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Licenses, Contracts and Assignments of Intellectual Property

Frederic B. Schramm*

AMONG THE SIGNIFICANT ASPECTS of property or "ownership" are the rights to determine the use of it and the right to dispose of it. What has been referred to as "intellectual property," if it may truly be referred to as property, must therefore be capable of becoming the subject matter of agreements of various kinds—licenses, contracts and assignments. The lawyer is consequently concerned with applicability of the law of contracts as well as of the law of property to intellectual property.

Concept of Property

Of the many definitions of property, one of the most appropriate as applied to intellectual property is that it is the "right to possess, use, enjoy and dispose of a thing,"¹ except that physical "possession" is not involved. Intellectual property, as the name suggests, is a product of the mind, and logically includes the "writings and discoveries" referred to in the United States Constitution.² Patents and copyrights are granted under this Constitutional provision; accordingly patented inventions and copyrighted material are embraced in the term "intellectual property." Mention may be made also of unpatented inventions or trade secrets. Trademarks and trade names, although their property values do not strictly arise from their being products of the mind, may also be called intellectual property.

The Patent Act of 1952 provides that "Patents shall have the attributes of personal property."³ Likewise, copyright is recognized and protected as "property" by law.⁴ The "writings" protected by the United States Constitution comprise "All forms of writing, printing, engraving, etching, etc. by which the *ideas* in the mind of the author are given *visible expression*" including photographs in so far as they may represent "original intellectual conception."⁵ Chief Justice Marshall stated in 1832 that:

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¹ 56 N. Y. 268 as cited in Bouvier's Law Dictionary (Baldwin's student edition, 1928).

² U. S. Const. Art. 1, § 8, Clause 8.

³ U. S. C. § 261.

⁴ Howell, Copyright Law 170 (3d ed. 1952).

⁵ Burrows-Giles Lith. Co. v. Sarony, 111 U. S. 53, 58, 4 S. Ct. 279, 28 L. Ed. 349 (1884), cited by Howell, *op. cit. supra*, at 12.

"The settled purpose of the United States has ever been and continues to be to confer on the authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent."⁶

Ownership of trademarks is recognized by statute.⁷

All these forms of intellectual property were and still are recognized at common law. But the effect of publication or public use differs for different forms of intellectual property. Thus at common law, a right in an invention was recognized, but the invention was dedicated to the public if it was published or allowed to go into public use instead of being maintained as a trade secret, which was feasible for only certain types of invention. Likewise, an author's exclusive right to his writings was lost upon publication of the writing. To preserve a property right in inventions it is necessary to file a patent application on the invention within the statutory period after first public use or first publication. On the other hand to preserve a property right in writings it is necessary to give notice of copyright with respect to the writing upon publication, and to follow statutory requirements as to notice on all copies.

The rule with respect to trademarks and trade names is different, however, since this right is acquired and preserved by use, not by formalities. State or Federal registration ordinarily adds to the basic right only procedural advantages and the benefit of prima facie evidence of ownership.

Nature of Intellectual Property

The types of intellectual property transactions will be better understood by first exploring the nature of various forms of intellectual property to determine where the property right or right of ownership or right of exclusion inheres. In the case of inventions it is not the idea abstractly or the manner of describing it, that is the subject of ownership, but rather the right to exclude others from the means for carrying it out.⁸ In the case of mechanical, electrical or chemical inventions, the inventor's exclusive right is to use the features which constitute the machine, article of manufacture or composition of matter, or to use the process by which a novel result is accomplished. The invention or the means for carrying out an idea need not be patented

⁶ Grant v. Raymond, 6 Peters, 31 U. S. 218, 241, 8 L. Ed. 376, 32 U. S. P. Q. 353 (1832).

⁷ 15 U. S. C. § 1051; Civil Code, § 655; Ohio Rev. Code, § 1329.57; and statutes of various other states.

Cal. Business & Professions Code § 14,400. Ownership: "Any person who has first adopted and used a trade name, whether within or beyond the limits of this State, is its original owner."

"Ownership of a trade name is a property right . . ." Stork Restaurant, Inc. v. Sahiti, 166 F. 2d 348, 352 (9 Cir. 1948).

⁸ 1 Walker on Patents, 68 (Deller's ed., 1937); 3 Ibid. 1680.

or even patentable in order to be sold or licensed if it can be preserved as a trade secret, although as will become apparent, transactions with respect thereto are greatly facilitated if a valid patent can be obtained thereon.

Trademarks and trade names are quite different from inventions and patents in that their purpose is to identify the source of the goods, to enable members of the public to recognize goods from which they have previously received satisfaction or which have been called to their attention by advertisements, and to enable the owner of the trademark or trade name to hold the trade in which goodwill has been established by the quality of the product or by advertising expenditures. Such rights may be established and are recognized independently of any registration procedures, although both the States and Federal government provide for registration of trademarks. Thus, when registration has been effected there may be both a common law and a statutory right simultaneously. But with patents, the acquisition of a statutory right frequently, if not usually, extinguishes the common law right.⁹ With copyrights, the common law right is almost invariably superseded by the statutory right.¹⁰

Copyrights differ from patents in that in copyright it is the form of expression of an idea, rather than the means of carrying it out, that is protected. Consequently, in no form of intellectual property are abstract ideas protected or made the subject of exclusive rights, although contract rights relating to ideas sometimes may be created by the execution of agreements to preserve ideas in confidence. Some states have codified rules relating to ownership of products of the mind and dedication thereof by publication.¹¹

Transactions Involving Intellectual Property

Assignments

An assignment involves a transfer of substantially all rights, but a license involves a relinquishment of only certain rights as a general rule. All forms of intellectual property may be assigned. The assignment of patents and copyrights is provided for by federal statute.¹² With respect to patents there is also what might be called a territorial assignment, known by the technical name of a "grant," which involves the transfer of all

⁹ *Picard v. United Aircraft Corp.*, 128 F. 2d 632 (2d Cir., 1942); *Kesses v. Eastman Kodak Co.*, 82 U. S. P. Q. 13, 23 (S. D. N. Y., 1949); *Ellis, Trade Secrets* 224 (1953); *Gallowhur v. Schwerdle*, 37 N. J. Super. 385, 117 A. 2d 416, 108 U. S. P. Q. 260, 266 (1955).

¹⁰ See *Loew's Inc. v. Superior Court*, 18 Cal. 2d 419, 115 P. 2d 983 (1941); Cal. Civil Code § 983; 15 So. Cal. L. R. 104; *Witkin, Summary of Calif. Law* 437; See also Cal. Business & Professions Code § 14700, providing for filing by author of unpublished literary material.

¹¹ Cal. Civil Code §§ 980, 983.

¹² 35 U. S. C. § 261; 17 U. S. C. § 28.

the inventor's rights to a patent within a specified part of the United States. However, the mere assignment of a patent does not carry with it the right to sue for past infringement.¹³ A pending patent application is itself property which may be assigned.¹⁴ Like other choses in action, a right to sue for fraudulent disclosure of an invention may be assigned, but only with the right to use the invention.¹⁵

Trade secrets are also assignable. In *Ammunition Co. v. Nordenfeldt*, the court said:

Sales of secret processes are not within the principle or the mischief of restraint of trade at all. By the very transaction in such cases the public gains on the one side what it lost on the other, and unless such a bargain was treated as outside the doctrine of general restraint of trade, there could be no sale of secret processes of manufacture.¹⁶

Since rights in trade secrets do not arise by statute, the requirements for assignments follow the rules applicable to property rights in general. Ordinarily, assignments of trade secrets need not be in writing unless they include choses in action for violation of trade secrets which may be governed by the Statute of Frauds.¹⁷ When "an author parts with his manuscript, he may retain or dispose of all or part of his common law rights, including the right to secure copyright and these rights may be transferred by parol."¹⁸ Assignments of patents and copyrights, however, must be in writing.¹⁹

A somewhat different rule applies to assignments of trademarks. A bare assignment of patents and copyrights includes no other rights unless expressly provided. But the assignment of a trademark in gross is invalid or ineffective; a trademark is assignable only with the goodwill of the business in which the mark is used. Robert points out an interesting relation between trademarks and trade secrets in discussing a hypothetical assignment of the trademark "Ivory":

¹³ *Kruger v. MacFadden Publications*, 43 F. Supp. 170 (S. D. N. Y.), 52 U. S. P. Q. 217 (1941); Ellis, *Patent Assignments* 402 (3d ed. 1955).

¹⁴ *Refining, Inc. v. Sharples Specialty Co.*, 21 F. Supp. 511 (D. C. Del.), 36 U. S. P. Q. 23 (1937).

¹⁵ *Refining Inc. v. Sharples Specialty Co.*, *supra*, n. 14.

¹⁶ 1 Ch. 630. Quoted with approval in *Hortman v. John D. Park & Sons, Co.*, 145 F. 358, 378 (E. D. Ky., 1906), cited in Ellis, *op. cit. supra* n. 9 at 488.

¹⁷ *Ingle v. Landis Tool Co.*, 262 F. 150, 154 (M. D. Pa. 1919); *Jones v. Reynolds*, 120 N. Y. 213, 24 N. E. 270 (1890); Ellis, *op. cit. supra*, n. 9 at 48; see for example: Col. Civil Code, § 1724; Uniform Sales Act Statute of Frauds § (4) (1); Ohio Rev. Code § 1315.05.

¹⁸ *Witmark v. Calloway*, 22 F. 2d 412 (E. D. Tenn., 1927); *Pushman v. New York Graphic Society*, 287 N. Y. 302, 39 N. E. 2d 249, 52 U. S. P. Q. 273 (1942); Howell, *op. cit. supra*, n. 4 at 171.

¹⁹ 35 U. S. C. § 261; 17 U. S. C. § 28.

All that would be necessary in such an assignment would be the transfer of the trademark "Ivory," the secret process formula under which the soap is made, and that part of the goodwill connected with the use of and symbolized by the mark.²⁰

Licenses

Licenses may be of various kinds. Many variations are possible in the types of patent licenses that may be granted. Thus a license may be assignable or non-assignable. It may cover making only, or using only, or selling only; or making, using and selling for a limited term; or it may extend for the term of the patent, granting less than all the inventor's rights. It may cover one or more devices or an unlimited number of devices; or it may cover only certain fields or all fields for specified industries, or for specified territories. Licenses may also cover various combinations of making, using, selling or leasing, and they may be exclusive or non-exclusive; but an exclusive license may be the same as an assignment. Express or implied licenses may also be involved in the leasing of machinery.²¹

The licensing of trademarks, however, presents a different problem. Since the common law has been rather strict in the view that a trademark can exist only in conjunction with the goodwill in a business to which it relates, there is a serious danger that any effort by the owner of a trademark to permit its use by others, or to license it, will result in destruction of the trademark and the acquisition by all members of the public of the right to use the trademark.²² Some statutory recognition has been given, however, to the practical need for some form of licensing of trademarks. The countries of the British Commonwealth of Nations and various other foreign countries have enacted "Registered User" statutes.²³ The Lanham Act gave statutory recognition to the use of trademarks by related companies and provided for registration of collective and certification marks by persons "exercising legitimate control over the marks sought to be registered."²⁴ Even before the adoption of the Lanham Act, use of trademarks by related companies and the subsidiaries of common parent holding companies was permitted without invalidating the trademark.²⁵ The licensing of trademarks in con-

²⁰ Daphne Robert, *The New Trademark Manual* 26 (1947).

²¹ Schramm, *Leases of Machinery and the Anti-Trust Laws*, 40 *J. Pat. Off. Soc.* 110, 119 (1958).

²² *E. I. DuPont DeNemours & Co. v. Celanese Corp.*, 167 F. 2d 484, 488, 489 (35 C. C. P. A., 1948).

²³ See for example the British Trademark Act of 1938 § 28; Eric Offner, *Trademark Licensing in Foreign Countries*, 40 *J. Pat. Off. Soc.* 178 (1958).

²⁴ 15 U. S. C. § 1055; 15 U. S. C. § 1054.

²⁵ *Keebler Weyle Baking Co. v. J. S. Ivins' Son, Inc.*, 7 F. Supp. 211 (E. D. Pa. 1934).

nection with ingredient control by the manufacturer to control quality has been permitted, as in the Coca Cola cases.²⁶

Licenses have also been permitted for the manufacture of goods under a patent owned by the licensor, and for application to the finished product of the licensor's trademark.²⁷

Other Transactions

Generally speaking, if a valid assignment of intellectual property can be made or rights to intellectual property can validly be licensed, option agreements can be made. Likewise, agreements relating to assignments or licenses may be executory²⁸ as well as executed.

Sales agreements or leases may incidentally involve the transfer or licensing of intellectual property rights. Sometimes sales contracts are drawn including patent licenses granted to use the article sold in specified fields in order to avoid the implied license which the purchaser would otherwise have to utilize the article for any purpose. In another instance, a freely offered license to use a patented process, with a specified separate royalty unrestricted to the source of goods, may be coupled also with a contract to sell materials, which may be used in carrying out the process in order to avoid the effect of the decision in *Leitch Mfg. Co. v. Barber Co.*²⁹

Distinction Between Assignment and License

Because of the nature of the rights involved in a patent, an exclusive license under a patent may have the same effect as an assignment of the patent. Every United States patent contains "A grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specifications for the particulars thereof."³⁰ From the language of the patent grant, contained in the patent certificate, we see that an exclusive license that grants to the licensee for the full term of the patent the exclusive right to make, use and sell the invention throughout the United States results in the patentee giving up all of his rights, and has the

²⁶ *Coca-Cola Co. v. Bennett*, 238 F. 513 (8th Cir., 1916); *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 269 F. 796 (D. C. Del. 1920); *Coca-Cola v. J. G. Butler & Sons*, 229 F. 224 (E. D. Ark., 1916).

²⁷ *Adam v. Folger*, 120 F. 260 (7th Cir., 1903); *Smith v. Dental Products Company*, 140 F. 2d 140 (7th Cir., 1944), cert. den., 322 U. S. 743 (1943); see also other cases discussed in Shneiderman, *Trademark Licensing*, in 14 *Law and Contemp. Problems*, 248 (1949); 3 Callmann, *Unfair Competition & Trademarks* 1299 (2d ed., 1950).

²⁸ Assignments of future works not limited in time may be involved as contrary to public policy; *Horns v. Stern*, 229 F. 42, 48 (2d Cir., 1916).

²⁹ *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458, 58 S. Ct. 288, 82 L. ed. 371 (1938).

³⁰ 35 U. S. C. § 154.

same effect as an assignment of the patent to the so-called exclusive licensee. On the other hand, an exclusive license for less than the full term of the patent or license which is only for making, or only for using, or only for selling, would not have the same effect as an assignment. The transaction constitutes a mere license; for example, if the right to use articles manufactured by third persons is not conveyed.³¹ Nevertheless, the fact that the patentee retains some rights does not prevent an exclusive license from being treated as an assignment:

The reservation of a royalty does not prevent the agreement from being an assignment.³²

A different test may be applied for some purposes than for others. For example, the test as to whether a license will be treated as an assignment to enable the licensee to bring suit for infringement of the patent without joining the licensor may be different from the test applied for tax purposes. The test of whether a transaction relating to patents constitutes a transfer under which royalties are subject to capital gains treatment, or merely a license in which royalties are treated as ordinary income, is whether the inventor has retained substantial rights that are of practical value.³³

An agreement may be regarded as a license within the meaning of the Royalty Adjustment Act although regarded as an assignment for some other purpose.³⁴ The transaction constitutes an assignment for infringement litigation purposes when the transferee has the right to sue the infringer in his own name without joining his transferor as a party plaintiff.³⁵

Manner in which Transactions Arise

Transactions with regard to intellectual property are usually effected by express agreement between the parties. Nevertheless, such transactions may also result from agreements implied in fact or implied in law. For example, the granting of a license to make an article under patent implies the right to sell it, or to use it according to the circumstances, but not necessarily both. Ordinarily a license to make implies a license to have the article

³¹ *Waterman v. MacKenzie*, 138 U. S. 252, 11 S. Ct. 402, 34 L. ed. 1005 (1891).

³² *American Type Founders, Inc. v. Dexter Folder Co.*, 53 F. Supp. 602 (S. D. N. Y.), 60 U. S. P. Q. 143, 145 (1943).

³³ 26 U. S. C. A. (Int. Rev. Code, 1939) § 117 (q), 70 Stat. 404; *Young v. Commissioner of Internal Revenue*, 269 F. 2d 89 (2d Cir.), 122 U. S. P. Q. 164 (1959); *Flanders v. United States*, 172 F. Supp. 935 (N. D. Calif.), 122 U. S. P. Q. 189 (1959); *Allen v. Werner*, 190 F. 2d 840 (5th Cir.), 90 U. S. P. Q. 133 (1951); *Ellis, op. cit. supra*, n. 13 at 65.

³⁴ *Coffman v. United States*, 96 F. Supp. 927, 930 (U. S. Ct. Cls.), 89 U. S. P. Q. 276, 279 (1951); *Ellis, op. cit. supra*, n. 13 at 64.

³⁵ *Ellis, Id.* at 68; *Cleveland Graphite Bronze Co. v. Commissioner of Internal Revenue*, 10 T. C. 974; 77 U. S. P. Q. 548, 557 (1948), *affd.* 177 F. 2d 200 (6th Cir.), 83 U. S. P. Q. 366 (1949).

made, or to have parts thereof made, for the licensee. If the patentee owns both a dominating patent and a more specific patent or an improvement patent, a license under the specific patent or an improvement patent implies also a license under the dominating patent, since the rights under such a dominating patent would be necessary in order to enjoy the right under the patents specifically mentioned in the license agreement.³⁶ This is somewhat analogous to the right of access or easement in land lying between a highway and conveyed land which is entirely surrounded by land, the title of which is retained by the grantor. Likewise, the sale of the business implies the granting of goodwill and trademarks under which the business was carried on. If a patent is sold by an inventor, there may be an implied license under any improvement patent obtained by the inventor relating to devices falling within the scope of the claims of the patent expressly assigned or licensed, depending upon the circumstances.

The relationship of employer and employee may give rise to implied rights in intellectual property. For example, when from the nature of the employment it is apparent that the employee was employed to write or compose music, the employer is the proprietor of the copyright in any work produced by the employee.³⁷ Likewise, if the individual is employed to invent, his employer is entitled to an assignment of inventions made within the scope of the employment.³⁸ Even if the employee is not employed to invent, the employer will have what is known as a shop right in inventions made by the employee which are made utilizing the employer's machinery and material or during the hours of employment or at the location of the employer's factory.³⁹ The shop right is, however, in the nature of a limited license to continue using the invented article or process in the employer's business, or in some cases to continue manufacturing and selling like articles. However, the assignment of a copyright, although purporting to convey all of the author's rights, does not imply an assignment of the right to renew the copyright, because this is a right provided by statute for the protection of the widow and children of the author. A mere assignment of a patent does not have any effect upon the rights of licensees under licenses that have already been granted.⁴⁰

³⁶ *Victory Bottle Capping Machine Co. v. O & J Machine Co.*, 280 F. 753, 758 (1st Cir., 1922); *Cochrane v. Denner*, 94 U. S. 780, 787, 24 L. ed. 139, 141 (1877).

³⁷ *Vitaphone v. Hutchison*, 28 F. Supp. 526 (D. C. Mass.), 42 U. S. P. Q. 431 (1939).

³⁸ *Standard Parts Co. v. Peck*, 264 U. S. 52, 44 S. Ct. 239, 68 L. Ed. 560, 562, 563 (1924).

³⁹ 2 *Walker on Patents* 1471 (Deller's ed., 1937).

⁴⁰ *Keystone Type Foundry v. Fast Press Co.*, 272 F. 242 (2d Cir., 1921).

Limitations on Right to Deal

Limitations on the rights of one or more parties to deal with intellectual property may result from express covenants or conditions or reservations in a contract, which may be implied in fact or in law. Care of course should be taken in the preparation of contracts to guard against the incorporation of clauses which are invalid or contrary to the anti-trust laws, particularly with regard to such matters as price fixing, division of foreign markets, admission of validity and forced sales of non-patented articles.

The common law abhorrence of monopolies places certain limitations on freedom of contract where a monopoly or restraint of trade would result. For example, absent any "Fair Trade" Law, the vendor of personal property may not control the price at which his vendee sells the goods.⁴¹ This remains true even when the commodity is covered by a patent. Utilization of the patent grant or copyright to effect a control not provided by the patent or copyright laws is unlawful. The purchaser of the patented implement or machine does not derive title by virtue of the franchise or exclusive privilege granted to the patentee.⁴² Consequently, when a machine or implement passes to the hands of the purchaser, it is no longer under the protection of the Act of Congress.⁴³

However, the rule is applied in a different way when the goods are sold under a trademark or trade name. Vertical minimum price maintenance agreements, but not horizontal, are permissible for commodities sold under a trademark or trade name when the commodity "is in free and open competition with commodities of the same general class produced or distributed by others" and the agreement is lawful under State law.⁴⁴ A licensee's use of the invention may be restricted to a certain period of time, but the patentee may not exercise control over the article once it has entered into the channels of trade.⁴⁵

Blanket licenses have been permitted wherein the licensee receives a license under an entire group of patents regardless of the number of patents actually applying to the equipment the licensee wishes to make or sell.⁴⁶ However, repeated attacks have been made on so-called package licenses. It was recently held that mandatory package licensing, being no more than the

⁴¹ *Dr. Miles Medical Company v. John D. Parks & Sons Co.*, 220 U. S. 373, 31 S. Ct. 376, 55 L. ed. 502 (1911).

⁴² *Bloomer v. McQuewan*, 14 How. (55 U. S.) 539, 549, 14 L. ed. 532 (1852).

⁴³ *Barber-Coleman Co. v. National Tool Co.*, 136 F. 2d 339 (6th Cir.), 58 U. S. P. Q. 2 (1943).

⁴⁴ *Miller-Tydings Act*, Act of August 17, 1937, c. 690; 50 Stat. 693; 15 U. S. C. A. 1 (Proviso of Sec. 1 of Sherman Act); and various State "Fair Trade" laws; *Old Dearborn Distributing Co. v. Seagram Distillers Corp.*, 299 U. S. 183, 57 S. Ct. 139, 81 L. ed. 108 (1936).

⁴⁵ *Adams v. Burke*, 17 Wall. (84 U. S.) 453, 456, 21 L. ed. 700 (1873).

⁴⁶ *Automatic Radio Mfg. Co. v. Hazeltine*, 339 U. S. 827, 834, 70 S. Ct. 894, 94 L. Ed. 1312, 85 U. S. P. Q. 378, 381 (1950).

exercise of power created by a particular patent monopoly to condition licensing of that patent upon acceptance of another patent at unabated royalties until the expiration of the most recently issued patent, constitutes misuse and that equity will not enforce the patents.⁴⁷ This extends the principle of *United States v. Line Material Co.*⁴⁸ that it is improper to combine patentees, so that it is also improper to combine patents. The Sherman Act was originally directed against combinations of sellers or manufacturers. The Clayton Act and judicial interpretation of these acts or the philosophy thereof have gradually extended the mandate of the law against combinations of patentees or patents.

Recording

Licenses and assignments of intellectual property may be distinguished also according to the requirements of the recording statutes. Assignments of intellectual property, like conveyances of real estate, will not cut off the rights of subsequent bona fide purchasers for value without notice unless the recording statutes are complied with. However, in the case of intellectual property rights arising under United States laws, recordation is in the appropriate Federal office in Washington. Assignments and mortgages are recorded in the Patent Office for patents and in the Copyright Office for copyrights.⁴⁹ Assignments of Federal trademark registrations must also be recorded.⁵⁰ On the other hand, common law rights in intellectual property and State registrations need not be recorded in Washington and are subject only to state recording statutes, if any. Common law trademark rights of course are not covered by the federal recordation statutes.

Licenses need not be recorded. Consequently, examination of the Patent Office or Copyright records does not provide notice of outstanding licenses. An assignment executed before the granting of letters patent is not affected by the recording statutes unless it identifies with certainty the invention conveyed and

⁴⁷ *American Securit Co. v. Shatterproof Glass Corp.*, 254 F. 2d 889 (3d Cir.), 122 U. S. P. Q. 167, 254 (1959).

⁴⁸ *United States v. Line Material Co. et al.*, 333 U. S. 287, 68 S. Ct. 550, 92 L. ed. 701 (1948).

⁴⁹ 35 U. S. C. § 261 requires an assignment, grant or conveyance to be recorded in the Patent Office within three months from its date or prior to the date of a subsequent purchase or mortgage; 17 U. S. C. § 30 provides "every assignment of copyright shall be recorded in the Copyright Office within three calendar months after its execution in the United States or within six calendar months after its execution without the limits of the United States, in default of which it shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, whose assignment has been duly recorded."

⁵⁰ 15 U. S. C. § 1060 provides "An assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent Office within three months after the date thereof or prior to such subsequent purchase."

the assignment is one upon which a patent is to be issued to the assignee.⁵¹

Warranties and Estoppel

Warranties

Among the various warranties which may be considered in connection with transactions relating to intellectual property, there are warranties of title, warranties of validity, and warranties of non-infringement.⁵² The general rule is that there is an implied warranty of title in a contract for the sale of patent rights.⁵³ Owing to the implied warranty of title, after-acquired title inures to the benefit of the assignee where the assignor did not hold title at the time of the assignment.⁵⁴ On the other hand, the assignor of a patent does not impliedly warrant validity of a patent.⁵⁵ It would appear that the assignor of a patent does not impliedly warrant that goods manufactured under the patent will not infringe on other patents owned by a third party. This seems to follow from the rule with regard to licenses. Ellis declares that there is no implied warranty that the invention can be used without infringing prior patents of third parties:

If the licensee continues to operate, he must continue to pay royalties to his licensor and also account to the owner of the prior dominating patent for his infringement thereof.⁵⁶

Judge Morris stated that:

An eviction is not a defense to a suit for royalties accruing before the eviction occurred. Walker on Patents, Section 307.⁵⁷

In connection with the sale of patented articles, however, there may be an implied warranty of non-infringement coupled with the implied license to use the goods which have been purchased. Judge Parker has stated that:

. . . the implied warranties involved in the sale of personal property include a warranty of the right to use, upon which

⁵¹ Walker, *op. cit. supra*, n. 39, at 1410.

⁵² *Id.* 1491.

⁵³ Ellis, *op. cit. supra*, n. 13 at 369; This follows the general rule that "every seller of personal property impliedly warrants that he has title to and right to sell what he assumes to sell." *Faulks, et al. v. Kamp*, 3 F. 898 (S. D. N. Y. 1880); however Judge Denison stated that an ordinary assignment of a patent is closely analogous to a quitclaim. *Westinghouse E. & Mfg. Co. v. Formica Insulation Co.*, 288 F. 330 (6th Cir., 1923).

⁵⁴ *Taylor Engines, Inc. v. All Steel Engines, Inc.*, 192 F. 2d 171 (9th Cir.), 92 U. S. P. Q. 35 (1951).

⁵⁵ *Dillman v. Nadlehoffer*, 119 Ill. 567, 7 N. E. 88 (1886).

⁵⁶ Ellis, *Patent Assignments and Licenses* 717 (2d ed., 1943); *Victory Bottle Capping Mach. Co. v. O. & J. Mach. Co.*, 280 F. 753 (1st Cir., 1922).

⁵⁷ *Barber Asphalt Paving Co. v. Headley Good Roads Co.*, 284 F. 177 (D. C. Del., 1922).

the purchaser may rely if sued for patent infringement. *The Electron*, 56 F. 304, 309-310; 55 C. J. 783. In the event of a recovery by plaintiff against defendant, therefore, defendant would have the right, if plaintiff's position is correct, to sue the Selden Company on this implied warranty.⁵⁸

Thus, mere threat of infringement proceedings is not enough to warrant damages or compensation, and it is necessary to show eviction or involuntary loss of possession.⁵⁹

The Uniform Commercial Code provides that:

Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.⁶⁰

Estoppel

Akin to the question of warranties is the question of estoppel. An estoppel to deny validity is ordinarily applied against the patentee or assignor of a patent, analogous to the estoppel of a grantor of land from derogating the title he has assigned.⁶¹

It has been held that there is no estoppel which prevents a patentee from testifying contrary to the oath made by him when applying for the patent in a suit between his assignee and a third party, the patentee no longer having any interest in the patent.⁶² For reasons of public policy the estoppel is not applied when the alleged infringer is manufacturing a device which has already fallen into the public domain:

The assignor has a complete defense to an action for infringement where the alleged infringing device is that of an expired patent.⁶³

⁵⁸ *General Chemical Co. v. Standard Wholesale Phosphate & Acid Works*, 101 F. 2d 178 (4th Cir.), 40 U. S. P. Q. 258 (1939).

⁵⁹ *Krumbhaar v. Birch*, 83 Pa. St., 426 (1877).

⁶⁰ Unif. Commercial Code § 2-312(B). Adopted by Pennsylvania effective July 1, 1954. See Pa. Stat. Ann., Tit. 12A (1954); in September 1957 Massachusetts adopted the U. C. C. as revised; see Mass. Ann. Laws, ch. 106 (Mass. Acts 1957, c. 765), Kentucky enacted the U. C. C. as revised corresponding to that in Massachusetts; see Kentucky Senate Bill 169 (1958, c. 88). Cf., Uniform Sales Act § 13(2); Calif. Civil Code § 1733(2); Ohio Rev. Code § 1315, 14(B).

⁶¹ *Westinghouse Co. v. Formica Co.*, 226 U. S. 342, 349, 350, 45 S. Ct. 117, 69 L. ed. 316 (1924).

⁶² *De Laval Separator Co. v. Vermont Farm Machinery Co.*, 135 F. 772 (1904).

⁶³ *Scott Paper Co. v. Marcalus Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

The estoppel of the licensee is not recognized when there are any provisions in the agreement which would be unlawful as in contravention of the anti-trust laws if the patent were invalid.⁶⁴ Under certain circumstances there may be an estoppel to deny infringement:

. . . While patents which are mere improvements on a prior art are generally given a narrow construction, the rule is different as between assignor and assignee, even as to such a patent.

. . . the dominant equitable rule between assignor and assignee that the patent must be liberally construed "to give full value to patent assigned and shut out the assignor from every structure within the fair meaning of the claim."⁶⁵

Conclusion

Although the various forms of intellectual property are forms of personal property, and therefore subject to the same rules as to transfer and agreement generally as other forms of personal property, tangible and intangible, such as choses in action for example, nevertheless owing to the special nature of intellectual property various problems may arise which are not ordinarily encountered in transactions involving tangible personal property or even intangible personal property. Consequently, in entering into any transaction relating to intellectual property, or preparing instruments for this purpose, the nature of the intellectual property must be taken into consideration in order to make sure that the intentions of the parties will be carried out, and then any agreements entered into will be found valid and effective.

⁶⁴ *Sola Electric Co. v. Jefferson*, 317 U. S. 173, 63 S. Ct. 172, 87 L. ed., 165, 55 U. S. P. Q. 379, 381 (1942).

⁶⁵ *G. M. C. Process Corp. v. Garofano*, 2 App. Div. 2d 115, 153 N. Y. S. 2d 495, 500, 111 U. S. P. Q. 56, 58 (N. Y. S. Ct., App. Div., 1956).