

United States Supreme Court
BAUER & CIE v. O'DONNELL, (1913)
No. 951

Argued: April 10, 1913 Decided: May 26, 1913

[229 U.S. 1, 2] Messrs. Edwin J. Prindle and Arthur Wright for Bauer & Cie.

[229 U.S. 1, 7] Messrs. Daniel W. Baker and Frank J. Hogan for O'Donnell.

Mr. Horace Pettit for the Victor Talking Machine Company.

Mr. Nathan Matthews for the Waltham Watch Company.

Messrs. Frederick P. Fish and Thomas W. Pelham for the Gillette Safety Razor Company. [229 U.S. 1, 8]

Mr. Justice Day delivered the opinion of the court:

This case is on a certificate from the court of appeals of the District of Columbia. The facts stated in the certificate are:

'Bauer & Cie., of Berlin, Germany, copartners, being the assignees of letters patent of the United States, dated April 5, 1898, No. 601,995, covering a certain water soluble albumenoid known as 'Sanatogen,' and the process of manufacturing the same, about July, 1907, entered into an agreement with F. W. Hehmeyer, doing business in the city of New York, under the trade name of the Bauer Chemical Company, whereby Hehmeyer became and has since been the sole agent and licensee for the sale of said product in the United States, the agreement contemplating that Hehmeyer should have power to fix the price of sale to wholesalers or distributors and to retailers, and to the public. The agreement further contemplated that said product should be furnished Hehmeyer at manufacturing cost, the net profits obtained by him to be shared equally by the parties to the agreement. Since April, 1910, this product has been uniformly sold and supplied to the trade and to the public by the appellants and their licensees in sealed packages bearing the name 'Sanatogen,' the words 'Patented in U. S. A., No. 601,995,' and the following:

'Notice to the Retailer.

'This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar (\$1). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.

'A purchase is an acceptance of this condition. All [229 U.S. 1, 9] rights revert to the undersigned in the event of violation.

The Bauer Chemical Co.

'The appellee is the proprietor of a retail drug store at 904 F Street, N. W., in this city. He purchased of the Bauer Chemical Company for his retail trade original packages of said Sanatogen bearing the aforesaid notice. These packages he sold at retail at less than \$1 and, persisting in such sales, appellants, in March, 1911, severed relations with him. Thereupon appellee, without the license or consent of the appellants, purchased from jobbers within the District of Columbia, said jobbers having purchased from appellants, original packages of said product, bearing the aforesaid notice, sold said packages at retail at less than the price fixed in said notice, and avers that he will continue such sales.'

The question propounded is: 'Did the acts of the appellee, in retailing at less than the price fixed in said notice, original packages of 'Sanatogen,' purchased of jobbers, as aforesaid, constitute infringement of appellants' patent?'

The protection given to inventors and authors in the United States originated in the Constitution, 8 of article I. of which authorizes the Congress 'to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.' This protection, so far as inventors are concerned, has been conferred by an act of Congress passed April 10, 1790, and subsequent acts and amendments. The act of 1790 (1 Stat. at L. 109, chap. 7), granted 'the sole and exclusive right and liberty of making, constructing, using, and vending to others to be used, the said invention or discovery.' In 1793 (1 Stat. at L. 318, chap. 11), the word 'full' was substituted for the word 'sole,' and in 1836 (5 Stat. at L. 117, 5, [229 U.S. 1, 10] chap. 357), the word 'constructing' was omitted. This legislation culminated in 4884 of the Revised Statutes, the part with which we are dealing being practically identical with the act of 1870 (16 Stat. at L. 198, 22, chap. 230, U. S. Comp. Stat. 1901, p. 3381). It provides that every patent shall contain 'a grant to the patentee, his heirs and assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery.'

The right to make, use, and sell an invented article is not derived from the patent law. This right existed before and without the passage of the law, and was always the right of an inventor. The act secured to the inventor the exclusive right to make, use, and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee. *Bloomer v. McQuewan*, 14 How. 539, 549, 14 L. ed. 532, 537; *Continental Paper Bag Co. v. Eastern Paper Bag Co.* 210 U.S. 405, 425, 52 S. L. ed. 1122, 1130, 28 Sup. Ct. Rep. 748. It was passed for the purpose of encouraging useful invention and promoting new and useful improvements by the protection and stimulation thereby given to inventive genius, and was intended to secure to the public, after the lapse of the exclusive privileges granted, the benefit of such inventions and improvements. With these beneficent purposes in view the act of Congress should be fairly or even liberally construed; yet, while this principle is generally recognized, care should be taken not to extend by judicial construction the rights and privileges which it was the purpose of Congress to bestow.

In framing the act and defining the extent of the rights and privileges secured to a patentee, Congress did not use technical or occult phrases, but in simple terms gave an inventor the exclusive right to make, use, and vend his invention for a definite term of years. The right to make can scarcely be made plainer by definition, and embraces the construction of the thing invented. The right to use is a comprehensive term and embraces within its meaning [229 U.S. 1, 11] the right to put into service any given invention. And Congress did not stop with the express grant of the rights to make and to use. Recognizing that many inventions would be valuable to the inventor because of sales of the patented machine or device to others, it granted also the exclusive right to vend the invention covered by the letters patent. To vend is also a term readily understood and of no doubtful import. Its use in the statute secured to the inventor the exclusive right to transfer the title for a consideration to others. In the exclusive rights to make, use, and vend, fairly construed, with a view to making the purpose of Congress effectual, reside the extent of the patent monopoly under the statutes of the United States. *Bloomer v. McQuewan*, 14 How. 549, 14 L. ed. 537. We need not now stop to consider the rights to sell and convey, and to license others to sell or use inventions, which rights have been the subject of consideration in the numerous reported cases to be found in the books. We are here concerned with the construction of the statute in the aspect and under the facts now presented.

The case presented pertains to goods purchased by jobbers within the District of Columbia, and sold to the appellee at prices not stated, and resold by him at retail at less than price of \$1 fixed in the notice. The question, therefore, now before this court for judicial determination, is: May a patentee by notice limit the price at which future retail sales of the patented article may be made, such article being in the hands of a retailer by purchase from a jobber who has paid to the agent of the patentee the full price asked for the article sold?

The object of the notice is said to be to effectually maintain prices and to prevent ruinous competition by the cutting of prices in sales of the patented article. That such purpose could not be accomplished by agreements concerning articles not protected by the patent monopoly was settled by this court in the case of *Dr. Miles Medical [229 U.S. 1, 12] Co. v. John D. Park & Sons Co.* 220 U.S. 373, 55 L. ed. 502, 31 Sup. Ct. Rep. 376, in which it was held that an attempt to thus fix the price of an article of general use would be against public policy and void. It was doubtless within the power of Congress to confer such right of restriction upon a patentee. Has it done so? The question has not been determined in any previous case in

this court, so far as we are aware. It was dealt with under the copyright statute, however, in the case of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 , 52 L. ed. 1086, 28 Sup. Ct. Rep. 722. In that case it was undertaken to limit the price of copyrighted books for sale at retail by a notice on each book, fixing the price at \$1 and stating that no dealer was licensed to sell it for less, and that a sale at a less price would be treated as an infringement of the copyright. It was there held that the statute, in securing to the holder of the copyright the sole right to vend copies of the book, conferred a privilege which, when the book was sold, was exercised by the holder, and that the right secured by the statute was thereby exhausted. The court also held that it was not the purpose of the law to grant the further right to qualify the title of future purchasers by means of the printed notice affixed to the book, and that to give such right would extend the statute beyond its fair meaning, and secure privileges not intended to be covered by the act of Congress. In that case it was recognized that there are differences between the copyright statute and the patent statute, and the purpose to decide the question now before us was expressly disclaimed.

Section 4952, Revised Statutes (U. S. Comp. Stat. 1901, p. 3406), a part of the copyright act, secures to an author, inventor, designer, or proprietor of books, maps, charts, or dramatic or musical compositions, the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing, and vending them. While that statute differs from the patent statute in terms and in the subject-matter intended to be protected, it is apparent that, in the respect involved in the present [229 U.S. 1, 13] inquiry, there is a strong similarity between and identity of purpose in the two statutes. In the case of patents the exclusive right to vend the invention or discovery is added to the like right to make and use the subject-matter of the grant, and in the case of copyrights the sole right of multiplying and reproducing books and other compositions is coupled with the similar right of 'vending the same.' So far as the use of the terms 'vend' and 'vending' is concerned, the protection intended to be secured is substantially identical. The sale of a patented article is not essentially different from the sale of a book. In each case to vend is to part with the thing for a consideration. It is insisted that the purpose to be subserved by notices such as are now under consideration-keeping up prices and preventing competition-is more essential to the protection of patented inventions than of copyrighted articles; and it is said that the copyrighted article may be and usually is sold for a lump consideration by the author or composer, and that he has no interest in the subsequent sales of the work, while patented inventions require large outlays to create and maintain a market. To some extent this contention may be based upon fact; nevertheless it is well known that in many instances the compensation an author receives is the royalties upon sales of his book or a percentage of profits, which makes it desirable that he shall have the protection of devices intended to keep up the market and prevent the cutting of prices. But these considerations could have had little weight in framing the acts. In providing for grants of exclusive rights and privileges to inventors and authors we think Congress had no intention to use the term 'vend' in one sense in the patent act and 'vending' in another in the copyright law. Protection in the exclusive right to sell is aimed at in both instances, and the terms used in the statutes are to all intents the same.

It is apparent that the principal difference in the enact- [229 U.S. 1, 14] ments lies in the presence of the word 'use' in the patent statute and its absence in the copyright law. An inventor has not only the exclusive right to make and vend his invention or discovery, but he has the like right to use it; and when a case comes fairly within the grant of the right to use, that use should be protected by all means properly within the scope of the statute. In *E. Bement & Sons v. National Harrow Co.* 186 U.S. 70 , 46 L. ed. 1058, 22 Sup. Ct. Rep. 747, the owner of a patent granted a license to the defendant to manufacture and sell harrows embodied in the invention covered by the patent. The license provided for the payment to the licensor by the licensee of a royalty of \$1 for each harrow or frame sold, and stipulated that the licensee was not to sell to any person for a less price than that named, and that the license was subject to change from time to time. The case was one arising upon license agreements, originating in a state court, and did not involve the construction of the patent act in the circumstances now disclosed.

Chief reliance, however, of the plaintiff in this case, is upon the recent decision of this court in *Henry v. A. B. Dick Co.* 224 U.S. 1 , 56 L. ed. 645, 32 Sup. Ct. Rep. 364. An examination of the opinion in that case shows that the restriction was sustained because of the right to use the machine granted in the patent statute, distinguishing in that respect the patent from the copyright act. In that case a patented mimeograph had been sold which bore an inscription in the form of a notice that the machine was sold with the license restriction that it might only be used with stencil, ink, and other supplies made by the A. B. Dick Company, the owners of the patent. The alleged infringer sold to the purchaser of the mimeograph

a can of ink suitable for use with machine, with full knowledge of the restriction, and with the expectation that the ink sold would be used in connection with the machine. It is expressly stated in the opinion that the machine was sold at cost or less, and that the patentee depended upon the profit realized from the sale [229 U.S. 1, 15] of the nonpatented articles to be used with the machine for the profit which he expected to realize from his invention (224 U.S. 26). After commenting upon the copyright statutes and the resemblance between the author's right to vend copies of his work and the patentee's right to vend the patented thing, it was said (p. 46):

'To the inventor, by 4884, Revised Statutes (U. S. Comp. Stat. 1901, p. 3381), there is granted 'the exclusive right to make, use, and vend the invention or discovery.' This grant, as defined in *Bloomer v. McQuewan*, 14 How. 539, 549, 14 L. ed. 532, 537, 'consists altogether in the right to exclude everyone from making, using, or vending the thing patented.' Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes. *Adams v. Burke*, 17 Wall. 453, 21 L. ed. 700; *Mitchell v. Hawley*, 16 Wall. 544, 21 L. ed. 322; *Providence Rubber Co. v. Goodyear*, 9 Wall. 788, 799, 19 L. ed. 566, 569.' (Italics in the original opinion.)

That case was distinguished from *Bobbs-Merrill Co. v. Straus*, supra, construing the copyright act, because of the difference in the terms of the copyright and patent statutes, the patent act conferring not only the right to make and sell, but the exclusive right to use the subject-matter of the patent. It was under the right to use that the license notice in question was sustained, and it is obvious that the notice in that case dealt with the use of the machine, and limited it to use only with the paper, ink, and supplies of the manufacture of the patentee. While the title was transferred, it was a qualified title, giving a right to use the machine only with certain specified supplies. It was said in the *Dick Case* that 'there is no collision whatever between the decision in the *Bobbs- Merrill Case* and the present opinion. Each rests upon a [229 U.S. 1, 16] construction of the applicable statute, and the special facts of the cases.'

It is contended in argument that the notice in this case deals with the use of the invention, because the notice states that the package is licensed 'for sale and use at a price not less than \$1,' that a purchase is an acceptance of the conditions, and that all rights revert to the patentee in event of violation of the restriction. But in view of the facts certified in this case, as to what took place concerning the article in question, it is a perversion of terms to call the transaction in any sense a license to use the invention. The jobber from whom the appellee purchased had previously bought, at a price which must be deemed to have been satisfactory, the packages of Sanatogen afterwards sold to the appellee. The patentee had no interest in the proceeds of the subsequent sales, no right to any royalty thereon, or to participation in the profits thereof. The packages were sold with as full and complete title as any article could have when sold in the open market, excepting only the attempt to limit the sale or use when sold for not less than \$1. In other words, the title transferred was full and complete, with an attempt to reserve the right to fix the price at which subsequent sales could be made. There is no showing of a qualified sale for less than value for limited use with other articles only, as was shown in the *Dick Case*. There was no transfer of a limited right to use this invention, and to call the sale a license to use is a mere play upon words.

The real question is whether, in the exclusive right secured by statute to 'vend' a patented article, there is included the right, by notice, to dictate the price at which subsequent sales of the article may be made. The patentee relies solely upon the notice quoted to control future prices in the resale by a purchaser of an article said to be of great utility and highly desirable for general use. [229 U.S. 1, 17] The appellee and the jobbers from whom he purchased were neither the agents nor the licensees of the patentee. They had the title to, and the right to sell, the article purchased without accounting for the proceeds to the patentee, and without making any further payment than had already been made in the purchase from the agent of the patentee. Upon such facts as are now presented we think the right to vend secured in the patent statute is not distinguishable from the right of vending given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this

court from the beginning has held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act.

In *Adams v. Burke*, 17 Wall. 453, 21 L. ed. 700, Mr. Justice Miller, delivering the opinion of the court, pertinently said (p. 455):

'The vast pecuniary results involved in such cases, as well as the public interest, admonish us to proceed with care, and to decide in each case no more than what is directly in issue. . . .

'The true ground on which these decisions rest is that the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time.

'The right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee. [229 U.S. 1, 18] 'But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.'

Bloomer v. McQuewan, supra; *Goodyear v. Beverly Rubber Co.* 1 Cliff. 348, 354, Fed. Cas. No. 5,557; *Chaffee v. Boston Belting Co.* 22 How. 217, 223, 16 L. ed. 240, 242; *Keeler v. Standard Folding Bed Co.* 157 U.S. 659, 38 L. ed. 848, 15 Sup. Ct. Rep. 738.

Holding these views, the question propounded by the Court of Appeals will be answered in the negative, and it is so ordered.

Dissenting: Mr. Justice McKenna, Mr. Justice Holmes, Mr. Justice Lurton, and Mr. Justice Van Devanter.