant case a promise to put oneself in a position of economic necessity was equated to a promise to purchase, the tying in of a promise to purchase must of itself be illegal. On the other hand, the instant case involved not the tying in of present patent rights, but rather of patents to be developed in the future, and thus the court may have been more influenced by the extension of control beyond the seventeen-year period of the patent grants, in addition to the roughly equitable notion that the licensee would be compelled to buy the right to use inventions which it had itself developed. But since the assignment clause required the licensee to buy the right to patents he would not otherwise be compelled to purchase, the analogy to a package license situation is rather striking.[13]

[11] Stokes & Smith Co. v. Transparent-Wrap Machine Corp., 156 F. 2d 198, 203 (C.C.A. 2nd, 1946).

[12] Ibid., at 202. The courts have also said that the patentee may not go beyond the "scope of his patent." United States v. Masonite Corp., 316 U.S. 265, 280 (1942); Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 489, 491 (1942); B. B. Chemical Co. v. Ellis, 314 U.S. 495, 498 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458, 463 (1938); Carbice Corp. of America v. American Patents Development Corp., 283 U.S. 27, 33 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 510, 511 (1917).

[13] In United States v. Paramount Pictures, Inc., 66 F. Supp. 323 (N.Y., 1946), "block booking" in the distribution of copyrighted motion pictures was enjoined as a violation of the Sherman Act. Judge Augustus Hand said that "any form of block-booking is illegal by which an exhibitor, in order to obtain a license for one or more films, must accept a license for one or more other films," and cited as authority, inter alia, Stokes & Smith Co. v. Transparent-Wrap Machine Corp., 156 F. 2d 198 (C.C.A. 2nd, 1946). United States v. Paramount Pictures, Inc., 66 F. Supp. 323, 348, 350 (N.Y., 1946).