

DIGEST NOTE.

PATENTS—FIXING OF RESALE PRICES—AGAIN INVALIDATED.

Held that a "license notice," attached to a patented article and fixing the price below which the article cannot be resold, or used when so resold, without rendering the purchaser and user liable to an action for "infringement" of the patent, is illegal and void as a restraint upon alienation.—*Straus v. Victor Talking Machine Co.* decided April 9, 1917, by the Supreme Court of the United States (opinion of Mr. Justice Clarke).

This decision marks the ultimate failure of the most pertinacious attempt to maintain uniform resale prices by virtue of patent rights that has yet been made. In *Victor Talking Machine Co. v. The Fair* (1903, 7th C. C. A.) 123 Fed. 424, the Court of Appeals solemnly held that it was "infringement" of the patent for the defendant to cut the "licensed" resale price fixed by the patent owner-vendor, although the defendant had bought, paid for and owned the machines, just as it owned the gingham and buttons in its stock. This ruling with many others to a like effect was wiped out by *Bauer v. O'Donnell* (1913) 229 U. S. 1. But in that case the court distinguished *Henry v. A. B. Dick Co.* (1912) 224 U. S. 1 (in which it was held by a majority of four to three justices that the patent owner could sell his patented machine and at the same time "license" its use only in connection with unpatented accessories obtained from the vendor) on the ground that only a "qualified title" (whatever that may mean) to the machine passed, whereas in the *Bauer* case the unqualified title was conveyed. Thereupon the *Victor Company* (just two months after the date of the *Bauer* case decision) "adroitly modified" the language and form of its "license notice" in the attempt to make the right to use the "invention" externalized in the chattel sold, contingent upon the payment by "the unlicensed public" of the "licensed price."

The court makes no effort to conceal its resentment at this piece of clumsy indirection. The plaintiff's whole course of conduct indicates that "the scheme was regarded by the plaintiff itself and its agents simply as one for maintaining prices by holding a patent infringement suit in *terrorem* over the ignorant and the timid." "It would be a perversion of terms to call the transaction intended to be embodied in this system of marketing plaintiff's machines a 'license to use the invention.'"

Inasmuch as the patent right is incorporeal and consists altogether

in the negative right, by means of infringement suits, to exclude others from making, using or selling the thing patented, it would seem incredible that courts should perceive any possible connection between the patent right and a common law contract of sale. But for near a quarter of a century the lower Federal Courts have steadfastly upheld all manner of "license" restrictions in connection with the sale or lease of patent protected chattels. For over fifty years the Supreme Court has ruled that the right to make, use and sell is not derived from or sanctioned by the patent law, see *Bauer v. O'Donnell*, *supra*, and *In re Brosnahan* (188) 18 Fed. 62 (Mr. Justice Miller). "It is one of the misfortunes of the law that ideas become encysted in phrases and thereafter for a long time cease to provoke further analysis" (*Hyde v. U. S.* 1912, 225 U. S. at 391, Mr. Justice Holmes, *dissenting*.)

DIGEST NOTE.

PATENTS—TYING CLAUSE—LICENSE NOTICE INVALIDATED—*Henry v. A. B. Dick Co.* (1912), 224 U. S. 1 (the Mimeo-graph case) overruled.

Held that a notice attached to a patented moving picture machine whereby the purchaser is obligated (1) to purchase (unpatented) films for use therewith exclusively from the vendor of the machine and (2) to perform other conditions subsequently to be nominated by the vendor, is not sanctioned by the patent law and is illegal and void as "gravely injurious" to "public interest."—*Motion Picture Patents Company v. Universal Film Mfg Co.*, April 9, 1917, decided by Supreme Court of the United States (opinion by Mr. Justice Clarke).

It is undeniable that this decision is of great importance. The court might easily have reached the same result by applying Sec. 3 of the Clayton Act, as did the Court of Appeals; it declined so to do and instead aggressively overruled the *Dick* case along with its forerunner the *Button Fastener* case (1896, 6th C. C. A.) 77 Fed. 288. The soundness of the *Dick* case from the date of its decision has been questioned (see *St. Louis Law Review*, Vol. 1, page 203). The reasoning in that case, say the court, is unsound,

"from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract

which, however, are subject to the rules of general as distinguished from those of the patent law." (Italics are mine).

This declaration and the conclusion announced seems an inevitable implication of the patent statutes; it is sustained by all authorities (except the *Dick* case and its like); what is more, an opposite ruling could not be accommodated to other laws, both Federal and State.

If a contract pertaining to a patented machine is sanctioned by, or its legality is to be measured under, the patent statutes, then, it is obvious that the validity of such contract cannot be measured by the general law of contracts, including the Federal Anti-Trust Act and the State Anti-Monopoly Statutes. The Federal Government can only attack or question the validity of a patent by a bill in equity on the ground of fraud in its procurement (*U. S. v. Am. Bell Telephone Co.*, 128 U. S. 315); and the States are powerless to question or attack a patent in any way or on any ground. R. S. (U. S.), Sec. 4920 enumerates five special defenses pleadable in infringement suits, any one of which, if pleaded and proved, will not only defeat the action, but will also destroy the patent. Walker on Patents (4th Ed.), Sec. 441, enumerates twenty-seven separate defenses pleadable in such actions, some of which, if sustained will overthrow the patent, and others of which, will exonerate the defendant. These constitute both *statutory* and *judicial* immunities which Congress and the courts have conferred upon the public, against the existence of unauthorized and illegal monopolies. In the *Dick* case the record showed that the patent owner had in force 11,000 of the restrictive contracts (*l. c.* 149 Fed. at 425); in the *Button Fastener* case there were 49,000 such contracts (*l. c.* 77 Fed. at 301). In a suit by the Federal or a State Government to have these systems of contracts annulled, as illegal restraints on trade, neither Federal nor State Courts would have jurisdiction to question the validity of the patents. And for either court to uphold the contracts by *assuming* the validity of the patents would be to "sport away" (*Marbury v. Madison*, 1 Cranch at 156, the Chief Justice) these immunities. For "no right can be defeated, in law, unless the party claiming it, has himself an opportunity to support it" (*Georgia v. Brailsford* 1790, 2 Dallas at 407, Jr. Justice Iredell).

If the assumption were indulged, one who owns a patent (which when properly tested may be found to be void) could override all

limitations, both Federal and State, on the right to contract in restraint of trade.

What is sanctioned by the patent statutes (*i. e.* the right to bring infringement suits in the Federal Courts) is not denied by any Anti-Monopoly Statutes (Federal or State) and, conversely, what is denied by the latter is not sanctioned by the patent statutes. The patent statutes authorize the patent owner to attempt the exclusion of competition in the thing patented only by infringement suits; the Anti-Monopoly Statutes denounce as a crime the exclusion of competition by contracts. One instrumentality is given and one taken away. To permit the patent owner, in the name (but not in the exercise) of the *legal* instrumentality to substitute therefor and use instead the *criminal* instrumentality, would be to sanction juristic counterfeiting. And that would be (as the court said) "gravely injurious."

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