

Trade Regulation Reporter - Trade Cases (1932 - 1992), United States v. International Cigar Machinery Company and American Machine & Foundry Company., U.S. District Court, S.D. New York, 1956 Trade Cases ¶68,426, (Jul. 25, 1956)

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United States v. International Cigar Machinery Company and American Machine & Foundry Company.

1956 Trade Cases ¶68,426. U.S. District Court, S.D. New York. Civil Action No. 111-286. Filed July 25, 1956. Case No. 1299 in the Antitrust Division of the Department of Justice.

Sherman Antitrust Act

Department of Justice Enforcement and Procedure—Consent Decrees—Specific Relief—Patents—

Technological Information.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were ordered to grant to any person upon written application a non-exclusive license to make (but not to have made), use, and vend cigar making machinery under any, some, or all patents owned or controlled by the defendants on the date of such application. A reasonable, nondiscriminatory royalty could be charged by the defendants. The manufacturer and its subsidiary were ordered to grant upon written request and without compensation to a person licensed pursuant to the decree, with respect to any cigar making machinery manufactured in or imported into the United States pursuant to such license, a nonexclusive grant of immunity from suit under any foreign patent or application owned or controlled by them, corresponding to a licensed patent. The provisions of the decree did not require the defendants to grant a license under its future patents to any applicant engaged in the importation of cigar making machinery into the United States, except under certain circumstances.

Also, the manufacturer and its subsidiary were ordered, for a period of five years, to furnish to any person to whom a license to make cigar making machinery has been issued copies of such bills and specifications of materials, blueprints, and any other drawings (other than cost accounting data) then owned or controlled by the defendants and used by them in the manufacture of any designated cigar making machinery of a type which they commercially distribute. Also, recipients of such materials were to be permitted to visit the defendants' plants.

Department of Justice Enforcement and Procedure—Consent Decrees—Specific Relief—Leases—

Sale of Cigar Making Machinery and Attachments.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were required to notify each person who is a lessee of their cigar making machinery that, at the option of the lessee, its lease for such machinery will be revised so as to provide for a lease period not to exceed one year. Leases for a period longer than one year were prohibited. With respect to new types of machines, the initial lease period could be for five years. Also, the decree required the defendants to sell to any person, upon non-discriminatory terms, any attachment for cigar making machines which they are offering for commercial distribution. The defendants were ordered, at the end of five years after the entry of the decree, to give all persons the option to purchase any cigar making machinery which they offer for commercial distribution. However, the defendants could be relieved from this requirement if they established that competition has been established in the manufacture and distribution of cigar making machinery or that such option is not then necessary of appropriate in the premises.

Combinations and Conspiracies—Monopolies—Consent Decree—Practices Enjoined—Acquisitions—

A manufacturer of cigar making machinery and its subsidiary, a distributor, were prohibited by a consent decree from acquiring any person engaged in the manufacture or distribution of cigar making machinery, either by the acquisition of securities or by the acquisition of assets. However, nothing in the above prohibition was to be construed to prohibit (1) acquisition of all or part of the securities or assets of any subsidiaries, (2) formation of subsidiaries and the transfer thereto of assets of the defendants or of their subsidiaries, or (3) application to the court for permission to acquire the securities or assets of a person engaged in such manufacture or distribution, which may be granted upon a showing that the effect of such acquisition will not be substantially to lessen competition or to tend to create a monopoly.

Combinations and Conspiracies—Monopolies—Consent Decree—Practices Enjoined—Institution of Patent Infringement Suits.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were prohibited by a consent decree from instituting or threatening to institute any suit or proceeding against any person for acts of infringement of any patent alleged to have occurred prior to the entry of the decree, except by way of counterclaim in any action brought by any such person against the defendants.

Combinations and Conspiracies—Monopolies—Consent Decree—Practices Enjoined—Restrictions in the Leasing of Machinery.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were enjoined by a consent decree from (1) prohibiting, or in any way subjecting to their control or approval, experimentation with any leased cigar making machinery, or (2) prohibiting, or in any way subjecting to their control or approval, alterations in or attachments to any cigar making machinery.

Combinations and Conspiracies—Monopolies—Consent Decree—Practices Enjoined—Patents—Exclusive Licenses—Exclusive Disclosure of Technical Information.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were prohibited, for a period of five years, from entering into any understanding relating to cigar making machinery which (1) grants to the defendants an exclusive license, an exclusive sub licensing right, or an exclusive immunity under any patent or (2) provides for the disclosure to defendants, on an exclusive basis, of any invention, formula, process, or technical knowledge, other than the results of joint development programs undertaken by the defendants and another person or work done by established research or engineering organizations on behalf of the defendants.

Combinations and Conspiracies—Monopolies—Consent Decree—Practices Enjoined—Allocation of Markets—Restrictions on Imports and Exports.—A manufacturer of cigar making machinery and its subsidiary, a distributor, were prohibited by a consent decree from entering into any understanding with any other person engaged in the manufacture or distribution of cigar making machinery to (1) divide manufacturing or distribution territories, (2) allocate markets among manufacturers, or (3) restrain, prevent, or preclude the import into, or the export from, the United States, its Territories and Possessions, of cigar making machinery.

For the plaintiff: Victor R. Hansen, Assistant Attorney General, and Edward A. Foote, W. D. Kilgore, Jr., Richard B. O'Donnel, and John D. Swartz, Attorneys.

For the defendants: Cahill, Gordon, Reindel & Ohl, by Mathias F. Correa (Mathias. F. Correa, George S. Hills, Alexander C. Neave, Jerrold G. Van Cise, and James B. Henry, Jr., of counsel).

Final Judgment

RICHARD H. LEVET, District Judge [*In full text*]: Plaintiff United States of America, having filed its complaint herein on July 25, 1956; defendants International Cigar Machinery Company (hereinafter called ICM) and American Machine & Foundry Company (hereinafter called AMF) having appeared and filed their answer to the complaint denying the material allegations thereof; and plaintiff and said defendants, by their attorneys, having consented to the entry of this Final Judgment, without trial or adjudication of any issue of fact or law herein and without this Judgment constituting evidence or an admission in respect to any such issue;

Now, therefore, before any testimony has been taken herein, and without trial or adjudication of any issue of fact or law herein, and upon consent, as aforesaid, of each party hereto, it is hereby

Ordered, adjudged and decreed, as follows:

I

[*Sherman Act*]

The Court has jurisdiction of the subject matter of this action and of the parties hereto, and the complaint states a claim upon which relief can be granted against ICM and AMF under Sections 1 and 2 of the Act of Congress of July 2, 1890, entitled "An act to protect trade and commerce against unlawful restraints and monopolies," commonly known as the Sherman Act, as amended.

II

[Definitions]

As used in this Final Judgment:

- (a) "Cigars" means but is not limited to long filler cigars (the filler consisting of prepared tobacco leaves compressed together lengthwise and at least a part of which runs the entire length of the cigar), short filler cigars (the filler consisting of broken prepared tobacco leaves, the length of any part of which is not as long as the cigar), headed cigars (which are closed at one end), and cigarillos (which are open at both ends).
- (b) "Cigar making machinery" means all machinery used in manufacturing mechanically a cigar from previously prepared tobacco leaves. A "cigar making machine" means a single complete unit used in manufacturing mechanically a cigar from previously prepared tobacco leaves. An "attachment for cigar making machines" is a device physically attached to cigar making machines but not essential to the basic operation of such machines which is designed to improve the operating efficiency or decrease the operating cost of such machines.
- (c) "Existing patent" (or "existing patents") means any United States Letters Patent, and any division, continuation, re issue or extension of such patent, relating, but only in so far as it relates, to cigar making machinery, including cigar making machines and attachments, owned or controlled by ICM or AMF on the date this Final Judgment is entered, or under which ICM or AMF then had the power to grant licenses or sublicenses to other persons.
- (d) "Future patent" (or "future patents") means any United States Letters Patent (exclusive of existing patents) or patent application, and any division, continuation, reissue or extension of such patent, relating, but only in so far as it relates, to cigar making machinery, including cigar making machines and attachments, owned or controlled by ICM or AMF during the period of five years from the date of entry of this Final Judgment, or under which ICM or AMF during such period has the power to grant licenses or sublicenses to other persons.
- (e) "Patents" means existing patents and future patents.
- (f) "Person" means an individual, partnership, firm, association, corporation or other legal entity other than ICM or AMF or their respective directors, officers, employees, agents or subsidiaries.
- (g) "Subsidiary" means a corporation more than 50% of whose stock entitled to vote upon election of directors (other than preferred stock entitled to vote upon the failure of the corporation to pay certain dividends) is, directly or indirectly, owned by ICM or AMF.
- (h) "Defendant" means ICM and AMF. Except where otherwise expressly provided for herein, ICM and AMF shall be considered to be one entity.

III

[Applicability of Judgment]

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

IV

[Licensing of Patents]

- (a) Defendant is ordered and directed, in so far as it has the power to do so, to grant to each person making written application therefor a non-exclusive license to make (but not to have made), use and vend cigar making machinery under any, some or all patents owned or controlled by defendant on the date of such application.
- (b) Defendant is enjoined and restrained from making any sale or other disposition of any of such patents which deprives it of the power or authority to grant such licenses, unless the purchaser, transferee or assignee shall

file with this Court, prior to consummation of said transaction, a consent to be bound by the provisions of this Paragraph IV with respect to such patents.

(c) Defendant is ordered and directed, in so far as it has the power to do so, to grant upon written request and without compensation to a person licensed pursuant to this Paragraph IV, with respect to any cigar making machinery manufactured in or imported into the United States pursuant to such license, a non-exclusive grant of immunity from suit under any foreign patent or application owned or controlled by defendant, corresponding to a licensed patent.

(d) Defendant is enjoined and restrained from including any restriction whatsoever in any license granted pursuant to the provisions of this Paragraph IV, except as hereinafter provided:

(1) The license may be non-transferable;

(2) A reasonable royalty may be charged, which royalty shall be non discriminatory as among licensees procuring the same rights under the same patents;

(3) Reasonable provision may be made for periodic royalty reports by the licensee and inspection of the books and records of the licensee by an independent auditor, an independent engineer or any person acceptable to both licensor and licensee, who shall report to the licensor only the amount of the royalty due and payable;

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

(5) The license must provide that the licensee may cancel the license at any time after one year from the initial date thereof by giving thirty days' notice in writing to the licensor; and

(6) Reasonable provision may be made for marking the machines manufactured, used or sold by the licensee under the license with the number of the patents covering such machines under which the licensee is licensed.

(e) Upon receipt of a written application for a license under the provisions of this Paragraph IV, defendant shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the application pertains. If such applicant and defendant are unable to agree upon what constitutes a reasonable royalty within sixty days from the date the written application for the license was received by defendant, either the applicant or defendant may, upon notice to the Attorney General, apply to this Court for the determination of a reasonable royalty. In any such proceeding the burden of proof shall be upon the defendant to establish the reasonableness of any royalty requested. Pending the completion of any such court proceeding, the applicant shall have the right: to make (but not to have made), use and vend under the patents to which his application pertains without payment of royalty or other compensation, but subject to the following provisions: Defendant may, upon notice to the Attorney General, apply to this Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If this Court fixes such interim royalty rate, defendant shall then issue and the applicant shall accept a license providing for the periodic payment of royalties at such interim rate from the date upon which the applicant requested the license. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be grounds for the dismissal of his application for a license; in the case of such dismissal, the applicant shall pay the court costs in such proceedings and any royalties found by the Court to be due to defendant. Whether or not an interim royalty is fixed by the Court, a final Court determination of reasonable royalty shall be applicable to the applicant for a license from the date upon which the applicant requested such license, and to any other licensee then having or thereafter obtaining the same rights under the same patents from the date of such final determination. If the applicant fails to accept a license pursuant to such final Court determination, such applicant shall pay the Court costs in such proceedings and any royalties found by the Court to be due to such defendant.

(f) Nothing herein shall prevent any applicant from attacking, in the aforesaid proceedings 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 or value to any of said patents.

(g) The provisions of this Paragraph IV shall not require defendant to grant a license under its future patents to any applicant engaged in the importation of cigar making machinery into the United States unless:

(1) Said applicant agrees with respect to all of the United States patents as to which or as to the applications for which said applicant acquires ownership or control or the power to grant licenses or sublicenses during the period of five years from the date of entry of this Final Judgment, not to bring suit for infringement under any of such patents without first offering to defendant a non-exclusive license for a reasonable royalty under and for the full life of said patent or patents claimed to be infringed; and

(2) Said applicant agrees upon request to grant without compensation, for any cigar making machinery manufactured in the United States pursuant to any such license to defendant, a non-exclusive grant of immunity to defendant and any subsidiary of defendant from suit under any corresponding foreign patent or application owned or controlled by said applicant.

For the purpose of this Paragraph IV(g), a patent shall be deemed to be owned or controlled by an applicant if it is owned or controlled by the applicant, by a subsidiary of the applicant, by a person whose subsidiary the applicant is or by a person on behalf of whom the applicant then is acting as an agent with respect to the manufacture, use, lease or sale of cigar making machinery. Determination of a reasonable royalty for any license to defendant under this Paragraph IV(g) shall be made in the same manner as provided in Paragraph IV(e) for determination of the reasonable royalty for a license granted by defendant, provided that in any proceeding for determination of a reasonable royalty under this Paragraph IV(g) the burden of proof shall be on the person from whom defendant has requested a license to establish the reasonableness of the royalty requested by it.

V

[Patent Infringement Suits]

Defendant is enjoined and restrained from instituting, or threatening to institute, any action, suit or proceeding against any person for acts of infringement of any patent alleged to have occurred prior to the entry of this Final Judgment, except by way of counterclaim in any action brought by any such person against defendant.

VI

[Technological Information]

(a) For a period of five years from the date of entry of this Final judgment, defendant is ordered and directed upon written application of any person to whom a license to make cigar making machinery has been issued to furnish (at the cost of reproduction thereof exclusive of overhead, administrative or development expense) copies of such bills and specifications of materials, blueprints and any other drawings (other than cost accounting data) then owned or controlled by defendant and used by defendant in the manufacture of any designated cigar making machinery of a type which defendant commercially distributes. Defendant may require as a written condition for the furnishing of such information that the licensee shall agree to maintain all technological information received in confidence and use such information only in connection with such licensee's own manufacturing operations in the United States.

(b) During the period of five years from the date of entry of this Final Judgment, any recipient of bills and specifications of materials, blueprints or any other drawings with respect to any cigar making machinery shall upon written application specifying any step or steps in the manufacture of such machinery which such recipient desires to observe be advised as to the next date on or about which defendant contemplates the performance of such step or steps in the ordinary course of business; and such recipient shall, at his own expense, be permitted to visit defendant's plant for the purpose of observing the performance of such step or steps; provided, however, that such visits may be restricted as follows:

- (1) to persons with proper federal security clearances if the performance is to take place within a restricted area; and
- (2) to not more than four such visits per year.

VII

[Lease Periods and Restrictions]

(a) Defendant is ordered and directed to notify within thirty days, in writing, each person who, on the date of entry of this Final Judgment, is a lessee of its cigar making machinery that at the option of the lessee its lease for cigar making machinery will be revised so as to provide for a lease period not to exceed one year, which said lease may be automatically renewable for successive one-year periods, subject, however, to cancellation at the end of any one year period upon the giving by the lessee of six months' written notice to the defendant.

(b) Defendant is enjoined and restrained after the date of entry of this Final Judgment from entering into any lease for cigar making machinery for a period longer than one year, which said lease may be automatically renewable for successive one-year periods, subject, however, to cancellation by the lessee at the end of any such one-year period by the giving of ninety days' written notice to the defendant.

(c) Notwithstanding subparagraph (b) of this Section VII, the defendant may enter into a lease covering a new type and model of cigar making machinery not manufactured by defendant on the date of entry of this Final Judgment which said lease may provide for an initial lease period of not to exceed five years and may be thereafter renewable at the option of the lessee for successive one-year periods after such initial five-year period, subject, however, to cancellation by the lessee at the end of said initial five-year period or thereafter at the end of any one-year period upon the giving by the lessee of ninety days' written notice to the defendant.

(d) Defendant is enjoined and restrained from:

- (1) prohibiting, or in any way subjecting to defendant's control or approval, experimentation with any leased cigar making machinery, or
- (2) prohibiting, or in any way subjecting to defendant's control or approval, alterations in or attachments to any cigar making machinery; provided, however, that nothing herein shall be construed to relieve any lessee of the obligation to return leased cigar making machinery to defendant upon termination of lease in good working order and condition, ordinary wear and tear excepted.

VIII

[Sale of Machinery Attachments]

Defendant is ordered and directed to sell upon request to any person, upon nondiscriminatory terms, and regardless of whether or not such person is a lessee or prospective lessee of defendant's cigar making machinery, any attachment for cigar making machines which defendant, at the time of such request, is offering for commercial distribution.

IX

[Acquisitions]

(a) Defendant is enjoined and restrained from acquiring, directly or indirectly, any person engaged in the manufacture or distribution of cigar making machinery either by acquisition of securities thereof or by acquisition of its assets.

(b) Nothing in this Paragraph IX, however, shall be construed to prohibit:

- (1) Acquisition by defendant of all or part of the securities or assets of any of its subsidiaries;
- (2) Formation of subsidiaries by defendant and the transfer thereto of assets of defendant or of its subsidiaries;
- (3) Application to this Court, upon notice to the plaintiff, for permission to acquire the securities or assets of a person engaged in such manufacture or distribution, which may be granted upon a showing by defendant that the effect of such acquisition will not be substantially to lessen competition or to tend to create a monopoly in the manufacture or distribution of cigar making machinery.

X

[Exclusive Agreements]

Defendant is enjoined and restrained for a period of five years from the date of entry of this Final Judgment from entering into, adhering to, maintaining, furthering or renewing, directly or indirectly, any contract, agreement, or understanding with any person relating to cigar making machinery which:

- (1) Grants to defendant an exclusive license, an exclusive sublicensing right, or an exclusive immunity under any patent; or
- (2) Provides for disclosure to defendant on an exclusive basis of any invention, formula, process or technical knowledge, other than (A) the results of joint development programs undertaken by defendant and such person or (B) work done by established research or engineering organizations on behalf of defendant.

XI

[Allocation of Markets—Imports and Exports]

Defendant is enjoined and restrained from entering into, adhering to, maintaining, or furthering, directly or indirectly, any contract, agreement or understanding with any person engaged in the manufacture or distribution of cigar making machinery to:

- (1) Divide manufacturing or distribution territories;
- (2) Allocate markets among manufacturers; or
- (3) Restrain, prevent or preclude the import into, or export from, the United States, its Territories and Possessions, of cigar making machinery.

XII

[Option To Purchase Machinery]

Defendant is ordered and directed, at the end of five years after the date of entry of this Final Judgment, to give to all persons the option to purchase any cigar making machinery which defendant offers for commercial distribution; provided, however, that at any time after the expiration of four years from the date of entry of this Final Judgment defendant may petition this Court to be relieved from the requirements of this Paragraph XII and may be so relieved if it establishes to the satisfaction of this Court either (1) that competition has been established in the manufacture and distribution of cigar making machinery, or (2) that such option is not then necessary or appropriate in the premises.

XIII

[Notice of Judgment]

- (a) Defendant is ordered and directed within ninety days after the entry of this Final Judgment to furnish a true and complete copy of this Final Judgment to each of its officers, directors and employees at the policy level, and to each of its employees engaged in leasing cigar making machinery, and within fifteen days thereafter to file with the Clerk of this Court a statement as to the fact and manner in which defendant has complied with the foregoing terms of this subparagraph (a) of Paragraph XIII.
- (b) Defendant is ordered and directed within ninety days after the entry of this Final Judgment to furnish a true and complete copy of this Final Judgment to each of its present lessees, and within fifteen days thereafter to file with the Clerk of this Court a statement as to the fact and manner in which defendant has complied with the foregoing terms of this subparagraph (b) of Paragraph XIII.

XIV

[Inspection and Compliance]

For the purpose of securing compliance with this Final Judgment, duly authorized representatives of the Department of Justice shall, upon written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, and on reasonable notice to defendant, made to its principal office, be permitted, subject to any legally recognized claim of privilege, (a) reasonable access during the office hours of defendant to all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession, custody or control of defendant relating to any matters contained in this Final Judgment, and (b) subject to the reasonable convenience of defendant but without restraint or interference from it, to interview officers, directors, agents or employees of defendant, who may have counsel present, regarding any such matter. For the purpose of securing compliance with this Final Judgment, defendant upon the written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, and upon reasonable notice to its principal office, shall submit such written reports with respect to any of the matters contained in this Final Judgment as from time to time may be reasonably necessary for the purpose of enforcement of this Final Judgment. No information obtained by the means provided in this Paragraph XIV shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of such Department, except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with this Final Judgment, or as otherwise required by law.

xv

[Jurisdiction Retained]

Jurisdiction is retained 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 carrying out of this Final Judgment, for the modification or termination of any of the provisions contained herein and for the enforcement of compliance therewith and the punishment of the violation of any of the provisions contained herein.