Straus Vs. Victor Talking Machine Co.

Straus Vs. Victor Talking Machine Co.

SooperKanoon Citation : sooperkanoon.com/92652

Court : US Supreme Court

Decided On : Apr-09-1917

Appeal No. : 243 U.S. 490

Appellant : Straus

Respondent : Victor Talking Machine Co.

Judgement :

Straus v. Victor Talking Machine Co. - 243 U.S. 490 (1917)
U.S. Supreme Court Straus v. Victor Talking Machine Co., 243 U.S. 490 (1917)

Straus v. Victor Talking Machine Company

No. 374

Argued January 12, 1917

Decided April 9, 1917

243 U.S. 490

CERTIORARI TO THE CIRCUIT COURT OF APPEALS

FOR THE SECOND CIRCUIT

SYLLABUS

The monopoly of use granted by the patent law cannot be made a means of controlling the prices of the patented articles after they have been, in reality even though not in form, sold and paid for.

An attempt by means of "license contracts" with dealers and "license notices" attached to patented. machines to retain title in the manufacturer and patent owner until the expiration of the latest patent referred to in such notice, and to limit until the expiration of such period the right of the public to a mere license to use, dependent upon observance of conditions in the "license notices," including conditions as to price, will not be regarded as a legitimate exercise of the patent owner's control over the use where, plainly, from the terms of the "license notices" and from the relations established between the patent owner and the dealers through whom the machines are distributed, the object of such reservations and restrictions is to enable the patent owner to fix and maintain the prices at which the machines may be disposed of after they have passed from its possession into the possession of the dealers and the public and after it has received from the dealers the full price which it asks or expects for the machines.

In such case, as to purchasers not in privity with the patent owner, the restrictions of the "license notices" are to be treated as void attempts to control prices after sale, and, in buying from the dealers and reselling to the public at prices lower than the notices prescribe, such purchasers do not violate the rights secured to the patent owner by the patent law.

230 F. 449 reversed.

The case is stated in the opinion.

Page 243 U. S. 494

MR. JUSTICE CLARKE delivered the opinion of the Court.

It will contribute to brevity to designate the parties to this proceeding as they were in the trial court -- the respondent as plaintiff and the petitioners as defendants.

The plaintiff in its bill alleges that it is a corporation of New Jersey, that for many years it has been manufacturing sound-reproducing machines embodying various features covered by patents of which it is the owner, and that, for the purpose of marketing these machines to the best advantage, about August 1st, 1913, it adopted a form of contract which it calls a "License Contract" and a form of notice called a "License Notice," under which it alleges all of its machines have, since that date, been furnished to dealers and to the public.

This "License Notice," which is attached to each machine and is set out in full in the bill, declares that the machine to which it is attached is manufactured under patents, is licensed for the term of the patent under which it is licensed having the longest time to run, and may be

Page 243 U. S. 495

used only with sound records, sound boxes, and needles manufactured by the plaintiff; that only the right to use the machine "for demonstrating purposes" is granted to "distributors" (wholesale dealers), but that these "distributors" may assign a like right "to the public" or to "regularly licensed Victor dealers" (retailers) "at the dealer's regular discount royalty;" that the "dealers" may convey the "license to use the machine" only when a "royalty" of not less than $200 shall have been paid, and upon the "consideration" that all of the conditions of the "license" shall have been observed; that the title to the machine shall remain in the plaintiff, which shall have the right to repossess it upon breach of any of the conditions of the notice by paying to the user the amount paid by him, less five percent for each year that the machine has been used. The notice in terms reserves the right to the plaintiff to inspect, test, and repair the machine at all times and to instruct the user in its use, "but it assumes no obligation to do so;" it provides that "any excessive use or violation of the conditions shall be an infringement of plaintiff's patent," and that any erasure or removal of the notice will be considered as a violation of the license. Finally, it provides that, at the expiration of the patent "under which it is

licensed" having the longest time to run, the machine shall become the property of the licensee provided all the conditions recited in the notice shall have been complied with, and the acceptance of the machine is declared to be "an acceptance of these conditions."

The contract between the plaintiff and its dealers is not set out in full in the bill, but it is alleged that, since August first, 1913, the plaintiff has had with each of its 7,000 licensed dealers a written contract in which all the terms of the "License Notice" are in substance repeated, and in addition it is alleged that each dealer, "if he has signed the assent thereto," is authorized to dispose of any machines received from "the plaintiff directly or through a

Page 243 U. S. 496

paramount distributing dealer," but subject to all of the conditions expressed in the "License Notice." It is alleged that this contract contains the provision that

"a breach of any of the conditions on the part of a distributor will render him liable, not only for an infringement of the patent, but to an action on the contract or other proper remedy."

As to the defendants, the bill alleges that they conduct a large mercantile business in New York City; that, with full knowledge of the terms of the contract, as described, between the plaintiff and its distributors, and of the "License Notice" attached to each machine, the defendants, "being members of the general unlicensed public," and having no contract relation with the plaintiff or with any of its licensed distributors or licensed dealers, induced "covertly and on various pretenses," one or more of plaintiff's licensed distributors or dealers to violate his or their contracts with the plaintiff, providing that no machines should be delivered to any unlicensed member of the general public until "the full license price" stated in the "License Notice" affixed to each machine was paid, and thereby obtained possession of a large number of such machines at much less than the prices stated in the "License Notice;" that, under the terms of the said license agreement and notice, they have no title to the same, and that they have sold large numbers

thereof to the public, and are proposing and threatening to dispose of the remainder of those which they have acquired to "the unlicensed general public," at much less than the price stated in the notice affixed to each machine.

The prayer is for an injunction restraining the defendants from selling any of the machines, possession of which they have acquired, from other and further violation of plaintiff's rights under its letters patent, and for the usual accounting and for damages.

The district court regarded the transaction described

Page 243 U. S. 497

in the "License Notice" as in substance a sale which exhausted the interest of the plaintiff in the machine, except as to the right to have it used with records and needles as provided for therein, and this right not being involved in this case, it dismissed the bill. 222 F. 524.

On appeal, the circuit court of appeals affirmed this judgment and remanded the case, but with instructions to allow the plaintiff to amend its bill "if it be so advised." 225 F. 535.

The bill was thereafter so amended as to allege that the defendants had in their possession a large number of machines which they had obtained from plaintiff's distributors and dealers at much less in each case than the price stated in the "License Notice," and that they were proposing to dispose of these machines to the "unlicensed general public" at less than the prices stated in the "License Notice" in disregard of plaintiff's rights.

Again, the district court, on the same ground as before, sustained a motion to dismiss the bill, but the circuit court of appeals reversed this holding (230 F. 449) and the case is here for review on certiorari.

The abstract of the bill which we have given makes it plain that whatever rights the plaintiff has against the defendants must be derived from the "License Notice" attached to each machine, for no contract rights existed between them, the

defendants being only "members of the unlicensed general public," and that the sole act of infringement charged against the defendants is that they exceeded the terms of the license notice by obtaining machines from the plaintiff's wholesale or retail agents, and by selling them at less than the price fixed by the plaintiff.

It is apparent from the foregoing statement that we are called upon to determine whether the system adopted by the plaintiff was selected as a means of securing to the owner of the patent that exclusive right to use its invention which is granted through the patent law, or whether,

Page 243 U. S. 498

under color of such a purpose, it is a device unlawfully resorted to in an effort to profitably extend the scope of its patent at the expense of the general public. Is it the fact, as is claimed, that this "License Notice" of the plaintiff is a means or agency designed in candor and good faith to enable the plaintiff to make only that full, reasonable, and exclusive use of its invention which is contemplated by the patent law, or is it a disguised attempt to control the prices of its machines after they have been sold and paid for?

First of all, it is plainly apparent that this plan of marketing, adopted by the plaintiff, is, in substance, the one dealt with by this Court in *Dr. Miles Medical Co. v. John D. Park & Sons Co.,* 220 U. S. 373 , and in *Bauer v. O'Donnell,* 229 U. S. 1 , adroitly modified on the one hand to take advantage, if possible, of distinctions suggested by these decisions, and, on the other hand, to evade certain supposed effects of them.

If we look through the words and forms with which the plaintiff has most elaborately enveloped its purpose to the substance and realities of the transaction contemplated, we shall discover several notable and significant features. First, while, as if looking to the future, the notice, in terms, imposes various restrictions as to title and as to the "use" of the machines by plaintiff's agents, wholesale and retail, and by the "unlicensed members of the public," for itself, the plaintiff makes sure that the future shall have no risks, for it requires that all that it asks or expects

at any time to receive for each machine must be paid in full before it parts with the possession of it.

Second, while in terms the "use" of each machine is restricted, and forfeiture for failure to strictly comply with the many conditions and requirements of the notice is provided for, this system, elaborate to the extent of confusion, fails utterly to provide for entering any evidence of a qualified title in any public office or in any public

Page 243 U. S. 499

record, and no requirement is found in it for reporting by users or licensees, who may remove from one place to another, taking the machine with them, as would very certainly be required if the plaintiff intended to enforce the rights so elaborately asserted in this notice -- if the system were really a genuine provision designed to protect through many years to come the restricted right to "use," and the seemingly qualified title which it purports to grant to dealers and to the public, from being exceeded or departed from.

Third. The fact that, under this system, "at different times" "large numbers" of machines, as is alleged in the plaintiff's bill, have been "covertly" sold to the defendants by the plaintiff's wholesale and retail agents at less than the price fixed for them, is persuasive evidence that the transaction is not what it purports on its face to be. If it were a reasonably guarded plan, really intended to keep the plaintiff in touch with each of its machines until the expiration of the patent of latest date, for the purpose of insisting upon its being used in the manner provided for in the "License Notice," the plaintiff's prompt and sufficient remedy for such an invasion of its right as is claimed in this case would be found in its sales department, or rather in its "license" department, and not in the courts. That the plaintiff comes into court with a bill to enjoin the defendants from reselling machines secretly sold to them in large numbers by the plaintiff's agents indicates very clearly that, at least until the exigency out of which this case grew arose, the scheme was regarded by the plaintiff itself and by its agents simply as one for maintaining prices by holding a patent infringement suit *in terrorem* over the ignorant and the

timid.

And finally, while the notice permits the use of the machines, which have been fully paid for, by the "unlicensed members of the general public," significantly called in the bill "the ultimate users," until "the expiration

Page 243 U. S. 500

of the patent having the longest term to run" (which, under the copy of the notice set out in the bill, would be July 22nd 1930), it provides that, if the licensee shall not have failed to observe the conditions of the license, and the Victor Company shall not have previously taken possession of the machine, as in the notice provided, then, perhaps sixteen years or more after he has paid for it, and in all probability long after it has been worn out or become obsolete and worthless, "it shall become the property of the licensee."

It thus becomes clear that this "License Notice" is not intended as a security for any further payment upon the machine, for the full price, called a "royalty," was paid before the plaintiff parted with the possession of it; that it is not to be used as a basis for tracing and keeping the plaintiff informed as to the condition or use of the machine, for no report of any character is required from the "ultimate user" after he has paid the stipulated price; that, notwithstanding its apparently studied avoidance of the use of the word "sale," and its frequent reference to the word "use," the most obvious requirements for securing a *bona fide* enforcement of the restrictions of the notice as to "use" are omitted, and that, even by its own terms, the title to the machines ultimately vests in the "ultimate users," without further payment or action on their part, except patiently waiting for patents to expire on inventions which, so far as this notice shows, may or may not be incorporated in the machine. There remains for this "License Notice," so far as we can discover, the function only of fixing and maintaining the price of plaintiff's machines to its agents and to the public, and this, we cannot doubt, is the purpose for which it really was designed.

Courts would be perversely blind if they failed to look through such an attempt as this "License Notice" thus plainly is to sell property for a full price, and yet to place

Page 243 U. S. 501

restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest. The scheme of distribution is not a system designed to secure to the plaintiff and to the public a reasonable use of its machines, within the grant of the patent laws, but is in substance and in fact a mere price-fixing enterprise which, if given effect, would work great and widespread injustice to innocent purchasers, for it must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology, which bears many evidences of being framed to conceal, rather than to make clear, its real meaning and purpose. 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." *Bauer v. O'Donnell,* 229 U. S. 1 , 229 U. S. 16 .

Convinced, as we are, that the purpose and effect of this "License Notice" of plaintiff, considered as a part of its scheme for marketing its product, is not to secure to the plaintiff any use of its machines, and as is contemplated by the patent statutes, but that its real and poorly concealed purpose is to restrict the price of them, after the plaintiff had been paid for them and after they have passed into the possession of dealers and of the public, we conclude that it falls within the principles of *Adams v. Burke,* 17 Wall. 453, 84 U. S. 456 , and of *Bauer v. O'Donnell,* 229 U. S. 1 , that it is therefore invalid, and that the district court properly held that the bill must fail for want of equity.

It results that the decree of the circuit court of appeals will be reversed and that of the district court affirmed.

Reversed.

Dissenting:

MR. JUSTICE Mc KENNA, MR. JUSTICE HOLMES, MR. JUSTICE VAN DEVANTER.