

# Trade Regulation Reporter - Trade Cases (1932 - 1992), United States v. Scott Paper Co. and Chemotronics, Inc., U.S. District Court, E.D. Michigan, 1969 Trade Cases ¶72,919, (Oct. 24, 1969)

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United States v. Scott Paper Co. and Chemotronics, Inc.

1969 Trade Cases ¶72,919. U.S. District Court, E.D. Michigan, Southern Division. Civil Action No. 32049. Entered October 24, 1969. Case No. 2028 in the Antitrust Division of the Department of Justice.

## Sherman and Clayton Acts

**Combinations and Conspiracies — Patents — Restrictive Patent Practices — Consent Decree—Practices Enjoined.**—A producer of polyurethane foam and a research firm owning a patent covering a reticulating process used in manufacturing the foam were barred by a consent decree from continuing an exclusive licensing agreement which restricted use and development of the process by others, in violation of [Sec. 1 of the Sherman Act](#) and [Sec. 7 of the Clayton Act](#). The decree, among other matters, requires both companies to (1) grant nonexclusive licenses to others at reasonable royalties under any existing or pending patent of the process; (2) grant, without additional compensation, a nonexclusive grant of immunity from suit under any corresponding foreign patent or application owned or controlled by them with respect to any reticulated polyurethane foam manufactured in the United States; (3) furnish technical information relating to the process to licensees under certain terms and conditions; and (4) give public notice of the availability of licenses covering the process within 90 days from the date of the final decree. Defendants were precluded from entering into any agreement which would restrict defendant research firm from performing research for any third person with respect to the process.

For the plaintiff: Richard W. McLaren, Asst. Atty. Gen., Baddia J. Rashid, Harry N. Burgess, and John L. Wilson, Attys., Dept. of Justice.

For the defendants: Robert B. Owen, of Covington & Burling, Washington, D. C. and Norman M. Heisman, Philadelphia, Pa., for Scott Paper Co.; Winston E. Miller, of Miller, Morriss, Pappas & McLeod, Lansing, Mich., for Chemotronics, Inc.

## Final Judgment

MACHROWICZ, D. J.: Plaintiff, United States of America, having filed its complaint herein on November 29, 1968, and the defendants, Scott Paper Company and Chemotronics, Incorporated, having appeared and filed their answers to the complaint denying the substantive allegations thereof, and the parties hereto, by their respective attorneys, having consented to the entry of this Final Judgment:

Now, Therefore, before the taking of any testimony and without trial or adjudication of any issue of fact or law herein and without said judgment constituting evidence or an admission by any party hereto with respect to any such issue and upon consent of all parties hereto, it is hereby

Ordered, Adjudged and Decreed as follows:

I.

### [ Jurisdiction ]

This Court has jurisdiction of the subject matter of this action and of the parties hereto. The complaint states claims under which relief may be granted under [Section 1 of the Sherman Act](#), 15 U. S. C. § 1, and under [Section 7 of the Clayton Act](#), 15 U. S. C. § 18.

II.

### [ Definitions ]

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As used in this Final Judgment:

(A) "Person" shall mean an individual, partnership, firm, corporation or any other legal entity.

(B) "Scott" shall mean the defendant Scott Paper Company.

(C) "Chemotronics" shall mean the defendant Chemotronics, Incorporated.

(D) "Polyurethane foam" shall mean a cellular product resulting from the reaction of a diisocyanate and polyhydroxy-compound, which can either be a polyester or polyether material, with the addition of water so that bubbles are formed by the reaction of water and the diisocyanate. In addition, bubbles may be formed in part by a volatilization of a low boiling inert material, such as a fluorocarbon.

(E) "Reticulated polyurethane foam" shall mean polyurethane foam from which the membranes or "windows" have been substantially or entirely removed.

(F) "Reticulation" shall mean the substantial or entire removal of the membranes or "windows" of polyurethane foam.

(G) "Geen Patent" shall mean (1) U. S. Patent 3,175,025 and (2) U. S. Patent 3,175,030 and (3) any other rights under presently existing U. S. patents or presently pending patent applications of Chemotronics covering the thermal process for (a) the reticulation of polyurethane foam and/or (b) the explosion bonding of separate or individual pieces of polyurethane foam.

(H) "Know-how" shall mean all the technical information relating to the process of thermal reticulation of polyurethane foam, which information is known to the defendants as of the date of this Final Judgment. It shall include (a) the preparation of a written manual or manuals describing, as of the date of this Final Judgment, the materials, formulations, processing methods, and equipment employed by the defendants in reticulating polyurethane foam by the thermal process, including blueprints, drawings and specifications of defendants' ovens, equipment, gases and formulations used in reticulating polyurethane foam by the thermal process at defendants' locations in the United States; (b) defendants' complete thermal process for the reticulation of polyurethane foam, sufficient, if the instructions are properly followed, to enable the licensee of such information to reticulate thermally his foam as proficiently as the defendants could thermally reticulate the same foam as of the date of this Final Judgment; and (c) a motion picture in color with explanatory commentary describing in detail the complete thermal reticulation process as practiced in Scott's most modern plant as of the date of this Final Judgment.

(I) "United States" shall mean the 50 states, the District of Columbia, and all United States territories and possessions.

### III.

#### [ *Applicability* ]

The provisions of this Final Judgment applicable to a defendant shall apply to such defendant, its officers, directors, agents, employees, subsidiaries, successors and assigns, and to those persons in active concert or participation with such defendant who receive actual notice of this Final Judgment by personal service or otherwise.

### IV.

#### [ *Licensing Practices* ]

(A) Chemotronics is ordered and directed to grant to each applicant making written request to Chemotronics therefor a non exclusive, non-transferable, non-discriminatory license under the "Geen Patent".

(B) Chemotronics is hereby enjoined and restrained from including any restriction whatsoever in any patent license granted by it pursuant to the provisions of this Final Judgment, except:

- (1) Reasonable royalties may be charged and such royalties shall be non-discriminatory as among licensees procuring the same rights under the same patents;
  - (2) Reasonable provisions may be made for periodic royalty reports by the licensee and inspection of the relevant books and records of the licensee by an independent auditor or other person acceptable to both licensor and licensee (or, in the absence of agreement, a person selected by the Court), who shall report to the licensor only the amount of the royalty due and payable;
  - (3) Reasonable provisions may be made for cancellation of the license upon failure of the licensee to make the reports, pay the royalties, or permit the inspection of his books and records as hereinabove provided;
  - (4) The license must provide that the licensee may cancel *the* license in *whole* or as to any specified patents at any time after one year from the initial date thereof by giving 30 days' notice in writing to the licensor.
- (C) Chemotronics shall grant without additional compensation a non-exclusive grant of immunity from suit under any corresponding foreign patent or application owned or controlled by it with respect to any reticulated polyurethane foam manufactured in the United States by a licensee under a license pursuant to Paragraph (a) of this Section IV.
- (D) Chemotronics shall, upon written request, also make available to any licensee under Paragraph (A) hereof, subject to any legally recognized privilege, any and all information in its possession or control relating to the validity, invalidity or scope of U. S. Patent 3,171,820.

#### V.

##### **[ Licensing of Thermal Process Patent]**

- (A) Scott is ordered and directed to grant, in accordance with the provisions of Section IV, to each applicant making writ ten request to Scott therefor, a non-exclusive, non-transferable, non-discriminatory license under any presently existing U. S. patent or presently pending U. S. patent application of Scott relating to improvements on the thermal process for the reticulation of polyurethane foam.
- (B) Scott shall grant without additional compensation a non-exclusive grant of immunity from suit under any corresponding foreign patent or application owned or controlled by it with respect to any reticulated polyurethane foam manufactured in the United States by a licensee under a license pursuant to Paragraph (A) of this Section V.

#### VI.

##### **[ "Know-How"]**

- (A) Defendants are ordered and directed to provide in connection with each patent license granted pursuant to Sections IV and V hereof, an option on the part of the licensee to obtain upon written request "know-how" under a non-exclusive, non-transferable, non-discriminatory license.
- (B) Defendants are hereby enjoined and restrained from including any restriction whatsoever in any "know-how" license granted by it pursuant to the provisions of this Section, except as hereinafter provided:
- (1) Reasonable royalties may be charged;
  - (2) Reasonable and non-discriminatory charges may be made for the actual cost solely of preparing and reproducing the materials furnished, and for such further technical information as may be furnished, including compensation for consultation, services, and advice given at a rate not to exceed \$200 per day per person plus actual living and travel expenses;
  - (3) Reasonable provisions may be made to prevent the disclosure of "know-how" to third persons;
  - (4) Reasonable provisions may be made for periodic royalty reports by the licensee and inspection of the relevant books and records of the licensee by an independent auditor or other person acceptable to both licensor

and licensee (or, in the absence of agreement, a person selected by the Court), who shall report to the licensor only the amount of the royalty due and payable;

(5) Reasonable provisions may be made for cancellation of the license upon failure of the licensee to make the reports, pay the royalties, or permit the inspection of his books and records as hereinabove provided;

(6) Reasonable provisions may be made to prevent further use by the licensee, in the event of cancellation, of the "know-how" acquired by the licensee pursuant to such license.

(C) If requested by a licensee pursuant to the provisions of this Section VI, Scott will make available, for the compensation provided for in this Section VI, technically qualified persons from among its employees to explain to such licensee at the licensee's place of manufacture all or any portion of the licensed "know-how", so as to enable such licensee, if such person's instructions are properly followed, to reticulate thermally such licensee's foam as proficiently as Scott could thermally reticulate the same foam as of the date of this final judgment, provided that such counseling shall be given at reasonable times and for reasonable periods.

## VII.

### [ Reasonable Royalties ]

(A) Upon receipt of written application for a license under the provisions of Paragraphs IV, V or VI, defendant (Chemotronics or Scott, as the case may be) shall advise the applicant in writing within 30 days of the royalties which such defendant deems reasonable for the patent(s) or "know-how" to which the request pertains. If the applicant rejects the royalties proposed by such defendant, and if such defendant and applicant are unable to agree upon reasonable royalties within 60 days from the date such rejection is communicated in writing to defendant, the applicant or defendant may, upon notice to the Attorney General, apply to this Court for the determination of (1) reasonable royalties and (2) such reasonable interim royalties (pending the completion of any such proceeding) as the Court may deem appropriate. In any such proceeding, the burden of proof shall be on defendant to establish the reasonableness of the royalties requested by it. Pending the completion of negotiations or any such proceedings, the applicant shall have the right to make, have made, use and vend under the patents to which his application pertains, subject to the payment of reasonable interim royalties. A final Court determination of reasonable royalties shall be applicable to the applicant from the date upon which the applicant requested such license, and shall after such determination, unless otherwise ordered by the Court in a proceeding instituted under this Section VII, be applicable to any other licensee then having or thereafter obtaining the same rights under the same patents. If the applicant fails to accept a license, such applicant shall pay any royalties found by the Court to be due to defendant and such costs as the Court may determine to be just and reasonable.

(B) Nothing herein shall prevent any applicant from attacking, in the aforesaid proceeding or in any other controversy, the validity or scope of any of the patents, nor shall this Final Judgment be construed as imputing any validity to any of said patents.

## VIII.

### [ Infringement Suits ]

(A) Scott is enjoined from suing any licensee of the Geen Patent for infringement of claims one (1) through six (6) of U. S. patent 3,171,820 with respect to reticulated polyurethane foam produced by the thermal process prior to the date of this judgment.

(B) Scott has informed the plaintiff that it presently proposes to enforce the "Volz patent", No. 3,171,820, against any person who Scott believes infringes that patent in the production of reticulated polyurethane foam, even if such person has a license under Sections IV, V or VI of this judgment. Nothing in this Final Judgment nor any license granted pursuant thereto shall constitute a license or a waiver of, or shall otherwise affect, such rights, if any, as Scott may have under that patent.

**IX.**

**[ Restrictions on Disposition]**

Defendant Chemotronics is enjoined and restrained from making any sale or other disposition of any "Geen Patent" which deprives it of the power or authority to grant licenses in accordance with the provisions of this Final Judgment, unless the purchaser, transferee or assignee shall file with this Court, prior to the consummation of said transaction, an undertaking to be bound by its provisions.

**X.**

**[ Public Notification]**

Chemotronics and Scott are jointly and severally ordered and directed within ninety (90) days of the effective date of this Final Judgment, to give (a) public notice of the availability of the licenses referred to in Sections IV, V and VI; such public notice requirement shall be satisfied by causing such availability to be made known in the Official Gazette of the United States Patent Office, maintained by the Department of Commerce and in Modern Plastics magazine and (b) notice of such availability to all persons who within the five (5) years prior to the date of entry of this Final Judgment have indicated to Chemotronics or to Scott an interest in obtaining a license under the "Geen Patent".

**XI.**

**[ Restriction on Research]**

Chemotronics is enjoined and restrained from entering into or adhering to any exclusive agreement with Scott which would prevent Chemotronics from performing research for any third person with respect to the reticulation of polyurethane foam.

**XII.**

**[ Purchase Restriction]**

Scott is enjoined and restrained for a period of ten (10) years from the date of entry of this Final Judgment from acquiring by purchase from any person (other than a Scott employee or Scott consultant) any patent or any exclusive rights, license or immunity under any patent relating to the process of reticulating polyurethane foam.

**XIII.**

**[ Amendment of Agreement]**

The agreement between Scott and Chemotronics dated November 20, 1965, shall be deemed, and hereby is, amended only to the extent necessary to permit the parties to comply with the provisions of this Final Judgment.

**XIV.**

**[ Sharing of Reticulation Service]**

In the event that Scott, in the exercise of its own best judgment, shall decide to offer, and shall offer, to perform the service of reticulation with respect to polyurethane foam presented to Scott for such "custom reticulation" on a fee basis, Scott is hereby ordered and directed to offer and provide such custom reticulation service to all applicants on a non-discriminatory basis.

**XV.**

**[ Inspection and Compliance]**

(A) For the purpose of securing compliance with this Final Judgment and for no other purpose, duly authorized representatives of the Department of Justice shall, on written request of the Attorney General, or the Assistant Attorney General, in charge of the Antitrust Division, and on reasonable notice made to the defendant's principal office, be permitted, subject to any legally recognized privilege:

(1) Access during the office hours of defendant, to those books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under the control of defendant which relate to any matter contained in this Final Judgment;

(2) Subject to the reasonable convenience of defendants and without restraint or interference from them, to interview officers or employees of defendants, who may have counsel present, regarding such matters.

(B) Upon written request of the Attorney General, or the Assistant Attorney General, in charge of the Antitrust Division, defendants shall submit such reports in writing and under oath or affirmation if so requested, with respect to the matters contained in this Final Judgment, as may from time to time be requested.

(C) No information obtained by the means provided in this Section shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Executive Branch of the plaintiff except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with the Final Judgment or as otherwise required by law.

#### **XVI.**

##### **[ *Jurisdiction Retained* ]**

Jurisdiction is retained by this Court for the purpose of enabling any of the parties to this Final Judgment to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction or modification of any of the provisions thereof, for the enforcement of compliance therewith, and for the punishment of violations thereof.

#### **XVII.**

##### **[ *Validity of Volz Patent* ]**

Nothing contained in this Judgment shall be construed as an acknowledgment by the plaintiff of the validity or invalidity of the Volz patent or of the propriety or impropriety of the enforcement thereof.