Boston Store Vs. American Graphophone Co.

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Respondent : American Graphophone Co.

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Boston Store v. American Graphophone Company

No. 363

Argued January 16, 1918

Decided March 4, 1918

246 U.S. 8

CERTIFICATE FROM THE CIRCUIT COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

SYLLABUS

Certificates of the facts constituting the basis for questions propounded to this Court by the circuit court of appeals should be prepared with care and precision.

Where the bill in the district court claimed protection for a price-fixing contract under the patent laws, and the want of merit in the claim was not so conclusively settled by decision when the bill was filed as to make the claim frivolous, the court had jurisdiction to pass upon the case as made by the bill -- that is, to determine whether the suit arose under those laws.

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Where a patent owner delivers patented articles to a dealer by a transaction which, essentially considered, is a completed sale, stipulations in the contract that the articles may not be resold at prices other or lower than those fixed presently and from time to time by the patent owner are void under the general law, and are not within the monopoly conferred, or the remedies afforded, by the patent law.

Recent decisions of this Court denying the right of patent owners, in selling patented articles, to reserve control over the resale or use were not rested upon any mere question of the form of notice attached to the articles or the right to contract solely by reference to such notice, but upon the fundamental ground that the control of the patent owner over the articles in question ended with the passing of title.

The courts must needs apply the patent law as they find it; if this result in damage to the holders of patent rights, or if the law afford insufficient protection to the inventor, the remedy must come from Congress.

The case is stated in the opinion.

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MR. CHIEF JUSTICE WHITE delivered the opinion of the Court.

The court below, before whom this case is pending, desiring instruction to the end that the duty of deciding the cause may be performed, has certified certain facts and propounded questions for solution arising therefrom. The certificate as to some matters of procedure is deficient in specification, and, looked at from the point of view of the questions which it asks, is somewhat wanting in precision. As, however, the matters not specified are not in dispute and the want of precision referred to is not so fundamental as to mislead or confuse, we are of opinion the duty rests upon us to answer the questions, and we come to discharge it, making the statements, however, which we have made as an admonition concerning the duty not to be negligent and ambiguous, but to be careful

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and precise in preparing certificates as the basis for questions propounded to obtain our instruction.

Without in any degree changing, we rearrange and somewhat condense the case as stated in the certificate. The American Graphophone Company, a West Virginia corporation, as assignee of certain letters patent of the United States, was the sole manufacturer of Columbia graphophones, grafonolas, records, and blanks, and the Columbia Graphophone Company, also a West Virginia corporation, was the general agent of the American Company for the purpose of marketing the devices above stated.

"The American Company, acting through its agent, the Columbia Company, employs in the marketing of its phonographic records and its other products a system of price maintenance by which system it has been its uniform practice to cause its agent, the Columbia Company, to enter into . . . contracts . . . in the name of the Columbia Company, with dealers in phonographic records, located in the United States and its territorial possessions, to whom the American Company delivers its product, through the Columbia Company, by which it is provided, in part, that in consideration of the prices at which prescribed quantities of the

various said products of the American Company are agreed to be delivered to such dealer, the dealer, in turn, obligates himself or itself in selling such products to adhere strictly to and to be bound by and not to depart from the official list prices promulgated from time to time by the Columbia Company for said products, and further expressly covenants not in any way to dispose of any such products at less than such list prices. The American Company fixes and prescribes the prices of its said products, and said contracts, when entered into, cover all such products of the American Company which may thereafter from time to time be acquired by such dealers from the Columbia Company, without

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any new express price restriction contract being entered into at the time when each order for goods subsequent to the entering into of said contract is placed or filled by said dealers."

"In pursuance of said price maintenance system, the Columbia Company, acting under said instructions and as the agent of the American Company, entered into [such] contracts with over five thousand dealers in phonographic records located in the United States and its territorial possessions."

The Boston Store, an Illinois corporation established at Chicago, dealt with the American Company through its agent, the Columbia Company, conformably to the system of business which was carried out as above stated. The contract evidencing these dealings, which was typical of those by which the business system was carried on, was entered into in October, 1912, and contained the following clauses:

" *NO JOBBING PRIVILEGES EXTENDED UNDER THIS CONTRACT"*

" *Notice to Purchasers of "Columbia" Graphophones,* "

" *Grafonolas, records, and Blanks* "

"All 'Columbia' Graphophones, Grafonolas, Records and blanks are manufactured by the American Graphophone Company under certain patents and licensed and

sold through its sole sales agent the Columbia Phonograph Company (General), subject to conditions and restrictions as to the persons to whom and the price at which they may be resold by any person into whose hands they come. Any violation of such conditions or restrictions make the seller or user liable as an infringer of said patents."

"After reading the foregoing notice and in consideration of current dealers' discounts given to me/us by the Columbia Phonograph Company (General), I/we hereby

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agree to take any Columbia product received by me/us from said company, either directly or though any intermediary, under the conditions and restrictions referred to in said notice, and to adhere strictly and be bound by the official list prices established from time to time by said company, and that I/we will neither give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States, and I/we understand that a breach of this agreement will amount to an infringement of said patents and subject me/us to a suit and damages therefor. I/We admit the validity of all patents under which said product is manufactured, and hereby covenant and agree not to question or contest the same in any manner whatsoever. I/We further understand and agree that this license extends the right to market said Columbia product from the below mentioned address only, and that a separate contract is required to market said product from a branch store or stores, or through an agent or agencies at any other point."

"I/We acknowledge the receipt of a duplicate of the foregoing notice and contract, and that no representations or guarantees have been made by the salesman on behalf of said company which are not herein expressed. I/We also acknowledge receipt of the official list prices on all Columbia product[s] in force at the date hereof."

This contract contained a note specifying large rates of discount from the list prices for purchases made under its terms, and contained a reference to other lists of net prices covering particular transactions and to the "current Columbia catalogues for list prices on machines, records and supplies."

Under this contract at the time, and also subsequent to

its making, the Columbia Company delivered to the Boston Store at Chicago a number of graphophones and appliances made by the American Company at the sums fixed in the contract as above stated. This suit arose from a disregard by the Boston Store of the rule as to maintenance of price fixed in its contract -- that is, from selling the articles at a less price than that which the contract stipulated should be maintained -- and the bill was filed against the Boston Store by the American and Columbia Companies to enjoin the alleged violations of the contract. While the certificate is silent as to the averments of the bill, in the argument it is stated and not disputed that it was based on a right to make the contract for the maintenance of prices in and by virtue of the patent laws of the United States, and the resulting right under such laws to enforce the agreement as to price maintenance as part of the remedy given by the patent law to protect the patent rights of the American Company. The court enjoined the Boston Store, as prayed, from disregarding the terms of the contract as to price maintenance, 225 F. 785. On appeal, the court below made the certificate previously stated and propounded four questions for our decision.

In a general sense, the questions involve determining whether the right to make the price maintenance stipulation in the contract stated and the right to enforce it were secured by the patent law, and, if not, whether it was valid under the general law, and was within the jurisdiction of the court, on the one hand because of its authority to entertain suits under the patent law or its power, on the other, to exercise jurisdiction because of diversity of citizenship. We at once say, despite insistence in the argument to the contrary, that we are of opinion that there is no room for controversy concerning the subjects to which the questions relate, as

every doctrine which is required to be decided in answering the questions is now

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no longer open to dispute as the result of prior decisions of this Court, some of which were announced subsequent to the making of the certificate in this case. Under this situation, our duty is limited to stating the results of the previous cases, to briefly noticing the contentions made in argument concerning the nonapplicability of those results to the case in hand, and then to applying to the questions the indisputable principles controlling the subjects which the questions concern. As, however, the discharge of these duties as to each and all of the questions will require a consideration of the cases to be applied, it must result that, if the questions be primarily considered separately, reiteration concerning the decided cases will inevitably take place. To avoid this redundancy of statement, we therefore at once, as briefly as we may, state the adjudged cases which are applicable in order that, in the light afforded by one statement concerning them, the questions may be considered and answered.

In *Bobbs-Merrill Co. v. Straus,* 210 U. S. 339 , it was settled that the exclusive right to vend a copyrighted book given by the copyright law did not give to the owner of the copyright and book the right to sell for a price satisfactory to him and, by a notice placed in the book, fix a price below which it should not be sold by all those who might subsequently acquire it, and that, as such a right was not secured by the copyright law or the remedies which it afforded, a court of the United States had no jurisdiction to afford relief on the contrary theory.

In *Dr. Miles Medical Co. v. Park & Sons Co.,* 220 U. S. 373 , it was decided that, under the general law, the owner of movables (in that case, proprietary medicines compounded by a secret formula) could not sell the movables and lawfully by contract fix a price at which the product should afterwards be sold, because to do so would be, at one and the same time, to sell and retain, to part with and yet to hold, to project the will of the seller so as to cause

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it to control the movable parted with when it was not subject to his will because owned by another, and thus to make the will of the seller unwarrantedly take the place of the law of the land as to such movables. It was decided that the power to make the limitation as to price for the future could not be exerted consistently with the prohibitions against restraint of trade and monopoly contained in the Anti-Trust Law.

In *Henry v. A. B. Dick Co.,* 224 U. S. 1 , it was held that the owner of a patented machine (a rotary mimeograph) and the patents which covered it had, in selling the same, a right to contract with the purchaser not to use materials essential for working it unless bought from the seller of the machine, and to qualify the condition as a license of the use; that this right included the further right, by notice on the machine of the contract, to affect a third person who might deal with the purchaser with knowledge of the contract and notice so as to make him liable as a contributory infringer if he dealt with the buyer in violation of the terms of the notice. It was further decided that the right to make such contract arose from the right conferred by the patent law, and that jurisdiction to enforce it as against the contributory infringer existed under that law. At the time this case was decided, there was one vacancy on the bench and one member of the court was absent. There was division, four members concurring in the ruling which the Court made and three dissenting.

Bauer v. O'Donnell, 229 U. S. 1 , again involved the right of a seller to impose a restraint on the price of future sales. It arose on a certificate from the Court of Appeals of the District of Columbia asking whether the right asserted was within the monopoly conferred by the patent law, and whether, therefore, the duty to enforce it under that law obtained and the power to give the remedy sought as a means of preventing an infringement of the

patent existed. Pointing out that, although the restriction on future price which the certificate stated was indisputably void and unenforceable under the general law as the result of the ruling in the *Miles Medical* case, *supra,* it was held that that

ruling was not necessarily apposite, because the certificate and the question presented restricted the case to determining whether the right to limit the price existed because within the monopoly granted by the patent law and whether the relief asked was within the remedy which that law afforded. Considering the case in that limited aspect, it was decided (a) that the exclusive right to vend given by the patent law had the same significance which had been affixed to that word in the copyright law in the *Bobbs-Merrill* case, *supra;* (b) that hence, when the holder of a patented article had sold it, the article so sold passed out of the monopoly, and the right to make future sales by one who bought it was not embraced by the patent law, and consequently that law could not be extended so as to perpetuate its control beyond the limits to which by the operation of law it reached. In other words, the decision was that a patentee could not use and exhaust the right to sell as to which a monopoly was given him by the patent law, and yet, by conditions and stipulations, continue that law in effect so as to make it govern things which by his voluntary act were beyond its scope; and (c) that, as a result, where an article had been sold and passed beyond the monopoly given by the patent law, remedies on the theory of infringement were not applicable to acts done which could not have that character. It was hence answered that the controversy and the remedies invoked were not within the patent law. As the case dealt with the right to vend under the patent law, the Court reserved any express statement concerning the scope of the right to use conferred by that law.

In *Straus v. Victor Talking Machine Co.,* 243 U. S. 490 ,

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the right to fix a permanent marketing price at which phonographs should be resold after they had been sold by the patentee was considered. Basing its action upon the substance of things, and disregarding mere forms of expression as to license, etc., the Court held that the contract was obviously in substance like the one considered in the *Miles Medical Co.* case, and not different from the one which had come under review in *Bauer v. O'Donnell.* Thus, brushing away disguises resulting from forms of expression in the contract and considering it in the light of the patent law, it was held that the attempt to regulate the future price

or the future marketing of the patented article was not within the monopoly granted by the patent law in accordance with the rule laid down in *Bauer v. O'Donnell.*

The general doctrines, although presented in a different aspect, were considered in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.,* 243 U. S. 502 . The scope of the case will be at once made manifest by the two questions which were certified for solution:

"First. May a patentee or his assignee license another to manufacture and sell a patented machine, and by a mere notice attached to it, limit its use by the purchaser or by the purchaser's lessee to films which are no part of the patented machine, and which are not patented? Second. May the assignee of a patent which has licensed another to make and sell the machine covered by it, by a mere notice attached to such machine, limit the use of it by the purchaser or by the purchaser's lessee to terms not stated in the notice but which are to be fixed, after sale, by such assignee in its discretion?"

The case therefore directly involved the general question of the power of the patentee to sell, and yet, under the guise of license or otherwise, to put restrictions which in substance were repugnant to the rights which necessarily arose from the sale which was made. In other words, it required once again a consideration

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of the doctrine which had been previously announced in *Henry v. Dick,* and of the significance of the monopoly of the right to use conferred by the patent law which had been reserved in *Bauer v. O'Donnell.* Comprehensively reviewing the subject, it was decided that the rulings in *Bauer v. O'Donnell* and *Straus v. Victor Talking Machine Co.* conflicted with the doctrine announced and the rights sustained in *Henry v. Dick,* and that case was consequently overruled. Reiterating the ruling in the two last cases, it was again decided that, as, by virtue of the patent law, one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law could not by qualifying restrictions as to use keep under the patent monopoly a

subject to which the monopoly no longer applied.

Applying the cases thus reviewed, there can be no doubt that the alleged price-fixing contract disclosed in the certificate was contrary to the general law, and void. There can be equally no doubt that the power to make it in derogation of the general law was not within the monopoly conferred by the patent law, and that the attempt to enforce its apparent obligations under the guise of a patent infringement was not embraced within the remedies given for the protection of the rights which the patent law conferred.

Thus concluding, it becomes, we think, unnecessary to do more than say that we are of opinion that the attempt in argument to distinguish the cases by the assumption that they rested upon a mere question of the form of notice on the patented article or the right to contract solely by reference to such notice is devoid of merit, since the argument disregards the fundamental ground upon which, as we have seen, the decided cases must rest. Moreover, so far as the argument proceeds upon the assumption of the grave disaster which must come to the holders of patent

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rights and articles made under them from the future application of the doctrine which the cases establish, it must be apparent that, if the forebodings are real, the remedy for them is to be found not in an attempt judicially to correct doctrines which by reiterated decisions have become conclusively fixed, but in invoking the curative power of legislation. In addition, through perhaps an abundance of precaution, we direct attention to the fact that nothing in the decided cases to which we have referred, having regard either to the application of the general law or of the patent law, deprives an inventor of any right coming within the patent monopoly, since the cases alone concerned whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach. The proposition so earnestly insisted upon that, while this may be true, it does not fairly consider the reflex detriment to come to the rights of property of the inventor within the patent law as

a result of not recognizing the right to continue to apply the patent law as to objects which have passed beyond its scope, is obviously not one susceptible of judicial cognizance. This must be, since whether, for the preservation of the rights which are within a law, its provisions should be extended to embrace things which it does not include typically illustrates that which is exclusive of judicial power and within the scope of legislative action.

It remains, then, only to apply the principles established by the authorities which we have stated to the answers to the questions.

The first question is: "Does jurisdiction attach under the patent laws of the United States?" As we assume under the admissions of counsel that the bill asserted the existence of rights under the patent law, and as, at the time it was filed, the want of merit in such assertion had not been so conclusively settled as to cause it to be frivolous, we

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are of opinion that the court had jurisdiction to pass upon the case as made by the bill -- that is, to determine whether or not the suit arose under the patent law, and hence, as thus understood, the question should be answered, Yes.

Considering the second and third questions as virtually involving one consideration, we state them together.

"2. If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?"

"3. Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?"

Correcting their ambiguity of expression by treating the questions, as they must be treated, as resting upon and deducible from the facts stated in the certificate, and therefore as embracing inquiries concerning the contract of sale containing the price maintenance stipulation, it follows from what we have said that the questions

must be answered in the negative.

The final question is this:

"4. If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?"

Upon the hypothesis which this question assumes, there also can be no doubt that it must be answered in the negative.

The first question will be certified as answered, Yes, and the second, third and fourth as answered, No.

And it is so ordered.

MR. JUSTICE HOLMES and MR. JUSTICE VAN DEVANTER are of opinion that each of the questions should be answered in the affirmative.

MR. JUSTICE BRANDEIS, concurring.

Whether a producer of goods should be permitted to fix by contract, express or implied, the price at which the purchase may resell them, and, if so, under what conditions, is an economic question. To decide it wisely, it is

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necessary to consider the relevant facts, industrial and commercial, rather than established legal principles. On that question, I have expressed elsewhere views which differ apparent y from those entertained by a majority of my Brethren. I concur, however, in the answers given herein to all the questions certified, because I consider that the series of cases referred to in the opinion settles the law for this Court. If the rule so declared is believed to be harmful in its operation, the remedy may be found, as it has been sought, through application to the Congress, or relief may possibly be given by the Federal Trade Commission, which has also been applied to.