No. 72.

Supreme Court of the United States

OCTOBER TERM, 1910.

DR. MILES MEDICAL COMPANY,
Petitioner,

versus

JOHN D. PARK & SONS COMPANY,
Respondent.

On Writ of Certiorari to the United States Circuit Court of Appeals for the Sixth Circuit.

Brief for Respondent.

ALTON B. PARKER,
WILLIAM J. SHRODER,
Counsel for Respondent.

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INDEX.

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I.

STATEMENT OF THE CASE.

This cause comes to this court on writ of certiorari to the United States Circuit Court of Appeals for the Sixth Circuit. The bill of complaint was filed originally in the Circuit Court of the United States for the Sixth Judicial and Eastern District of Kentucky, at its October term, A. D. 1907. General and special demurrers to the bill were sustained upon the authority of the opinion in the case of *John D. Park & Sons Co.* v. *Hartman*, 153 Fed., 24. Thereupon the petitioner elected to stand by its bill of complaint and the court dismissed the said bill of complaint for want of equity. An appeal to the Circuit Court of Appeals having been perfected, the dominant and controlling question in this court was whether the owner and sole manufacturer of proprietary medicines, who had conserved the ingredients, proportions and process of manufacture as trade secrets, had adopted trade names, trade-marks and trade packages to distinguish its products in their sale, had advertised and exploited them throughout the United States and to a certain extent in foreign territory, had included in its advertisements and in the marking of its packages their desired retail prices and had directed the prospective purchaser to the appropriate retail store, could, by reason of any or all of the facts above recited, control the prices of its products and the terms and conditions upon which the same might be sold in such a manner as to effect a complete suppression of all competition in such articles from the hands of the manufacturer to those of the consumer. This question, stated otherwise, is whether the facts above stated are such as to make an exception to the general common law and statutory rules against restraints of trade.

As a secondary question, the Circuit Court of Appeals considered the exact nature of one link in the system whereby such complete suppression of competition was sought to be obtained, to-wit: whether the contract between the petitioner and the wholesale dealers or jobbers is one of sale or one of bailment.

Upon the hearing of this appeal, Judge Lurton delivering the opinion and Judges Severens and Richards concurring, the court held that the contract between the petitioner and the wholesale drug dealers or jobbers was one of sale, and further that whether they were contracts of sale or bailment, the system of restraint attempted by the petitioner herein violated both the common law and statutory inhibition against restraint of trade. Accordingly the decree sustaining the demurrer interposed by the respondent was affirmed. (*Record*, p. 33.)

Thereupon a petition for certiorari was filed in this court and, the respondent not appearing, was granted.

The decision of the foregoing questions, should such control be declared legal and binding upon the parties consenting thereto, involves, in the determination of the rights of the respondent herein, a collateral question as to whether a dealer who has neither by contract nor in any other manner consented or assented to such control, but who is advised of the restrictive system under which the manufacturer is attempting to place its products in the hands of the consumer, can he enjoined from purchasing the products of such manufacturer from the owners thereof and from reselling such products in such unrestricted manner as best suits the respondent and its customers.

II.

THE CASE PRESENTED BY THE BILL.

The primary allegations of the bill of complaint filed by the petitioner are that the petitioner had purchased the exclusive rights in the inventions or discoveries of certain preparations which it manufactures and sells under trade names; that said preparations are compounded from secret formulas and prepared under secret processes; that said preparations are sold under trademarks and names and in distinctive packages. (*Record*, p. 3.)

The bill further avers that said preparations have been extensively advertised through a variety of advertising mediums; that said advertisements have emphasized the trade-marks and names and distinctive packages and have included the price which the manufacturer intended that the consumer should pay to the retail dealer, to whom the consumer was directed. (*Record*, p. 5.)

The bill then avers that a large and lucrative trade had been established in the petitioner's preparations "*which embraces the entire territory of the United States and exists in a smaller degree in foreign countries;*" that it has been and is the uniform custom of the petitioner to *sell* such preparations to jobbers and wholesale druggists who, in turn, *sell* the same to retail druggists, who, in turn, *sell* the same to the ultimate consumer. (*Record*, p. 6.)

The bill then avers that in order to prevent the cutting of prices by the wholesale and retail dealers, the petitioner has adopted and put in force a system of contracts controlling the sale and re-sales of its preparations. The contracts are set forth in full in the bill (*Record*, pp. 8-12) and the scheme thereby disclosed is, briefly, that the wholesale druggists to whom the preparations are "consigned" (?) are required to execute contracts binding themselves to sell among those retail dealers only who are authorized by the petitioner to purchase the preparations, and at not less than certain fixed prices; and that the retail dealers, to secure the authorization entitling them to purchase from the wholesale dealer, must contract with the petitioner to sell the preparations of its manufacture to the consumer only and at certain fixed prices.

As a means of enforcing this system, lists of contracting retail dealers are furnished to the wholesale dealers;

each package has its identifying serial number; each sale must be reported by the wholesale dealer to the petitioner semi-monthly or on demand, together with the name of the purchaser. (*Record*, p. 9.) It is further alleged that *this system of wholesale and retail contracts has been generally adopted by the wholesale and retail drug trade throughout the United States and that it is now in full force and effect.* The petitioner avers that *this system has been adopted for the sole purpose of preventing the cutting of prices of its preparations* which "cutting," it is alleged, resulted in damage to the petitioner's business. Continuing, the petitioner avers that it has placed upon the packages in which its preparations are marketed certain historical, instructive and directive matter which it is asserted should go with the preparations intact, and that upon the same the serial identification numbers are placed, for the purpose of tracing the goods and enforcing the scheme above outlined for preventing the sale of said goods at competitive prices.

The bill then avers that the respondent, being fully advised of the foregoing facts, and who, because of its not having entered into any contract with the petitioner, is not, it is alleged, entitled to purchase and deal in preparations manufactured by the petitioner, has unlawfully and fraudulently obtained the petitioner's preparations, and has induced dealers to violate their contracts with the petitioner in selling them to the respondent; that having obtained said preparations, it advertises and sells the same at prices less than those fixed by the petitioner; that in so doing, it erases the identification serial numbers, thereby altering and defacing the labels and printed instructions on the packages, and that it proposes to continue this course. All of this is alleged to be in violation of the rights of the petitioner. (*Record*, pp. 15-18.)

The prayers for relief are that the respondent be enjoined from dealing at all in the preparations manufactured by the petitioner and incidentally that it be restrained from altering the labels upon the goods which it purchases, and from selling at all with mutilated labels the preparations manufactured by the petitioner.

III.

THE QUESTIONS PRESENTED BY THE DEMURRERS.

The respondent, the original defendant, filed a general demurrer to the entire bill upon the ground that the complainant therein had not set forth a cause of action entitling it to the relief sought in a Court of Equity; a special demurrer was also filed to so much of the bill as sought to enjoin the defendant from defacing the printed matter upon the preparations manufactured by the complainant which had been purchased by the defendant, upon the grouud that the complainant by its bill had not stated a cause entitling it to this special relief. (*Record*, pp. 22-23.)

The questions presented in this court, as in the Court of Appeals, are the questions presented to the court of original trial; to-wit, the sufficiency of the bill as tested by these demurrers.

Considering the special demurrer first, for the purpose of the elimination, the question presented is whether tbe petitioner has any cause of action because the respondent alters or defaces the labels or printed matter upon the packages which it purchases and owns. The petitioner does uot claim that the respondent is imitating the petitioner's trade-marks or packages, or uses them upon preparations not manufactured by the petitioner. Apparently the petitioner claims the right to insist upon the preservation of the merchandise in its original dress, although by successive sales it might have passed into the hands of the fourth or fifth sub-vendee from the purchaser of the original sale.

In answer to this claim the respondent contends that if it has the right to purchase the preparations, it has a right to use, deface or destroy them, as it pleases. If it has no right to purchase the goods, then the injunction against such purchase, the primary relief sought in this bill, is all that the petitioner is entitled to. The alleged mutilations form no part of the primary cause of action, and of themselves present no ground for separate relief.

The primary cause of action is based solely on the claim that the secret character of the process, receipts and formulas, together with the exploitation and sale of the preparations manufactured thereunder under trade-mark, trade name and distinctive dress, give to the petitioner the right to create and maintain a monopoly over and to prevent competition in the trade in the preparations so manufactured and marketed, and after their sale by it, in all respects similar to, and in some respects moro extensive than the rights of the owner of a patent or copyright in maintaining a monopoly and suppressing competition in the articles manufactured or produced under such patent or copyright.

The petitioner expressly disclaims any right under patent or copyright laws of the United States.

The petitioner avers that its preparations have been, and are being sold and offered for sale to the general public.

The petitioner avers that the entire object of the system of sales, serial identification numbers, lists and cards

is to prevent sub-sales of preparations manufactured and sold by it, at competitive prices.

The petitioner avers that it has not only attempted, but that it has succeeded in establishing and is now maintaining a system which effectually suppresses competition, from the manufacturer to the consumer, in the sales of articles of general commerce.

The respondent contends that the suppression of competition in an article of general commerce, not manufactured or sold under patent or copyright, is illegal. The demurrer is based upon the principle that a *Court of Equity will refuse any relief if the result of granting the same would be to aid a party in carrying out an unlawful plan or purpose.*

The theory of the petitioner is that the secret character of its formulas and the trade name, trade-marks and distinctive dress under which the articles of its manufacture are marketed, give it a right to suppress competition in the sales of its preparation after it has lost title to the same, even if such suppression would be unlawful in the absence of such secret formulas and trade-marks.

The questions raised by the demurrers, which, as has been shown, are the questions presented to this court, are therefore:

(1) Whether the petitioner has any peculiar, special or exclusive right in the articles manufactured by it, warranting it to carry out, with reference to their sale, a plan or scheme which would otherwise be invalid and illegal.

(2) Whether the plan of the scheme disclosed in the bill, is, in the absence of special right, valid, or illegal and unlawful.

(3) Whether upon the allegations of the bill, the petitioner is entitled to relief against the respondent, who

has not by contract or otherwise assented or consented to the petitioner's scheme.

(4) Whether the petitioner has any cause of complaint because the respondent defaces or mutilates the labels or printed matter upon the packages which it purchases and owns.

IV.

SOME FUNDAMENTAL DISTINCTIONS.

Since the basic position of the petitioner is that in principle there is no distinction between the monopolies granted under patents and copyrights and the "natural monopoly" of the owner of trade secrets, and that no distinction exists in the methods under which articles manufactured under patents, copyrights or trade secrets may lawfully be marketed, it becomes necessary to indicate what counsel for the respondent deem fundamental distinctions in the primary rights and in the lawful exercise of any secondary rights incident to each of such species of property.

First. The Rights Granted by the Acts of the Congress of the United States to the Owners of Patents and Copyrights.

Although there are wide differences between the rights granted by the patent and those granted by the copyright statutes of the United States, these differences are of a passing effect upon the questions now under consideration. Counsel for petitioner do not base their claim upon these distinctions, but rely upon the similarities of the two kinds of statutes. Therefore they are considered in this discussion as if no differences existed.

A. The Patent and Copyright Laws of the United States Grant New Rights that do not Exist at Common Law and Which Can be Acquired Only by Compliance with the Conditions of These Laws.

At common law, authors and inventors had certain monopolistic rights in the products of their skill. These rights expired with publication, and thereafter the author or inventor shared his rights with all the world. His "natural monopoly" had ceased. Before publication, the courts afforded him protection against the discovery and publication or use of his invention or concept by unlawful means. The law permitted a certain private or limited use before publication and protected the inventor or author against breaches of restrictions which be might place upon such private, limited use. Whatever monopolistic rights might have existed before publication disappeared entirely whenever the invention or concept was offered to the public.

Wheaton v. *Peters,* 8 Peters, 591, at 657:

> "An author at common law has a property in his industry and may obtain redress against any one who deprives him of it or, by improperly obtaining a copy, endeavors to realize a profit by its publication. * * * But this is a very different right from that which asserts a perpetual and exclusive property in the future publication of the work after the author shall have published it to the world."

Wilson v. *Rousseau,* 4 How., 646 at 674:

> "At common law * * * the right of property of an inventor to his invention or discovery passed from him as soon as it went into public use with his consent."

Werckmeister v. *American Lith. Co.*, 134 Fed., 321:

> "The right to make copies before publication and the right of first publication are common law rights. The right to multiply copies aftter publication to the exclusion of others is the creature of tbe statutes."

See also:

> *In re Brosnahan, Jr.*, 18 Fed., 63, at 65.
> *Palmer* v. *DeWitt*, 47 N. Y., 532, at 536.
> *Press Publishing Co.* v. *Monroe*, 73 Fed., 196.
> *Henry* v. *Smythe*, 38 Fed., 914.

When the common law right is lost by publication and the author has not obtained a statutory monopoly, he has lost the right in any way to control the subsequent trade in his work. Where an author whose work had been published without copyright, sought to regulate the subsequent trade therein, his claim was denied on the ground that such a right could only be obtained under the copyright statutes.

> *Kipling* v. *Fenno*, 106 Fed., 692.

In the application of the above principle to the use of a trade secret, we assert the fundamental distinction at issue herein.

It is submitted that the petitioner has a "natural monopoly" in the use of its trade secrets, to-wit: its recipe and process, so long as they are not given to the public and so long as they remain undiscovered by fair means. It will be protected in this monopoly against a publication or sale by those to whom they are communicated privately, confidentially and for restricted use. It has no special property in either tbe process or private formula. They are of value only so long as it can protect its secrets. If discovered by fair means, any one has the right to use them.

These rights, with the limitations thereon, are conceded to the petitioner. But they are foreign to the issues. There is no allegation of unfair discovery or use of the trade secrets. The allegations are directed to dealings in the products created by the use of the secrets, exclusively. The rules applicable to the secrets themselves have no bearing upon that totally different species of property—the commercial product created by their use.

If the manufacturer markets these products, the sale of the articles makes them a subject of general commerce, so that if the term "publication" is equivalent to "giving to the public use," these articles have been published and are, from the moment of sale, free from any restrictions which their manufacturer might desire to impose. In brief, the "natural monopoly" of the owner of trade secrets is in the use of the secrets so long as they remain such; the law has never sanctioned monopoly or restraints of trade in the articles manufactured thereunder.

These distinctions were affirmed by both the United States Circuit Court and the United States Circuit Court of Appeals in *Hartman* v. *John D. Park & Sons Co.*, the case upon which the decisions of the courts below in this cause rested.

> "An inventor or author who has not obtained a patent or copyright has before publication a valuable right of another kind. He has the right to keep the knowledge of what he has invented or composed to himself. No one can lawfully obtain it from him without his consent. So likewise, the owner of a secret process has the right to maintain the secrecy of his process. Both such an inventor or author and such owner have a right to sell their knowledge and their right

to keep it a secret to another and vest him with the same rights in regard thereto as he has. They have the right to impart the knowledge to others with restrictions as to the use they shall make of it and to have them make no greater use of it." (*Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358, at 361.)

"The owner of a secret process does not have the right to sell articles embodying said process outright and at the same time in this way retain control over the subsequent trade in such articles by his vendees and sub-vendees. He can communicate the knowledge of his secret to others and limit the use they are to make of it and compel them to make no greater use thereof. If they make a greater use thereof such conduct on their part is no invasion of an exclusive right on his part, but a breach of his confidence. If he sells the articles embodying the secret to others outright he can at the same time retain no greater control over the subsequent trade therein by the vendees and sub-vendees than can the vendor any other personal property, not a thing patened or copyrighted, who sells it outright can at the same time retain." (*Id.*, p. 369.)

Judge Lurton, delivering the opinion of the Court of Appeals, said:

"But it does not follow, that because a secret process or formula for a medicine or beverage will be protected against betrayal hy employes or those to whom it has been communicated in confidence under a contract for a restricted use, that a system of contracts for the contral of all sales and sub-sales of the device, medicine or beverage when once made will be outside of the rules in restraint of trade simply because the product of such secret process or formula. We

> have here to deal not with contracts which relate to the secret formula itself, or the right to use a trade name or dress as in *Fowle* v. *Park*, 131 U. S., 88, but with the preparation when made by the owners of the process. The preparation when ready for the market and the formula are two separate and distinct things and may have distinct ownerships. Contracts in respect of a restricted use of the formula are not within the rule against restraint because of the character of the property right in such a secret. There can be no unrestricted use, before discovery by fair means, to which the owner does not consent, and then only at the expense of the destruction of its commercial value as a secret. But this is not the case with contracts which affect only traffic in the manufactured product of the secret formula. Freedom of traffic in that is consistent with its value and does not involve exposures of the formula." (*John D. Park & Sons Co.* v. *Hartman*, 153 Fed., 24, at 31, 32.)

The contention of the petitioner being that the exclusive right of a patentee to make, use and vend his invention and the exclusive right of the owner of a copyright to print, publish and sell his production are not the creation of new rights by the Federal Statutes, but a preservation of the rights after publication which the author or inventor had at common law before publication, it becomes expedient to determine the exact nature of the rights granted under the patent and copyright laws.

That the position of the petitioner as a general proposition is not tenable is sufficiently indicated by the preceding definition of its common law rights. Counsel for the petitioner contend that the conceded common law right to place restriction upon the use of the secret invention or concept before publication, and before discovery by fair means, involves, as a necessary incident thereto, a common law right to place restrictions upon the commerce in the articles manufactured thereunder so long as the secret remains unpublished and undiscovered. The plan or system which the petitioner has established, and for whose enforcement it seeks the aid of the courts in this cause, is precisely the monopoly and the complete restraint of trade in its product which the owner of a patent or copyright has a right to establish.

The respondent submits that if it can be shown that this right of the patentee or of an owner of a copyright is a right *created* by the Federal Statutes, and not a common law right perpetuated therein, the claim of the petitioner to a common law right to exercise this control is without foundation.

In the case of

Wheaton v. *Peters,* 8 Peters, 591,

this question was fully considered and decided. Mr. Paine and Mr. Webster contended for the proposition of the petitioner herein. The court at page 675 said:

> "An author at common law has a property in his manuscript and may obtain redress against anyone who deprives him of it or by improperly obtaining a copy endeavors to realize a profit by its publication. * * * But this is a very different right from that which asserts a perpetual and exclusive property in the future publication of the work after the author shall have published it to the world. * * *
>
> "In what respect does the right of an author differ from that of an individual who has invented a most useful and valuable machine? * * *
>
> "The result of their labors may be equally beneficial to society * * * and yet it has

never been pretended that the latter could hold, by the common law, any property in his invention after he shall have sold it publicly.

"That every man is entitled to the fruits of his own labor must be admitted, but he can enjoy them only, except by statutory provision, under the rules of property which regulate society, and which define the rights of things in general. * * *

"In the eighth section of the first article of the Constitution of the United States it is declared that Congress shall have the power 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. * * *

"The word *secure* as used in the Constitution could not be the protection of an acknowledged legal right. It refers to inventors as well as authors, and it has never been pretended by any one, either in this country or in England, that an inventor has a perpetual rigbt at common law to sell the thing invented.

"And if the word *secure* is used in the Constitution in reference to a future right, was it not so used in the Act of Congress? * * *

"That Congress in passing the Act of 1790 did not legislate in reference to existing rights appears clear. * * * If the exclusive right existed at common law and Congress was about to adopt legislative provisions for its protection would they have used this language? Could they have deemed it necessary to vest a right already vested? Such a presumption is refuted by the words above quoted.

"Congress then, by this Act, instead of sanctioning an existing right * * * created it. * * *

"This right, as has been shown, does not exist in common law—it originated, if at all, under the Acts of Congress. No one can deny that when the legislature are about to vest an exclusive right in an author or inventor they have the power to prescribe the conditions on which such right shall be enjoyed, and that no one can avail himself of such right who does not substantially comply with the requisitions of the law.

"This principle is familiar as it regards patent rights and it is the same in relation to copyrights."

To the same effect are

Wilson v. *Rousseau*, 4 How., 646, at 674.
Gaylor v. *Wilder*, 10 How., 477.
2 Parson on Contracts, 7th Ed., at p. 303; 331.
In re Brosnahan, Jr., 18 Fed., 62, at 64.
Lata v. *Shawk*, Fed. Cases, No. 8116.
American, etc., Co. v. American Tool, etc., Co., Fed.Cases, No. 302.
Dudley v. *Mayhew*, 3 N. Y., 9.

Soo too, Judge Cochran said:

"The statutes as to patents and copyrights in conferring upon an inventor or author the exclusive right to make, use and sell articles embodying his invention or authorship create in him a new right, and do not extend, protect, continue or prolong a previously existing right." (*Hartman* v. *John D. Park & Sons Co.*, 145 Fed., 358, at 361.)

B. The Patent and Copyright Laws of the United States Grant to the Inventor and Author an Exclusive Monopoly in his Invention for a Limited Period of Time on Condition and in Consideration of his Conceding the Free Use of the Same to the Public After the Expiration of that Time.

As appears from the authorities already cited, an inventor or author might, at common law, reserve to himself the monopolistic use of the result of his industry and skill, or not make any use of it whatsoever, or give it out for private, confidential and limited purposes only. The public has no right to compel a publication, therefore it loses no right in respecting a restricted disclosure. But an unrestricted offer of a single product or reproduction for public use operates as a disclosure or publication, and the "natural monopoly" incident to the ownership of the undisclosed invention or concept is forever lost.

This being the state of the common law, the United States has said to inventors and authors that if they would give the general public the advantage of their genius and the free and unlimited use of their works after the expiration of a certain period of time, the United States would give to them the exclusive rights in their inventions and compositions for that period of time, notwithstanding the exposure or publication in the interval. These are the conditions, and the only ones, upon which such exclusive rights can be obtained. In

Grant v. *Raymond*, 6 Peters, 218, at 241, 242,

Chief Justice Marshall said:

"The settled purpose of the United States has ever been, and continues to be, to confer upon authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent. It is the reward stipulated for the advantage derived by the public from the exertions of the individual and is intended as a stimulus to those exertions. The laws which are passed to give effect to this purpose ought, we think, to be construed in that spirit in which they have been made; and to execute the contract fairly on the part of the United States * * * the public yields nothing which it has not agreed to yield; it receives all which it has contracted to receive. The full benefit of the discovery, after its enjoyment by the discoverer for fourteen years, is preserved; and for this exclusive enjoyment of it during that time the public faith is pledged."

In the case of

Wheaton v. *Peters*, 8 Peters, 591, at 663, 664,

Mr. Justice McLean said:

"When the Legislature * * * vests an exclusive right in an author or inventor they have the power to prescribe the condition on which such right shall be enjoyed, and no one can avail himself of such a right who does not substantially comply with the requisitions of the law."

See to the same effect

Wilson v. *Rousseau*, 4 How., 646, at 674.

See, also,

Bement v. *National Harrow Co.*, 186 U. S., 70,

where Mr. Justice Peckham cites with approval the cases last referred to, *and expressly bases on this implied con-*

tract between the people of the United States and an inventor, the right of the latter, during the lifetime of the patent, to maintain an exclusive monopoly in the trade in the articles manufactured under the patent.

To the same effect are the decisions in

Goodyear v. *R. R. Co.,* Fed. Cases, No. 563.
Carr v. *Rice,* Fed. Cases, No. 2240.
Columbia Wire Co. v. *Freeman Wire Co.,* 71 Fed., 302, at 306.
Bloomer v. *McQuewan,* 14 How., 539, at 549.
Bloomer v. *Millinger,* 1 Wall., 340, at 351.
Bonesack Machine Co. v. *Smith,* 70 Fed., 383, at 386-7.
Mitchell v. *Hawley,* 16 Wall., 544.

It is submitted that the above authorities support the general doctrine that *the new right created* and conferred by the patent and copyright laws of the United States, is the right to maintain an exclusive monopoly in the articles produced under such statutory rights.

For the purpose of this argument, the right to print, publish and sell under the copyright law may be considered as the same in principle and consequences as the right to make, use and sell under the patent laws. This right divides itself naturally in the exclusive rights granted to the patentee before sale, and the rights to exercise control over the articles manufactured under the patent, after sale.

1. The rights before sales.—The monopoly conferred by patent or copyright includes the exclusive right to manufacture or use, the right of making the initial sale, and the right to transfer all or any part of these specified rights.

These rights, created and conferred by statute, are in derogation of the common law right of the general public to manufacture, use and sell an inventor's or author's product when once the initial publication or disclosure had been made. It consists in conferring a monopoly of manufacture, and hence of initial sales, notwithstanding that by such sales he is offering the articles manufactured to the public use, and thus making them the subject of general trade and commerce. This initial right is separable from the rights after sale and has no direct bearing upon the questions at issue. It has no more relation to these questions than the petitioner's right to sell or assign in whole or part its secret processes and formulas has to its right to control the sale of the products made by their use.

The reason for interjecting this brief discussion at this point is to indicate a distinction which negatives the relevancy of many of the cases cited in support of the petitioner's claim—cases dealing with the rights to owners of patents, copyrights and trade secrets to sell or assign under restrictions all or part of these initial rights. As has appeared in the discussion of the common law rights of inventors and authors, they have no legal, exclusive right before publication. Such monopoly as they have is the result of secrecy. It is not exclusive in the sense that the law prevents anyone from using and selling the invention when once lawfully discovered. Though there may be some similarity between the "natural monopoly" of an owner of a trade secret in the use and sale of the secret and the initial exclusive rights above specified, these rights being distinguishable from the rights of controlling the subsequent trade in the products manufactured by their use, the authorities cited have no bearing, even by analogy, upon the petitioner's contention.

2. *The rights after sales.*—The exclusive right conferred by the patent and copyright laws includes the right to control the subsequent trade in the articles manufactured under the patent or copyright and to establish a monopoly therein.

As this right is identical with the right which the petitioner claims in this case, it is important to consider whether or not it is based solely upon the provisions of the patent and copyright laws or whether it is a right existing under the common law.

The petitioner concedes that if what it seeks is to exercise a common law right, such right exists as an exception to the general rule against restraint of trade, and that this exception is based upon its ownership of secret formulas and processes and upon the good will incident to the exploitation and advertisement of the products manufactured by their use. Its claim is to do what it concedes to be unlawful at common law, in the absence of special right.

The earlier cases, although recognizing the right of a patentee to impose restrictions upon the subsequent sales of the articles manufactured by him, held that in the absence of such restrictions or conditions the articles when sold became free from the monopoly.

> *Bloomer* v. *McQuewan,* 14 How., 539, at 549.
> *Chaffee* v. *Belting Co.,* 22 How., 217, at 223.
> *Bloomer* v. *Millinger,* 1 Wall., 340, at 351.
> *Mitchell* v. *Hawley,* 16 Wall., 544, at 548.
> *Wilder* v. *Kent,* 15 Fed., 217.
> *Holliday* v. *Mattheson,* 24 Fed., 185.

Subsequent cases held that the particular restrictions at issue were valid.

> *Dickerson* v. *Mattheson,* 50 Fed., 73.
> *Boesch* v. *Graff,* 133 U. S., 697.
> *Dickerson* v. *Mattheson,* 57 Fed., 524.

In none of these cases did the issues necessitate the decision of the question whether the right to impose restrictions was purely statutory or was a common law right. The question of whether the patent laws authorized the imposition of conditions and restrictions that would be unlawful at common law arose in the case of

> *Heaton-Peninsular Button Company* v. *Eureka Specialty Company,* 77 Fed., 288.

In this case the Circuit Court of Appeals for the Sixth Circuit, in confirming the right of the patentee to extend his monopoly over the articles after they were sold by him, stated that the right so to do was a part of the exclusive monopoly granted by the patent laws, and that such restrictions were not void, as in restraint of trade, because the patent laws expressly granted rights in derogation of the common law. This right has been sustained upon the same basis in

> *Dickerson* v. *Tinling,* 84 Fed., 192.
> *EdisonPhonograph Co.* v. *Kaufmann,* 105 Fed., 960.
> *Edison Phonograph Co.* v. *Pike,* 116 Fed., 863.
> *Rupp et al* v. *Elliott,* 131 Fed., 730.
> *The Victor Talking Machine Co.* v. *The Fair,* 123 Fed., 428.

In the case of

> *Bement* v. *National Harrow Co.,* 186 U. S., 70,

the Supreme Court of the United States, on a full review of the nature and extent of the monopoly conferred by the patent laws, held that the monopoly granted included the right to control the subsequent trade in the articles manufactured, and to fix the prices at which the goods should be resold. At page 91, *et seq:*

> "The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article will be upheld by the courts. The fact that the conditions in the contract keep up the monopoly or fix prices does not render them illegal. * * * The owner of a patented article * * * may * * * sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

All the decisions above cited base the right of creating a monopoly in the subsequent trade in the articles manufactured and of controlling the prices at which the vendees of the patentee must resell, solely upon the exclusive right given by the patent laws.

Some of these cases were based upon tort for infringement of the patent by violation of the restrictions; others were based upon contracts embracing conditions and restrictions; in every case the right to impose conditions and restrictions, whether by license or contract, was based upon the monopoly conferred by the statute. As was said by the Court of Appeals in *John D. Park & Sons Co. v. Hartman (supra)*, at p. 27:

> "The patent grants an exclusive right to use, to make and to sell. The patentee may grant, if he will, an unrestricted right to make and sell or use the device embodying his invention or may grant only a restricted right in either the field of making, using or selling. To the extent that he restricts either one of these separable rights, the article is not released from the domain of the patent, and anyone who violates the restrictions imposed by the patentee, with notice, is an

> infringer. This is the ground upon which the cases stand which uphold restrictions upon either use or sale of a patented article where infringement is alleged. But when a patentee imposes such restrictions they may likewise constitute a contract between the patentee and his direct vendee or licensee. In such case the patentee would have a double remedy, an action in tort for infringement, or an action for the breach of the contract. * * * Whether a remedy is sought for the violation of restrictions placed by a patentee, upon either the use or the sale of an article made under the patent, is in tort or in contract, the rules of the common law in respect of monopolies and restraints of trade have no application, because the very object of the patent law is to give to the patentee an exclusive monopoly in using, making and selling the device which embodies the invention, and this exclusive right he may exercise by contracts under which he reserves to himself so much of his exclusive right as he does not elect to sell or assign or license. It follows, therefore, that contracts restraining subsequent sales or use of a patented article which would contravene the common law rules against monopolies and restraints of trade, if made in respect of unpatented articles, are valid because of the monopoly granted by the patent."

So far as the same and similar questions have been considered by state courts, the same conclusion was reached. Thus in the case of

> *Murphy* v. *Christian Press Pub. Co.*, 56 N. Y. Supp., 597,

the right of the owner of a copyright, to impose conditions and restrictions on the subsequent trade in books published under his copyright, was sustained, solely because of the right of monopoly thereby conferred.

The same doctrine that the exclusive right of monopoly granted by the patent laws made legal conditions and restrictions as to trade in such articles, which would otherwise be illegal, was sustained by the Court of Appeals of New York in the case of

Park v. *N. W. D. A.*, 175 N. Y., 1.

and in the decision of the lower courts of New York in this case, which were there affirmed. This case was submitted on demurrer to a complaint in an action brought by the respondent in the present action. In this complaint the articles were described as patent medicines, etc., and upon demurrer to the complaint the courts held that the combination complained of was not illegal, as a combination to maintain prices, because this right of fixing prices was a right of monopoly expressly granted by the patent laws of the United States.

That this is the proper construction to put upon these decisions, and that the right was not sustained upon any other ground, is apparent by reference to the subsequent decision of the same court in the case of

Straus v. *American Pub. Assn.*, 177 N. Y., 473,

where, at page 477, the Court of Appeals expressly point out that the decision in the Park case was based upon the right of monopoly given by the patent laws.

In the Bement case cited above, it was urged that the stipulations restricting the price at which sales might be made were in violation of the Act of Congress of July 2, 1890, familiarly known as the Sherman Anti-Trust Law, but the court held that the act did not apply to contracts in relation to patented articles, saying:

> "But that statute clearly does not refer to that kind of a restraint of interstate commerce which

> may arise from reasonable and legal conditions imposed upon the licensee or assignee of a patent by the owner thereof, restricting the terms upon which the articles may be used and the price to be demanded therefor. Such a construction of the act we have no doubt was never contemplated by its framers."

It would seem to be very clear from the above review of the authorities that the owner of a patent or copyright has the right to establish and maintain a control over the subsequent trade in articles, identical in every respect with that which the petitioner is attempting to do in this case, notwithstanding that such system creates and maintains a monopoly that is illegal both at common law and under the provisions of the Sherman Anti-Trust Act; and that this right, to thus establish and carry out that which is otherwise unlawful, is a right derived solely from, and based upon, the provisions of the patent and copyright laws of the United States.

The right thus granted is a right to do, establish and enforce something that is illegal at common law and under the Sherman law. The means of accomplishment are immaterial. It matters not whether the control of trade is by contract or by license, the patent and copyright laws permit this control to those who avail themselves of the benefit of those laws by subscribing to their conditions, and to no one else.

The conclusion from the above discussion and the authorities cited is, that the patent and copyright laws confer upon the owners of patents and copyrights, not only an exclusive right to manufacture and sell the article produced under such patent or copyright, but *the right to establish and maintain control over subsequent trade in such articles, including the right to fix the prices at* *which such articles shall be resold by their vendees and sub-vendees, exempting them and their goods entirely from the application, in this respect, of the ordinary principles of law.*

The petitioner concedes that it has no patent or copyright, but claims the right which has been granted to the owner of a patent or copyright to control the subsequent trade and prices in the articles manufactured thereunder upon some special right, which it contends exempts it from the application of the general rules of the common law. Its right, if any exists, must be based either upon something peculiar to itself, or upon its ownership of trade-marks, trade names, labels and trade secrets. We deem it advisable, before taking up the main question at issue, to indicate the limits of the rights incident to the ownership of each of these species of property.

Second. The Rights of the Owners of Trade-Marks, Trade Names or Labels.

As we have seen, the rights of the owner of a patent or copyright are based upon the express grant of the statutes, which give the exclusive rights to make, use and sell the articles manufactured thereunder. The Acts of Congress relative to trade-marks, etc., confer no rights over the articles to which the same may be attached. These acts protect an exclusive right of property in the mark, name or design, and the exclusive right to affix the same to articles manufactured by the owner of the trade-mark. The petitioner's ownership of trade-mark, name or label does not bear with it a special right to maintain any exclusive control over the article to which they are attached, which would be unlawfnl, either at common law or under the statutes, in the absence of ownership of such trade-mark, name or label.

Authorities to this effect might be adduced *ad libitum.* It will be sufficient to mention the case of

> *The Singer Mfg. Co.* v. *June Mfg. Co.,* 163 U. S., 169.

The complainant had been exercising an exclusive control under patents on sewing machines, which had also been sold under trade-marks and trade names. The exclusive rights under the patent laws had been lost by the expiration of the patents; the question was whether the right was continued in any way by the trade-mark and trade name. The court held that the only effect of exclusive right to use the trade name was, that other persons, in manufacturing or dealing in the articles, could not represent them as the product of the camplainant. In

> *Sperry & Hutchinson Co.* v. *Mechanics Clothing Co.,* 128 Fed., 800,

the question was as to the right to impose restrictions upon the use of trading stamps. This right was claimed, among other reasons, because of the exclusive right to the trade-mark thereon. Although sustaining the right on other grounds, the court said, at page 803, that such part of the bill as based the right upon the ownership of trade-marks was entirely irrelevant. The authorities are fully reviewed in the case of

> *Chadwick* v. *Covell,* 151 Mass., 190,

wherein the court in a well considered opinion held that the owner of a secret medicinal preparation had no exclusive right therein, by reason of his secret formula, and that no right in the articles manufactured under the formula was given by the trade-mark or trade name under which they are sold. Additional decisions upon this point will be found in

> *Johnson* v. *Rutan*, 122 Fed., 993, at 988.
> *Scriven* v. *North*, 124 Fed., 894, at 897.
> *Independent Baking Powder Co.* v. *Boorman*, 130 Fed., 726.
> *Flagg* v. *Holloway*, 178 Mass., 83.
> *Dover Stamping Co.* v. *Fellows*, 163 Mass., 191.
> *People* v. *Cannon*, 139 N. Y., 32.

The respondents are not charged with infringing the trade-mark or trade dress or with having sold or offered for sale a preparation of their own for and as the preparation of the petitioner. The authorities above cited make conclusive the proposition that the petitioner has not, by reason of its ownership of trade-marks, names and labels, any right to maintain an exclusive control over the articles to which they are attached, or to impose upon their subsequent sale any restrictions or conditions which would be unlawful at common law or under the statute in the absence of such ownership. The averments of the bill as to the petitioner's trade name and trade dress are irrelevant. [*John D. Park & Sons Co.* v. *Hartman (supra)*, p. 38.]

Third. The Common Law Rights of Inventors or Authors.

In our discussion of the exact rights granted by the patent and copyright laws, the rights of authors or inventors who had not complied with the conditions of these laws were fully discussed. At this point we merely desire to recall to the court that the conclusion heretofore reached was that such inventor or author had no exclusive right in his invention or concept; that his sole rights were to protection against the use thereof after unlawful discovery or violation of confidence; and that, having made the initial sale or publication, he had no right whatsoever to control, by any conditions or restrictions, the subsequent trade in the articles manufactured by the use of his secret.

The petitioner in its exhaustive search for cases in which a restriction was enforced by the courts, has found some consolation, though no logical support, in certain classes of cases whose distinctions it is now proposed to discuss.

Fourth. The Cases Relating to the Distribution of News and Information.

Several recent cases uphold the right to distribute news and information under restrictive conditions. The right so sustained will be found to be the same right which an author had at common law to distribute his work for private use before publication, and to impose conditions absolutely restricting the same to such use. The right to so distribute news and information is subject to the same limitations and is likewise absolutely lost by publication. In the case of

> *Jewellers' Mercantile Agency* v. *Jewellers' Pub. Co.*, 84 Hun., 12,

the right to restrict the publication of news was sustained on the basis of the common law right of authors prior to publication. The case was reversed by the Court of Appeals (155 N. Y., 251) on the ground that there had been a publication by which the right of exhaustive property had been lost. To the same effect as the nisi prius decision are the cases of

> *Dodge* v. *Construction Information Co.*, 183 Mass., 62.

Kiernan v. *Manhattan Tel. Co.*, 50 How. Pr., 194.
Gold & Stock Tel. Co. v. *Todd*, 17 Hun., 548.

In the cases of

National News Co. v. *Western Union Tel. Co.*, 119 Fed., 294,
State v. *Associated Press*, 159 Mo., 410,
Dunlap v. *Stone*, 15 N. Y. S., 2,
Matthews v. *Associated Press*, 15 N. Y. S., 887,

the courts did not expressly consider the analogy of the common law rights of authors, but sustained the right because the news had not been made a matter of general property. This is simply stating, in another form, the principle underlying the common law doctrine of the rights of authors prior to publication. The petitioner relies upon the recent case of

Board of Trade v. *Christie*, 198 U. S., 236.

The petitioner seizes a portion of the opinion and, without regard to its context and the reasoning upon which the conclusion is based, forces its application in support of its contention. It is submitted that this decision bases the right to impose restrictions on the use of news upon the same grounds as the cases already cited, the court saying:

> "The plaintiff does not lose its right by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public."

This, as has been shown, is the common law right of authors prior to publication, which is lost by a publication of their works. The court says that this right is like the right under a trade secret. The analogy is complete. It does not mean, as petitioner would have it, that the owner of a trade secret can control the subsequent trade in the articles embodying his secret. It does mean that just as the owner of a trade secret, who has communicated his secret in confidence and under an agreement as to its use and preservation, will be protected against a violation of the conditions upon which the confidence was given, so the owner of news or information will be protected against the violation of the confidence upon which he has communicated his information. The application of the Christie decision to the facts in issue is not that contended for by the petitioner, but rather that the petitioner, being the sole owner of its secret formula and process, alone has the sole power and therefore, until lawful discovery, the sole right to communicate its secrets. It has, therefore, the right to refrain from communicating or selling its secrets. The public can not learn these secrets upon any terms unless the petitioner so chooses; therefore it might impose restrictions upon the use of its secrets, if it desires to sell or disclose them, without violating the common law and statutory rules against restraints of trade.

Nor does the fact that in the *Christie* case the Supreme Court referred to the *Bement* case, 186 U. S., 70, alter the interpretation of this decision. In the Christie case the court based the right of restraint upon the confidential character of the communication. The Bement case is based upon an exclusive right granted by the patent statutes. It has been seen that in the latter case the exclusive right is not based upon secrecy or confidence, but continues despite publication and public use. The effect of the citations in the Christie case is, that whenever a right to impose restrictions exists, whether it be by reason of the ownership of an undisclosed secret or an unpublished conception or compilation, or by reason of a patent, then contracts, employed as a means of exercising this right, are not illegal.

The Circuit Court of Appeals upon this point held in the *Hartman* case *(supra)*, at p. 31:

> "The cases relating to the distribution of news and information rest also upon the peculiar kind of property rights involved. So long as one, who by his own industry has gathered together news or information and does not disclose it, he can not be compelled to make publication. The matter is his own in as true a sense as a trade secret or private formula, or the composition of an author. In such circumstances it is not illegal to protect the news gatherer against the piratical use of his news and prevent a public disclosure by one who has placed himself under obligation to respect a restricted use. In such case public disclosure is destructive of its value as property. *Board of Trade* v. *Christie,* 186 U. S., 236, 250; *Jewellers' Mercantile Agy.* v. *Jewellers' Pub. Co.,* 84 Hun., 12, 155 N. Y., 251; *National Tel. News Co.* v. *Western Union Tel. Co.,* 119 F., 294; *Exchange Tel. Co.* v. *Gregory, etc., Co.,* 1 Q. B. Div., 147 (1896); *F. W. Dodge, etc., Co.* v. *Construction Co.,* 183 Mass., 63. In the Board of Trade case cited above, Justice Holmes, speaking of the protection granted to the business of distributing stock quotations said:
>
> " 'In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing it, to itself. * * *
>
> " 'The plaintiff does not lose his right by communicating the result to persons, even if many, in confidential relation to itself, under a contract not to make it public.' "

The application of all these cases, therefore, to the claims of the petitioner is to the use or sale of its secret recipes and processes, so long as they remain such. They are totally irrelevant to its claim of right to impose restrictions upon the sale and sub-sales of the articles manufactured by the use of its formulas and processes.

Fifth. The Ticket Broker and Trading Stamp Cases.

It has been claimed that the trading stamp cases

> *Sperry & Hutchinson* v. *Mechanics' Clothing Co.*, 128 Fed., 800,
> *Same* v. *same*, 135 Fed., 833,
> *Same* v. *Temple*, 137 Fed., 992,

and the ticket brokers cases, among others,

> *L. & N. R. R.* v. *Bitterman*, 128 Fed., 176; 144 Fed., 34; 207 U. S., 205;
> *Ill. Central R. R.* v. *Caffrey*, 128 Fed., 770,

furnish authority for the contention of the petitioner. The right to impose restrictions upon the subsequent use of a property right transferred, finds it fundamental basis upon whether or not the thing conveyed has become the subject of general trade. If it has not become a matter of general commerce, the rules applicable to things in general do not apply.

The cases above cited are applications of this broad underlying principle. The property right therein considered is not a thing which, from its nature, can ever become a proper subject of general trade. These cases are thereby removed entirely from the field of general commercial law. The railroad ticket is a contract to perform personal service, which can properly be limited to the original contracting party. The trading stamp is similarly a contract to perform a personal service, to redeem the stamp, and can likewise be limited to the person to whom it is issued. In these cases, as in the news and informatiou cases, the right to limit the use to certain purposes was sustained because the same had not been made the subject of general commerce.

In the *Hartman* case the Circuit Court of Appeals held (p. 31):

> "The trading stamp and railroad ticket cases * * * likewise rest upon the peculiar property rights involved. Neither coucern the buying and selling of articles of general commerce and both relate to things in the nature of contracts personal in character, and not to the thing which can ever become the subject of general trade and traffic."

These cases, therefore, furnish no authority for the right to impose restrictions upon things, the subject of general trade; nor do they affect the conclusion which we are seeking to establish, namely, that no right to impose restrictive conditions on the trade in articles of general commerce exists, unless such right has been specifically granted by affirmative statutes.

Sixth. The Rights of a Guarantor Under the Food and Drugs Act.

The petitioner alleges that it has complied with the Food and Drugs Act, and that, in compliance with the regulations of the Secretary of Agriculture, it has filed a general guaranty with the Department of Agriculture. From this the petitioner argues that its guaranty runs with the article and that therefore any restrictions or conditions which it imposes also accompany the article. The petitioner argues also that in exchange for giving immunity against prosecution to the wholesale and retail dealers in its products, it may lawfully impose these restrictions and conditions.

The general guaranty was filed by the petitioner in its own interest, for the enhancement of its own trade, and not at the request or in the interest of its wholesale and retail dealers. Consequently this act can not be construed as a consideration or an excuse for the imposition of conditions.

The Food and Drugs Act provides that no dealer shall be prosecuted if he can establish a guaranty by any person in the chain of title that the articles under the guaranty are not adulterated or misbranded within the meaning of this act. Regulation No. 9, adopted and promulgated for the enforcement of this act under the authority of Congress, permits a general guaranty to be filed with the Secretary of Agriculture and provides that thereupon the manufacturer should be given a serial number, which number should appear upon every package sold under such guaranty, with the words: "Guaranteed under the Food and Drugs Act, June 30, 1906." It is apparent that immunity is not given by the appellant, but by the Act of Congress; that the guaranty does not run with the articles, but that the serial number thereon, by Act of Congress and not by contract, is construed by the Government as a substitute for a direct guaranty to the person in whose possession it may come.

Compliance with the Food and Drugs Act plainly can give the petitioner no right to impose restrictions upon the trade in its articles which would be unlawful in the absence of such compliance.

Seventh. **The Rights of Owners of Trade Secrets.**

The case at bar belongs directly to this class of cases. As the foregoing discussion has sufficiently indicated, the petitioner disclaims the ownership of patent or copyright; the news and information and the ticket and trading stamp cases lend no support, even by analogy, to its contention; and its trade-mark, name and dress give it no r'ght to impose conditions, unlawful in their absence, upon the articles to which they are affixed. Consequently, if such right exists, it must find its basis entirely in the ownership of secret formulas and processes, and this, after the cobwebs of forced analogy and irrelevant citation have been swept aside, is disclosed as the frame upon which the petitioner has built its case. Its argument is that the natural monopoly in trade secrets, consequent to their preservation as such, carries with it an incidental right to establish a monopoly and to restrain competition in the articles of general commerce manufactured by their use, in all respects identical with the right given to the owners of patents and copyrights by the patent and copyright laws of the United States.

The distinction between the right to control the secret against unlawful discovery or unfair use, and the right of control over the articles manufactured thereunder, is overlooked and ignored.

In the discussion of the rights granted to owners of patents and copyrights, and of the common law rights of inventors or authors, the position of the respondent (in which it was sustained in the opinions of both the lower courts), that trade secrets give no right of control over the articles manufactured by their use, has been briefly set out. We deem it important, because the petitioner's claim has been reduced to this single proposition, to review the authorities thereon at length and show that the petitioner's contention can not be sustained either in principle or upon authority.

As will be remembered, the proposition which the respondent seeks to establish is that the right to impose monopolistic restrictions upon the trade in articles of general commerce is confined to those owning patents or copyrights by virtue of their compliance with the statutes of the United States, and that this right can not be claimed by any other persons as to any species of property which is the subject of general trade. This proposition is submitted as the necessary and only possible conclusion to be derived from the cases construing the rights conferred by the patent and copyright laws.

The petitioner's claim that the right of monopolistic restraint has been recognized in favor of other persons, and applied to other species of property, has been shown in the previous discussion to be merely the recognition of the right to impose certain restrictions upon property not the subject of general trade, and that that right was lost whenever the property in question became the subject of general trade.

In the consideration of the rights of owners of trade secrets affirmatively, it might be well to suggest at the outset that certain trade restrictions are valid at common law regardless of the nature of the property involved. The principle underlying the validity of these restrictions, and the classification of cases thereunder, were very fully discussed by the Circuit Court of Appeals of the Sixth Circuit in the case of

United States v. *Addyston*, 85 Fed., 271,

where Judge Taft makes no distinction between the application of the common law rules to trade secrets and to other species of property. In the cases

Jarvis v. *Peck*, 10 Paige, 118,
Hart v. *Seeley*, 47 Barb., 428,
Allcock v. *Gilberton*, 5 Duer, 76,

Tode v. *Gross,* 127 N. Y., 480,
Simmons Medicine Co. v. *Simmons,* 81 Fed., 163,
Fowle v. *Park,* 131 U. S., 88,
Magnolia Metal Co. v. *Price,* 65 App. Div. (N. Y.), 276,
Anchor Elec. Co. v. *Hawkes,* 171 Mass., 101,
Harrison v. *Glucose Co.* 116 Fed., 304,
Jarvis v. *Knapp,* 121 Fed., 34,
Thibodeau v. *Hildreth,* 124 Fed., 892,

the decisions that the contracts under consideration were not unlawful, as in restraint of trade, were based upon general common law rules, and not upon any peculiar right of the owner of a trade secret to do what would otherwise be unlawful at common law.

Similarly in

Gamewell v. *Crane,* 160 Mass., 50,
Mallinkrodt Chemical Co. v. *Nemmich,* 83 Mo. App., 6, aff. in 169 Mo., 388,

similar contracts were held illegal as in violation of the general common law rules, thereby plainly holding that the ownership of trade secrets involves no special rights of restraint.

It is manifest that in accordance with the views expressed in the above cases, the owner of a trade secret has no peculiar rights entitling such contracts as he might make to any exemption from the application thereto of the ordinary principles of common law; nor can the petitioner, so far as these cases are concerned, claim any authority to establish a monopolistic control over the trade in its product that would be unlawful at common law.

The owner of trade secrets has certain common law rights peculiar to the nature of his property, just as an author before publication, the owner of news and information before publication, and the owner of an undisclosed invention has peculiar rights because his property has never been made the subject of general commerce. These rights are confined to the secret itself and do not extend to any product made by their use which has become the subject of general trade. In the case of

Tabor v. *Hoffman*, 118 N. Y., 30,

the plaintiff was the owner of a pump on which the patent had expired, and of improvements which had not been patented, and was also the owner of certain unpatented patterns, etc., in accordance with which the pumps were made, the nature and use of which had been kept secret. It was held that he had a right to enjoin the defendant from using or copying such secret patterns, the court saying:

> "Independent of copyright or letters patent an inventor or author has, by the common law, an exclusive property in his invention or composition, until by publication it becomes the property of the general public. * * *
>
> "As the plaintiff had placed the perfected pump upon the market, without obtaining the protection of the patent laws, he thereby published that invention to the world and no longer had any exclusive property therein.
>
> "But the completed pump was not his only invention, for he had also discovered means, or machines in the form of patterns, which greatly aided, if they were not indispensable, in the manufacture of the pumps. This discovery he had not intentionally pnblished, but had kept it secret, unless by disclosing the invention of the pump he had also disclosed the invention of the patterns by which the pump was made. The precise question, therefore, * * * is whether there is a secret in the patterns that yet remains a

secret, although the pump has been given to the world."

The court held that plaintiff had exclusive right in his secret patterns, basing its decision upon the analogy of this form of trade secret to a secret medicinal preparation, and stating the established law in such case to be, that, while the courts would not interfere with the use of a secret discovered by fair methods, they would restrain persons who had learned secret formulas by unfair means, such as bribery or breach of confidence. In the case of

Steward v. *Hook*, 118 Ga., 445,

the court followed the Tabor decision, holding that the right of an owner of a secret preparation was like the common law right of an author or inventor, and was exclusive only until publication. In

Chadwick v. *Covell*, 151 Mass., 190,

the court said, with reference to secret formula for manuturing medicine, that the owner

> "* * * had no exclusive right to the use of his formula. His only right was to prevent anyone from obtaining or using them through a breach of trust or confidence."

To the same effect are the cases

Peabody v. *Norfolk*, 98 Mass., 452,
Chain Belt Co. v. *Von Spreckelsen*, 117 Wis., 106,
Westervelt v. *National Paper & Supply Co.*, 154 Ind., 673,
Vulcan Detinning Co. v. *American Can Co.*, 58 Atlantic Reporter, 290.

In the case of

Central Transportation Co. v. *Pullman Car Co.*, 139 U. S., 24, the Supreme Court, although holding the contract therein involved illegal, incidentally referred to the rights of patentees and of the owners of secret process, saying with reference to the first, that a right of monopoly would arise from the express provisions of the Act of Congress, and with reference to a secret process, that a contract not to communicate it, made in connection with the sale of the process is lawful because

> "a process must be kept secret in order to be of any value, and the public has no interest in the question by whom it is used."

Similarly, in the case of

> *Vickery* v. *Walsh,* 19 Pick., 523,

a contract to convey an exclusive right in a secret process was held valid because the public was not affected by the sale of the entire secret to someone else.

The above authorities define affirmatively the rights of owners of trade secrets. It will be observed that the utmost extent to which any special protection is given such property, is against one who acquires it by breach of contract or trust. The protection is the same as that given at common law to the owners of unpublished concepts and undisclosed inventions.

None of the cases recognize any right of the owner of secret formulas or processes to control in any way the trade in the articles produced by their use.

There, are, however, a number of decisions, nisi prius and others, which it is claimed sustain the rights of owners of secret medicinal preparations to impose conditions upon their vendees as to the prices at which the same shall be resold. These cases may properly be classified as those in which counsel for the petitioner herein sought the establishment of systems in all essential respects similar to the Miles system, and those in which counsel for the petitioner was not directly interested.

Consideration will be given to the former class hereinafter.

Among the latter cases are

> *Garst* v. *Harris,* 177 Mass., 72,
> *Garst* v. *Charles,* 187 Mass., 144,
> *Elliman & Sons* v. *Carrington & Son,* L. R. (1901), 2 Ch. Div., 275, and
> *Walsh* v. *Dwight,* 59 N. Y. S., 91.

If these cases laid down the proposition that the owner of an unpatented trade secret had an exclusive right which would enable him lawfully to maintain a control over the trade in the articles manufactured thereunder which wonld be unlawful in the absence of such ownership, or that such ownership authorized a monopoly which is conceded to the owners of patents and copyrights, then these cases are contrary to the overwhelming weight of the authorities already cited. This would be true, even if these cases had considered the principles and lines of distinction clearly established by the authorities and had attempted to expressly decide that the same were not well taken, and to overrule them. Much more is this trne when this resnlt is to be drawn, if at all, as a mere negative inference from these cases. Petitioner can scarcely maintain the proposition that the fundamental and established distinctions which we have been considering, and the long and conclusive line of decisions in which they have been recognized and applied, are to be overrnled and swept away hy negative inferences from cases in which these distinctions have not been considered.

With reference to *Garst* v. *Harris* and *Garst* v. *Charles,* decided by the Snpreme Conrt of Masachusetts, it was manifestly not the intention of the court to lay down the general proposition contended for by the petitioner, nor to overrule the fundamental distinctions hereinbefore set forth. In

Peabody v. *Norfolk*, 98 Mass., 452, and
Chadwick v. *Covell*, 151 Mass., 190,

that court expressly held that the owner of a secret preparation had no exclusive right against the general public. In

Gamewell v. *Crane*, 160 Mass., 50,

the same court held that restrictive contracts relative to unpatented secret rights were illegal when they transcended the common law rights in this respect, thereby expressly deciding that the ownership of trade secrets gives no right to do what would he unlawful in the absence of such ownership. In

Anchor Elec. Co. v. *Hawkes*, 171 Mass., 101,

the same court determined the legality of contracts relative to secret rights solely on the basis of common law principles, distinguishing the case last referred to because what was there under consideration was unlawful at common law.

It can hardly be contended that it was the intention of the Supreme Court of Massachusetts in the Garst cases to overrule its own harmonious line of decisions upon this question. On the contrary, the cases upon which the court based its opinion in *Garst* v. *Harris* will show that the court was merely sustaining the right to impose a limited restriction, such as would be lawful at common law. The court had under consideration one separate and distinct contract between the manufacturer and one of his vendees. It did not appear that the manufacturer was attempting to establish, by a system of contracts, a general restraint of trade. The meaning necessarily to be assigned to this decision must be that a limited restraint of trade, such as would be involved in one single contract of that kind, is lawful. This might well be so if it related to a single contract with one vendee, but not if it was a general scheme or system, as will be clearly shown upon consideration of the legality of the scheme at issue in the case at bar.

That the above is the correct interpretation to put upon the decision of *Garst* v. *Harris* clearly appears from the subsequent opinion of the same court in

Garst v. *Hall*, 179 Mass., 588.

In this case the court says that the right recognized in the former case was simply a right arising from contract and not in any way from the natnre of the property, and the court briefly but clearly recognizes the distinctions hereinbefore set forth between the rights of patentees, the common law rights of anthors, and the general rights of all persons at common law.

The subsequent case of *Garst* v. *Charles* must be construed with reference to this view of the case of *Garst* v. *Harris.* While it does appear in *Garst* v. *Charles* that the mannfacturer was taking more than one such contract, it does not appear whether they went to such an extent as to amount to a restraint that would be illegal at common law. Moreover it clearly appears that the right was assumed in the latter case without discussion. The decision is based upon *Garst* v. *Harris,* which rests upon a common law right, and upon *Park* v. *N. W. D. A.*, which, as we have above indicated, rests exclusively upon the right under the patent laws. It can not be assumed that the court intended to overrule its former clear decisions recognizing the distinetions between these rights.

Hence the decision in *Garst* v. *Charles* must be based either upon the fact that the restraint was not so general as to be unlawful at common law, or, because no contest was made as to the question of the right, that that question was not considered or determined.

In the case of

Walsh v. *Dwight*, 40 App. Div., 513,

the restrictive contract was upheld because, as the court says, the article in question was one which any one could manufacture, and that for this reason the contract did not restrain in any way the general trade in that article; therefore it did not affect injuriously the rights of the general public. That this is all that was decided in this case appears in the subsequent decision of the same court in the case of

Export Lumber Co. v. *South Brooklyn Saw Mill Co.*, 54 App. Div., 218,

where the court states that the legality of the contract in the *Walsh* case had been sustained because neither the entire trade, nor any considerable portion of the trade in the article in question, had been restrained. In

Elliman v. *Carrington* (1901), 2 Ch. Div., 275,

the restraint was upheld because, as it appears, only a single contract between two contracting parties was in question. In discussing these cases the United States Circuit Court of Appeals said [*Hartman* case (*supra*), p. 37]:

> "The cases of *Elliman & Sons* v. *Carrington & Son*, L. R., 1901, 2 Ch. Div., 275, and *Garst* v. *Harris*, 177 Mass., 72, are also cited as supporting the legality of such a series of agreements as that under which complainant conducts his business. Both cases involved contracts of sale, presumably made under secret formulas, though

no stress is laid upon the fact in the Elliman case. *Each was a suit directly between the vendor and his vendee. Each involved only a single transaction* by which the article was sold upon an agreement that the purchaser would not re-sell at less than a named price. Neither concerned any other rights than those of the contracting parties, and neither decides more than that an agreement of sale of a chattel by which the purchaser agrees that he will not sell below a certain price is valid and not such a restraint of trade as to be obnoxious to the law. Neither case holds that a buyer from such a vendee, even with notice, would not get title or come under the obligation of the contract between the original parties. The most that can be made of the decisions, is, that, having regard to the subject-matter and the limited character of each agreement, neither contract had that sweep and extent which would constitute the restraint an unreasonable one and, therefore, not within the mischief of the rule against restraints. The Elliman case was decided by a single judge.

"*Walsh* v. *Dwight,* 58 N. Y. Sup., 91, another case relied upon to support the decree, was an action by a maker and dealer in saleratus and soda, alleged to be an article in common use, against another maker who sold another brand which he called 'Dwight's Cow Brand Saleratus and Soda,' for damages to him through a course of business by which his brand of the same article lost much demand. The defendant did this, first by extensive advertising, second, by giving to all dealers a rebate who would agree to sell its article at a minimum price named and to charge a like price for every other brand. The price thus fixed was, as averred, an extravagant price and operated to enlarge the demand for the defendant's advertised brand and diminish that for the plaintiff's. The court found no il-

> legal restraint of trade, as there was 'nothing to prevent others from engaging in the business or the manufacturer of other articles from selling their products to any one willing to buy.' The substance of the decision is well stated in the syllabus as follows:
>
> " 'An agreement by a manufacturer with his customers to give them a rebate if they should refuse to sell his article, or other similar articles, at less than a certain price, is not in restraint of trade.' "

Since the decision of the Court of Appeals in this cause, there have been three cases in which a court considered questions similar to those last above discussed. These are

Grogan v. *Chaffee*, 156 Cal., 611,
Garst v. *Wissler*, 21 Pa. Sup. Ct., 532,
Freeman v. *Miller*, Sup. Ct. Cincinnati, 9 N.P. (N.S.), 27.

So far as the opinions in *Grogan* v. *Chaffee* and *Garst* v. *Wissler* have any bearing upon the question at issue, they were unnecessary to the decision of the cases and therefore rest upon the weight of their reasoning and not upon authority. In *Grogan* v. *Chaffee*, the original plaintiff was the manufacturer of pure olive oil under a secret process and the vendor of the same under trade-mark and name. By contract, he imposed upon the defendant a price restrictive agreement. The grounds of the decision were first, that the plaintiff was not the only manufacturer of pure olive oil and that therefore his restrictions were not general or of sufficient scope to affect adversely the public interests, and secondly, that the court was called upon to decide only upon the enforcibility as between the parties to a single contract of the kind involved in the case. It does not appear that the enforcibility of a system of contracts was involved. The opinion is noteworthy only because the court, having plainly indicated that the decision of the Court of Appeals in this case had no bearing upon the issue before it, thereupon added "so far as it is applicable to the case before us it is contrary to the weight of authority." A dictum such as this supported by no reasoning is necessarily without force as an authority in support of the petitioner's contention.

The case of *Garst* v. *Wissler* presented the question as to whether a manufacturer, by notice attached to his product, could bind to its conditions a purchaser from his vendee. This question was decided in the negative and is an authority against the relief desired by the petitioner. A dictum holds, on the authority of the decisions in the Massachusetts *Garst* cases above discussed, that the manufacturer may lawfully impose conditions upon his direct vendees. The effect of this ruling is limited to that of the *Garst* cases last above referred to.

Giving all of the cases their widest bearing, they can not be said to establish the proposition that the ownership of a trade secret gives the right to impose such restrictions upon the subsequent sales of the articles manufactured thereunder as would be unlawful at common law in the absence of such ownership, and, inferentially they do decide that only such restrictive contracts are valid in regard to such articles as do not break the rules against restraint of trade in any articles of general commerce.

Freeman v. *Miller* was an action for damages by a manufacturer against a vendee, a contracting party. The petition set up a system of contracts in all respects similar to the system at issue in this cause. The questions were raised by a general demurrer. The court decided such system to be in violation of the common law, the state anti-trust law and the Sherman Act. The court says, in part:

> "Such a system as is here under consideration, however, can not but tend to a complete monopoly and, under the authorities, I can not but conclude that a system of contracts such as this, is illegal as being in general restraint of trade unless the plaintiff, because of his secret formula or proprietary articles has in some manner acquired a right—an exclusive monopoly—identical with that of a holder of a patent or copyrighted article * * *. It is clear that in the cases where the statutory monopoly is accorded a patentee, the exclusive monopoly is given as a *reward* because of the ultimate disclosure that must be made to the public and the consequent unrestricted use and enjoyment assured the public by the patentee's industry and discovery. But what reason is there for according similar rights to one who has a valuable discovery, but who fails to secure it by patent? Instead of possible benefit to the public his discovery and knowledge is withheld. * * * In the former case the public is amply justified in bestowing a reward. In the latter case, there is absolutely no occasion for it. * * * I hold, therefore, that this plaintiff in selling the articles manufactured *solely* by him, in undertaking to fix the price and control sales and subsales, is in precisely the same situation as any other individual or manufacturer who undertakes to make contracts in restraint of trade, barring, however, the exception referred to. That is to say, like any other merchant or manufacturer, he is subject to the rules of common law against restraints of trade and he is subject to the provisions of statutory enactments against monopolies such as, in our state, the Valen-

> tine anti-trust act, or if the trade of traffic be interstate, the Sherman anti-trust act. * * * This contract or system of contracts viewed as a whole, brings about not a *partial restraint*, but a complete and entire control or general restraint of the entire trade in this distinct article of traffic. The public interests necessarily become injuriously affected because the price is fixed, and competition, which the law ever encourages, is everywhere stifled * * *. In view of the foregoing, the contract sued upon is illegal and contrary to public policy and the law of the land, and therefore can not be enforced."

In concluding the discussion of the fundamental distinctions involved in the ownersbip of patents and copyrights, trade-marks, trade names and labels, news and information and trade secrets, we again desire to emphasize the principle, founded in reason and supported by the authorities, that only those acting under affirmative statutory grant can impose such system of restraints on the future sales of the articles manufactured by the use of these species of special property, as is attempted by the petitioner herein without such statutory grant.

V.

THE LEGAL EFFECT OF THE CONTRACTS BETWEEN THE PETITIONER AND WHOLESALE DRUG DEALERS AND JOBBERS.

First. The Contract is One of Sale. It is submitted that the legal effect and pnrport of a contract set out in a bill of complaint is not to be determined merely from its terms as set out, but that, on demurrer, the bill as a whole, including such contract, is to be considered in arriving at its interpretation.

This contract (*Record*, pp. 8-10), on its face, is a consignment contract for sale on the acconnt of the manufacturer. It provides that the title shall remain in the manufacturer until the goods are sold to the retail dealer. It provides that the manufacturer at its option may demand the return of unsold goods, but it gives no right to the "consignee" to return the goods which he has failed to sell. It provides that the manufacturer may terminate the contract at any time, but it gives no corresponding right to the "consignee." It provides that the "consignee" shall guarantee the payment for all goods sold, but it does not provide that the obligations of the "consignee's" vendees shall run to the manufacturer. Its terms are such that the "consignee" is practically compelled to pay for the merchandise before he has received payment, and all risks attendant upon ownership are borne by the "consignee."

The court will take judicial notice of the fact that the cost of conducting a wholesale business under the most favorable circnmstances approximates 10 per cent. This is the only "commission" allowed the "consignee," nnless the consignment is paid for within ten days of its shipment, in which event an extra 5 per cent. is allowed. The retail contract provides for discounts ranging from 3 to 5 per cent. to the retail dealer. These discounts are paid from the wholesale dealer's "commission." It follows that unless he avails himself of the extra 5 per cent. allowed for payment in advance, his dealings in these articles of merchandise will be conducted at a loss. It is apparent from the bill that the "consignee" must pay for the goods in advance of his sales of said goods.

The consignment contract provides for the return of advances, only should the manufacturer terminate the agreement and the goods be returned. Hence the "consignee" may not voluntarily return the goods and receive a refunder, and should the goods be destroyed without fault of such "consignee," he could not secure a refunder of advances. Such refunder is conditioned absolutely, first, upon the cancellation of the agreement by the manufacturer, and second, upon the actual return of the goods against which advances have been made.

The retail contract provides that when shipments are made direct from the manufacturer to the retail dealer, that such shipments are made for the account of the so-called "consignee."

Aside from the contracts themselves, other allegations in the bill assert that the transactions between the manufacturer and wholesale dealer are sales. The interpretation placed npon a doubtful contract by the parties, particularly when such interpretation appears in a sworn document, conclusively presumed to have been prepared with utmost care, is of great weight in determining the interpretation to be placed thereon by the court. If there should be any douht in the mind of this court as to the nature of the transaction from the perusal of the contracts, this douht would he removed by the allegations of the pleader.

> (*Record*, p. 6). "And *it has been and is* the uniform custom of your orator * * * *to sell* such medicine, remedies and cures *to jobbers and wholesale druggists,* who in turn sell and dispose of the same to retail druggists * * *."
>
> (*Record*, p. 7). "Your orator has also, in each instance fixed * * * *the price thereof from your orator to the jobbers and wholesale dealers* and said price so established has uni-

formly been maintained and kept up * * *."

(*Record*, p. 12). "* * * your orator had stamped upon each package * * * a serial number for identification and placed in each package * * * *sold to jobbers and wholesale druggists* * * *."

(*Record*, p. 14). "* * * and such has been the custom and is the custom and understanding universally *in the purchase and sale of your orator's said proprietary remedies*, medcines and cures, *both on the part of your orator and of purchasing jobbers and retailers*."

(*Record*, pp. 15-16). "* * * at the City of Cincinnati in the State of Ohio * * * are a *large number of druggists, wholesale* and retail * * * *who have purchased either from your orator or from jobbers and wholesale druggists* who have executed said wholesale contracts with your orator * * *." [Italics are our own.]

These averments, together with the many features of the contract inconsistent with any other interpretation, lead to the conclusion, regardless of its form and name, and the stipulations reserving the title in the manufacturer, that this is a contract of sale and not a contract of consignment. That these provisions, together with those for monthly accountings, the use of the terms of agency, and the fixing of a minimum price at which the petitioner's products should be sold are not inconsistent with a contract of sale appears in

> *Ex parte White* (1870), L. R., 6 Chan. App., 397, affirmed in *Towle* v. *White* (1873), 29 L. T., 78.

In this case the arrangements between the parties were in terms of agency. It was provided that the agent was not to pay unless he disposed of the goods. He was to render monthly accounts of the sales made, and the following month, whether or not he had been paid by his customers, he was required to pay for goods sold according to the price list. The court said "It could never be supposed that the relation of creditor and debtor existed between the manufacturer and the retail dealer." Speaking of the agent, "the proceeds of the sales are his own monies and not trust monies." Again, "the contract of sale which the alleged agent makes with his purchasers is not a contract on account of his principal, for he is to pay a price which may be different, and at a time which may be different from those fixed by the contract. He is not guaranteeing the performance, by the persons to whom he sells, of their contract with him, which is the proper business of a *del credere* agent * * * and my opinion is that, in point of law, the alleged agent is making on his own account, a contract of purchase with his alleged principal, and is again reselling."

The House of Lords interpreted this contract as "when you have found a market you may sell on your own account, accounting to me for a certain price fixed."

The courts here assumed that the title remained in the manufacturer until the time of sale, but that simultaneously with or immediately prior to the sale the title passed to the so-called agent, so that between the agent and his vendee the sale was direct, and no sale or other relation of any character existed between the alleged principal and the vendee of the alleged agent. This interpretation was followed and approved in

Nutter v. *Wheeler,* Fed. Cases, 10384,

where Judge Lowell held that at the time of sale the so-called agent, became "as between him and the consignor, a purchaser of, and the principal debtor for the goods sold."

In the case of

The Peoria Manufacturing Company v. *Lyons*, 153 Ill., 427,

the contract differed from the case at bar in that the form of guaranty of sales was notes given by the so-called agent to his principal at the time of consignment. This corresponds to the enforced "advances" in this case. In addition, the credit notes of the purchasers from the "agent" ran directly to the manufacturer. The manufacturer retained the right to direct shipments to other points. The court held this a sale and not a consignment. So too in

Howell Son & Co. v. *Boudor Tr. et al*, 95 Va., 815,

a contract nearly identical with the one under discussion was held to be a contract of sale.

See, also,

Conn v. *Chambers*, 123 App. Div. (N. Y.), 298, unanimously affirmed in 195 N. Y., 538.
Yoder v. *Howarth*, 57 Neb., 150.
Mack v. *Drummond Tobacco Company*, 48 Neb., 397.
Aetna Powder Company v. *Hilderbrand*, 137 Ind., 462.
Gendre & Co. v. *Kean*, 28 N. Y. Supp., 7.
Arbuckle Bros. v. *Kirkpatrick & Co.*, 98 Tenn., 221.
Arbuckle Bros. v. *Gates & Brown*, 95 Va., 802.
Williams v. *Drummond Tobacco Company*, 21 Tex. Civ. App., 635.
Snelling, Assignee, v. *Arbuckle Bros.*, 104 Ga., 362.
Norwegian Plow Co. v. *Clark*, 102 Ia., 31.
De Kruif v. *Flieman*, 130 Mich., 12.

An analysis of the contract in the light of the foregoing authorities reveals the following terms inconsistent with a contract of consignment and consistent with a contract of sale only.

(1) Unsold goods are returnable upon the demand of the manufacturer only, the "consignee" not having the corresponding privilege.

(2) Terms such as to compel payment before goods are sold.

(3) Provision for the repayment of advances at the option of the manufacturer only.

(4) Compulsory payment of the whole account upon breach of certain conditions.

(5) Acountability to the manufacturer before the proceeds are received from the "agents'" vendees.

(6) Option in "consignee" to sell at higher than list prices.

In addition to the inspection of the "consignment" contract, the retail contract reveals that the manufacturer disclaims any direct relation in sales to the retail dealer, carrying the disclaimer so far as to ship on the account of the wholesale dealer only, even when shipments are made by it directly to the retail dealer.

On examination of the bill of complaint it appears that the dealers with whom these "consignment" contracts are made are not brokers, factors or agents, but in their customary dealings are general merchants buying and selling on their own accounts. It is apparent that it is not intended that such dealers should hold the proceeds, or any part of the proceeds of their general acocunts in trust for the petitioner and apart from their general business, but that it is the intention of the petitioner to look for payment to these dealers only and not to the proceeds of particular sales.

Second: The Contract is Not One of Agency. In exhausting possibilities, but three interpretations could be claimed for the contract: First, a contract of immediate sale to the consignee; second, a contract of agency; and third, an anomalous contract combining some of the features of each, and resolving itself into partial contract of agency, up to the time of sale, and then being a contract of sale directly to the "consignee."

Of these three interpretations, the respondent contends for the first. It claims that the contract is one of immediate sale, with a condition that the title may be made to pass back under certain conditions, by the action of the parties; that the contract, of itself, may or may not be of such character as to enable the petitioner to obtain specific performance, but that it is not of such character as to enable the petitioner to secure the return of the goods by an action in replevin, and that it is not of such character as would give the petitioner an equitable or legal lien upon the goods or their proceeds in the event of the bankruptcy of the "consignee."

However this may be viewed by the court, it is submitted that the second interpretation (contended for by the petitioner) is untenable, and that the third interpretation is the only alternative. If the third interpretation is correct, the sale from wholesale dealer to retail dealer is a sale by the dealer and not by the manufacturer. Under either the first or third interpretation, the restrictions sought to be imposed by the petitioner are restrictions upon the alienation of property to whose transfer, at the time of such alienation, petitioner is not a party.

Upon this point the U. S. Circuit Court of Appeals said:

"But we are not disposed to concede that the contracts with jobbers are contracts of bailment. There are too many features which seem inconsistent with the mere agency or commission agreement. All the responsibility of an owner seems cast upon the so-called consignee * * *. The retention of title for the security of the price would after all make the contract one of conditional sale and the jobber would still be the general owner and responsible as such. Curiously enough the actual payment of the price at which the consignment is billed is not to affect the title, it is still under the contract to remain with the so-called consignor. Yet the heavy inducement of five per cent, upon a very close class of goods is held out to induce the payment in advance of sales. It is difficult to believe * * * that such jobbers were not in fact and law the general owners of goods so 'consigned' and engaged in selling for themselves and not as mere agents, *del credere* or otherwise, of the complainant. The scheme seems to be an effort to disguise the wholesale dealers in the mask of agency upon theory that in that character one link in the system for the suppression of the 'cut-rate' business might be regarded as valid." (*Record*, pp. 30-31.)

Third: The illegal system presented by the bill of complaint if the wholesale contract be deemed a contract of agency.

Assuming that the "consignment" contract is legally a contract of agency, it is nevertheless but one link in a "system" whose enforcement is sought in this cause. Apparently the theory of the petitioner is that the common and statutory laws against restraints of trade become debilitated and ineffective if such restraint is sought through the medium of "agency." This theory is contrary to established law. The authorities cited in support of petitioner's theory are in every instance isolated contracts of agency, so far as appears, not part of any system or scheme. In each of these cases the court holds that the contract is not within the terms of the local statute. In this cause, the agency contract is but incidental to the general scheme. The bill alleges that the injury arises from the sales at competitive prices to the ultimate consumer. The system is alleged to have been adopted to prevent this injury. The wholesale dealer does not sell to the ultimate consumer, hence the contract with him is but a means of insuring the suppression of competition among the retail dealers. The bill admits that the retail dealer is a purchaser, not an agent; the object of the system is to enforce price restricting conditions in the sale of products to which the person imposing such conditions has no title. This system is within the prohibition of the authorities hereinbefore cited. This was the conclusion of the Court of Appeals. (*Record*, p. 30.)

Although every act and every part of appellant's system, taken by itself, were lawful, still if the object and effect of the system as a whole were unlawful, it would be unenforcible.

Swift & Company v. *U. S.*, 196 U. S., 375, at 396.

Justice Holmes, in delivering the opinion of the court, says:

> "It is suggested that the several acts charged are lawful and that intent can make no difference. But they are bound together as the parts of a single plan. The plan may make the parts unlawful * * *. The unity of the plan embraces all the parts."

In the case of

Atkins v. *Wisconsin*, 195 U. S., 194, at 206:

"No conduct has such an absolute privilege as to justify all possible schemes of which it may be a part. The most innocent and constitutionally protected of acts or omissions may be made a step in a criminal plot, and if it is a step in a plot, neither its innocence nor the Constitution is sufficient to prevent the punishment of the plot by law."

VI

QUESTIONS RAISED BY THE DEMURRERS.

First: Whether the petitioner has any peculiar, special or exclusive right in the articles manufactured by it, warranting it to carry out, with reference to their sale, a plan or scheme which would otherwise be invalid and illegal.

In view of the above discussion, it is submitted, the only remaining possibility of a right of the petitoner to assert any such restrictive right as it claims, turns, as a matter of reason, upon whether it has offered the articles which it manufactures under its trade secrets for general trade or is selling them to the general public, and, as a matter of authority, upon whether the decisions heretofore obtained by counsel for the petitioner in other cases are in any sense controlling in this cause. It is submitted that their weight depends entirely upon the force of their reasoning upon the principles herein presented.

The petitioner relies upon the cases

Dr. Miles Med. Co. v. *Goldthwaite*, 133 Fed., 794,

Hartman v. *Hughes*, ———,

Dr. Miles Med. Co. v. *Platt, World's Dispensary Med. Ass'n* v. *same, Hartman* v. *same,* 142 Fed., 606,
Wells & Richardson Co. v. *Abraham,* 146 Fed., 190,
Paris Med. Co. v. *Hegeman & Co.,* ———,
Hartman v. *Hobart,* ———,
Dr. Miles Med. Co. v. *Jayne,* 149 Fed., 838,
Jayne et al v. *Loder,* 149 Fed., 21.

The case of *Dr. Miles Med. Co.* v. *Goldthwaite* would appear from the statement of facts to be a decision sustaining a general scheme such as set forth in the bill in this case. This statement of facts is not warranted by anything in the opinion of the court, but is drawn by the reporter from the brief of complainant. The case was moreover submitted on default without any opposing brief, and hence without any attempt to call the attention of the court to the correct and proper principles of the law applicable to a decision of the case. The court refers for authority simply to the opinion in the case of

Sperry v. *Mechanics' Clothing Co.,* 128 Fed., 800,

which, as we have seen above, is one of the trading stamp cases, where the right involved is entirely different from that in this case, and where a proper consideration of the basic principles involved, shows that case to be entirely in harmony with the proposition which we are advancing, and hence no authority to support any such position as the petitioner takes. This, of course, makes it manifest that Judge Colt did not have the real facts of the case called to his attention. It can not for a moment be assumed that he would have undertaken, without consideration or opinion, to have overruled such basic principles and distinctions as we are here contending for, nor the long and conclusive line of decisions of the Supreme Court of the United States and other courts of last resort, in which the same have been sustained.

The same conclusion is applicable to

Dr. Miles Med. Co. v. *Jayne,* 149 Fed., 838.

In this case the same judge who decided the *Goldthwaite* case held the contract system to be legal, basing his decision upon the identity of the rights of owners of trade secrets with those of owners of patents or copyrights, and citing in support of this decision the *Goldthwaite* and *Platt* cases in the same citation with, and without distinction from patent, news and cases involving trade secrets, wherein the decisions related to restrictions upon the use of the secrets, and did not relate in any way to the articles manufactured thereunder.

Judge Kohlsaat's decision in the case of

Dr. Miles Med. Co. v. *Platt,* 142 Fed., 606,

is subject to the same criticism.

The questions and authorities which we advance and our views in these respects, which were sustained by the court below in this case, were clearly not called to the attention of Judge Kohlsaat.

The cases *Hartman* v. *Hobart, Hartman* v. *Hughes* and *Paris Med. Co.* v. *Hegeman* are unreported cases. The *Hobart* case affirms the right of the complainant without discussion, and overrules the demurrer. It does not appear that the questions herein discussed were presented or considered by the court. The *Hughes* case overrules a demurrer and grants a preliminary injunction, substantially in the terms of the prayer of the bill. There is no opinion, nor is there any foundation for the assumption that the court considered the issues herein presented.

In the *Hegeman* case, Judge Lacombe granted a preliminary injunction upon the authority of *Wells & Richardson* v. *Abraham*, shortly to be considered. On appeal, decision was reserved, although the court did adopt the opinion of Judge Thomas in the *Wells & Richardson* case, and dissented from the decision of the Court of Appeals in the case at bar.

The court rested upon its own opinion as delivered in

Wells & Richardson v. *Abraham*, 149 Fed., 408,

wherein the sole reference to the opinion of Judge Thomas was:

> "Upon the principal question argued we are not convinced of the unsoundness of the conclusions of Judge Thomas as expressed in his opinion in the court below, and see no reason from departing from our usual custom not to formulate an extended opinion on appeals from orders for preliminary injunctions where we affirm the court below unless we disapprove the reasoning of its opinion."

One is somewhat surprised in reading the opinion of Judge Thomas in

Wells & Richardson v. *Abraham*, 146 Fed., 190,

to find that this opinion proceeds upon the assumption that the contract system in issue was legal; an assumption in which the court was warranted by the concession of counsel for the defendants.

Upon this point the court says:

> "But has the complainant a remedy in this suit? The contracts with the complainant's vendees are legal. Resort need not be had to the voluminous briefs submitted, for the defendants in their briefs say:

"'The validity of these contracts as between the parties, is nowhere attacked.' On the contrary, the whole argument proceeded on the theory that, though as between the parties thereto such contracts could probably be enforced, third parties who did not assent thereto, and, who were under no contractual obligation to the complainant, could not in the absence of proof of fraud or conspiracy, be compelled to observe such contracts, in the case of articles made under secret processes, any more than if such articles were not made under secret processes, and that the patent cases which granted such remedy had no application to the case at bar.

"The concession as to the legality of the contracts accords with the decision in *Park* v. *National Wholesale Druggists' Association,* 175 N. Y., 1; *Garst* v. *Harris,* 177 Mass., 72; *Garst* v. *Charles,* 187 Mass., 144."

So far as Judge Thomas adds authority to the concession of the defendant, it is apparent that the distinctions herein urged were not considered, inasmuch as the court cites indiscriminately the cases based on trade secret rights and that based upon patent right, whose differentiations have been hereinbefore fully discussed. The principal question argued was not the legality of the contract system but the right to an injunction upon the assumption of legality; hence the Court of Appeals, in stating that it was not convinced of the unsoundness of Judge Thomas' conclusions on the principal question, made no reference to the decision upon the principal question in the case at bar. Consequently, the Court of Appeals, in re-adopting its *Abraham* opinion in the *Hegeman* case and upon this basis taking issue with the opinion of the Circuit Court of Appeals in the case at bar, in an oral decision deilvered at the close of argument, could scarcely be deemed to have given full consideration to the questions herein at issue.

It is apparent from the above analysis of the decisions secured by counsel for the petitioner herein in other cases, that the first decision was obtained in the uncontested *Goldwaithe* case, wherein the court found its support in the authority of a trading stamp case which, as we have seen, does not deal with an article which from its nature could ever be the subject of general commerce and hence governed by general commercial law. This was followed by the *Platt* case, wherein the court cited the *Goldwaithe* case as direct authority, and recognized no distinction between the rights of owners of patents or copyrights and those of the owners of trade secrets. This in turn was followed by the *Abraham* case, wherein the legality of the contract was conceded by the defendants and the principal contest was upon the right to an injunction. The *Hegeman* case followed next in order and was based entirely upon the "conceded" *Abraham* case. In the affirmance of these cases, the Circuit Court of Appeals had no occasion to consider with any degree of thoroughness the issues raised in the case at bar, nor, as appears from the opinions themselves and from the circumstances surrounding their delivery, was this thorough consideration given.

In addition to the cases hereinbefore discussed, the petitioner cites in support of its proposition:

> *Jayne* v. *Loder*, 149 Fed., 21.
> *National Phonograph Co.* v. *Edison-Bell Company*, L. R. (1908), 1 Chan. Div., 335.

In the former case the precise question for decision was whether or not the manufacturers of proprietary medicines had entered into an unlawful conspiracy to restrain the trade in their and other products. The court decided this question affirmatively. In the course of its decision it said:

> "Undoubtedly the originator and compounder of a proprietary medicine may shape his own policy and sell or withhold from selling as he pleases, accordiug to supposed self-interest or whim; fixing the price aud namiug the terms and conditions at and upon which alone be will do so, refusing to those who will not comply."

The petitioner seizes upon this isolated excerpt as support for its contention. It is almost unnecessary to note that the bill of complaint is not based upon the right of the petitioner *to refuse to sell his products to any one and for any reason,* or for no reason at all. This is the sole right affirmed in the citatiou and is not at issue in this cause. That this is the limit of the court's expression appears from the reiteration of the principle when the court says:

> "The individual manufacturer or proprietor may be persuaded, for example, that the retailer or jobber who cuts the medicines of his neighbor today will likely cut his medicines tomorrow, and so decide not to sell him. * * *"

Iu the *National Phonograph Company* v. *Edison-Bell Company,* the "price and sale restrictions" were upon patented articles. The question of illegality on account of restraint of trade was not argued.

> "Although the subject was mentioned, I can not say the question whether the so-called retail dealer's agreement is or is not invalid as being in restraint of trade was really argued before me. I do not therefore propose to discuss it." (Joyce, J., p. 347.)

An injunction forbidding purchases from "Retail Agents" was refused. The injunction granted was not the relief sought in this cause, but was

> "to restrain the defendant company, their servants and agents, from inducing any person or firms who have entered into factor's agreements with the plaintiff company *by representing or leading to the belief that the purchaser is not the defendant company*" (pp. 362, 371). [Italics our own.]

This injunction was granted because of the damage done through subsequent sales of records of the defendant's own manufacture, for use in the phonographs manufactured by the plaintiff, which phonographs had been procured by deceiving the plaintiff's factors. So far as this case is relevant to the issues in the case at bar, it is an authority against the relief sought by the petitioner.

There is no reasoning upon the principal question herein at issue in any of these cases to aid this court in arriving at its determination. These cases, and any other cases at nisi prius or elsewhere, from which the petitioner may attempt to derive the proposition that it has the right to maintain a monopoly in the subsequent trade in articles manufactured by the use of its unpatented trade secrets, which would be unlawful in the absence of such trade secrets, are, in so far as they may be said to support this proposition, so directly contrary to the overwhelming weight of those authorities in which this question has been given thorough consideration, that they could not in that event be regarded as of any weight or importance. As was said by the Court of Appeals, in referring to such of these cases as were called to its attention:

"The ground upon which the two contested cases * * *, was rested was the identity between the rights of a patentee and the owner of a mere trade secret or private formula with respect to the product or manufactured article * * * *.

"If we are right in our conclusion that the manufactured product of a trade secret or private formula is not immune from the common law rules forbidding monopolies and unreasonable restraints of trade, the cases above referred to must be disapproved, at least in so far as they are grounded upon the cases which deal with articles made under patents or copyrights." *John D. Park & Sons Co.* v. *Hartman,* 153 Fed., 24, at pp. 34-35. See, also, *Record,* pp. 31-32.

The petitioner may contend that its articles are no more the subject of general commerce than are undisclosed trade secrets, news, or railway transportation contracts.

Under the allegations of the bill this fact can not admit of doubt or discussion. In fact the petitioner goes to the extent of saying, that, by advertising and exploiting the trade in its goods, it has created a demand for them throughout the entire United States and in foreign countries, and that it has been its uniform custom for years to sell them to the wholesalers, whence they are ultimately sold to the consumers, and that *the general public* are in the habit of asking for and obtaining these articles. It would be impossible to more distinctly aver a complete offer to the public use and corresponding abandonment of any possible restrictive rights than the petitioner has done in the bill in this case.

Nor can it be claimed that because it simultaneously appears from the bill that the articles are, now at least, disposed of by it, in the first instance, under restrictions as to price under which the wholesaler shall sell them, and the retailer resell to the consumer, that that fact in any way alters the situation, or makes what it is doing any less an abandonment of any restrictive right, if such had existed.

The goods are ultimately sold generally to the general public. *The price at which they are sold does not make the transaction any the less a sale,* nor whether the initial sale is to the wholesaler or retailer, is it any the less a sale, because it is under contract as to the price at which they shall be resold, nor because they are sold only to such dealers as will make such contracts. *The situation still remains one of a sale and offering for sale of the goods, which, under the authorities, constitutes an abandonment of any exclusive right.*

It would be manifestly absurd to say that the petitioner can offer its goods for general public sale and establish and build up a general public trade therein, thereby subjecting the determination of the legality of any contracts which it may make with reference to such sale to a decision in accordance with general common law principles, and at the same time claim, that, because it is imposing upon such sale the very conditions the legality of which must be determined by common law principles, it is thereby exempted from an application of such principles.

It has moreover been expressly decided that a person can not by such subterfuges escape the fact of a publication, nor the loss of his exclusive rights.

In the case of

> *Jewelers Mercantile Agency* v. *Jewelers' Pub. Co.*, 155 N. Y., 241,

certain books were distributed under so-called agreements of lease, by which an attempt was made to retain title and give the situation the apparent appearance of a restricted and private circulation. The Court of Appeals held that the common law right could not be retained by any such subterfuge, saying:

> "By this method a party parts with the secret in such a way that the public may know it, provided the individuals composing such public are willing to become subscribers and lease the book. And, if leasing books to the public generally does not constitute a publication of them, then an author or publisher would have but to extend the period of leasing from one year to ninety-nine or nine hundred and ninety-nine years, as is the case in certain leasings of railroads, in order to secure almost as many leases as there would be purchasers if the books were offered for sale. The buyer of the average book would be quite content with a restrictive title, which, nevertheless, assures him the possession of a book for either of the periods mentioned. It has not hitherto been understood to be the law that the common law right could be so utilized as to secure to an author or publisher a continuing revenue from the public for a much longer period of time than Congress has been willing to grant to him the exclusive rigbt to publish.
>
> "But our examination leads us to the conclusion that tbe present state of the law is that if a book be put within reach of the general public, so that all may have access to it, no matter what limitations be put upon the use of it by the individual subscriber or lessee, it is published, and what is known as the common law copyright, or right of first publication, is gone."

In the case of

Larrowe v. *O'Loughlin*, 88 Fed., 896,

the complainant had no copyright, but bad been in the habit of selling his work under certain restricted agreements as to its use. The Circuit Court for the Southern District of New York held that this was a complete publication, saying:

> "I think this distribution amounted to publication. To hold that a person may offer a book to every person in the world who will buy it and pay a certain price for it with an agreement not to show it to any other person, and that this course of distribution might be continued for many years, and then a copyright secured for the legal term, would be a large advance upon, and wide departure from, any decisions which have been cited in this case. In most, if not quite, all the cases in which a distribution has been held not to be a publication, the author did not part with the title to the books distributed."

It is manifest that what the petitioner does in this case is even more a giving to the public use than what was shown by the facts of the cases cited. It makes a general sale to anyone signing the contracts; its allegation is that such contracts have been signed by nearly all the wholesalers and retailers in the United States; and the only restriction imposed relates, at least so far as the retail dealer is concerned, not to any reservation of title, but solely to the price of resale.

This position on our part is very clearly sustained by the court below in holding that control could not be retained over articles sold outright by a limiting license to resell, and that the petitioner has hence no exclusive or peculiar right in any way, or the right conferred by the patent and copyright laws of the United States, but merely the right to make such contracts with reference to the sale of its goods as are not unlawful, in the absence of special right.

The attempt of the petitioner in this case is manifestly not only to acquire, without taking out a patent, rights which are only given under the patent and copyright laws, but to do that without complying with the condition on which alone such right can be obtained under such laws, to-wit: the abandonment of the right after a fixed period of time.

In fact its attempt is to maintain a scheme which would give it for an unlimited period of time, or for all time to come, a right which the courts have uniformly held can only be obtained for a limited period of time under the patent and copyright laws.

The attempt of the petitioner by the present action is to obtain legal sanction for such unlawful position, and for that purpose, and in order to thereafter say that the right was fully sustained for all time to come, it flaunts, as it were, in the face of the court the fact which really constitutes a complete publication and abandonment of any such right. Can it be that the petitioner hoped to establish so astonishing a proposition and to thereby obtain rights to which it is so clearly not entitled, on the chance that the court would not have called to its attention the basic and fundamental principles and distinctions upon which the question must be determined, and under which the petitioner, by an overwhelming weight of authority, has no such restrictive rights as it contends for?

The petitioner in this case has no restrictive or exclusive right to establish or to maintain any control over the trade in its goods that is unlawful in the absence of such exclusive right. The courts below clearly held against it upon this question, and we are firmly convinced that on a review of the authorities this court will not, by judicial sanction, lay the foundation for any such right.

Whether what the petitioner is doing and attempting to do with reference to maintaining a control over the trade in its goods by its vendees is or is not unlawful, and whether the court will, or will not, therefore, aid it in carrying out the particular scheme which it sets forth in its bill, is a question which must be determined with reference solely to the general principles by which at common law, and under statutes, such contracts and agreements and schemes are or are not illegal and unlawful.

Second: Whether the plan or scheme disclosed in the bill, is, in the absence of special right, valid, or illegal and unlawful.

This is the primary question, the basis of the general demurrer to the bill. It being clear that the petitioner has no special, peculiar or exclusive right, entitling it to establish and maintain a restrictive monopolistic control of the trade in its articles after their sale by it, it follows that the lawfulness of the petitioner's system of contracts must be determined solely with reference to the ordinary principles of common law and the statutory provisions defining and establishing that which is unlawful as in restraint of trade. In this conclusion both of the courts below agreed.

The respondent's contention, which will be presented as briefly as the numerous authorities on the subject will make psssible, is that the system of contracts and scheme of control set forth in the bill is unlawful both at common law, under various statutes, and especially under the provisions of the Federal Statute known as the Sherman Anti-Trust Act.

A. The Scheme and System of Contracts Set Forth in the Bill is Unlawful, Because its Recognition and Enforcement Would be Establishing, by the Aid of the Court, a Right Which the Petitioner Has Not and Can Not Acquire, Except Under the Provisions of the Patent and Copyright Laws of the United States, and on Compliance With Their Conditions.

As we have seen above, the distinction—with reference to the lawfulness or unlawfulness of such a system of control over the subsequent trade in the articles manufactured—between the rights of persons who have availed themselves of the patent and copyright laws of the United States, and persons who have not, and who have, consequently, only the common law rights of any person, is exactly the right of the former to establish and maintain a control over the subsequent trade in their articles which is unlawful if exercised by persons who are not entitled to the benefits which accrue under the patent or copyrigbt laws.

It has been repeatedly and emphatically said by the courts of last resort, that this right can only be acquired by complying with the conditions of the patent and copyright laws, and for a limited period of time.

This being true, it follows inevitably that such right can not be acquired by judicial decree; and that it is clearly beyond the power of the court by judicial sanction to create and establish a right which can only be acquired under Acts of Congress and on compliance with certain conditions therein specified.

Not only, therefore, should tbe court refuse relief that would necessarily involve the sanctioning and establishing of a right that has no legal existence, but it follows as an inevitable conclusion, that, as the petitioner has not acquired a lawful right to do that which it is doing, by complying with the provisions of the copyright and patent laws of the United States, but is attempting to evade the provisions of these Acts of Congress and to accomplish by another method that which Congress has said can only be done under certain conditions which it is apparently unwilling to comply with, that which it is doing is necessarily unlawful.

The situation of the petitioner, as clearly appears from the authorities above cited, is, that having preserved the secret of its formula and processes, it has as yet a sole and monopolistic right to manufacture thereunder, but has no exclusive right of control over the articles which it manufactures and sells to the general public, and which it has thereby made general articles of trade and commerce.

The patent and copyright laws confer, as we have seen above, rights which are in derogation of the common law, and which exempt their owners from being subject to what Mr. Justice McLean states, in the case of *Wheaton* v. *Peters,* 8 Peters, 591, to be the common law rule, to-wit: "That the ordinary right of every man to enjoy the fruits of his labor is subject to the common rules which regulate society and define the rights of things in general."

The patent and copyright laws confer these rights only on condition that the provisions of the act be complied with by conceding to the general public the free and unlimited right of the invention or work after a limited period of monopoly.

It clearly appears from all the cases in which patentees and holders of copyrights have been said to have, by virtue of such laws, a right of maintaining a monopoly and control over the subsequent trade in their articles, that any attempt so to do would be unlawful on the part of anyone not having that exclusive right, and hence that the petitioner in this case is attempting to enforce exactly that which is unlawful.

In the leading case of

> *Bement* v. *National Harrow Company,* 186 U. S., 70,

the right to do exactly what the petitioner is seeking to do in this case was held to be lawful solely because it was a right of monopoly given by the patent laws.

In like manner in the cases of

> *Edison* v. *Kaufman,* 105 Fed., 960;
> *Edison* v. *Pike,* 116 Fed., 863;
> *Victor Talking Machine Co.* v. *The Fair,* 123 Fed., 424;
> *Park* v. *N. W. D. A.,* 175 N. Y., 1,

schemes of controlling the subsequent trade in articles, and fixing the prices at which they should be resold by vendees, identical with what the petitioner is here attempting to enforce, were held to be lawful solely because that was a right of monopoly given by the patent laws alone.

We have already pointed out that the decision in the case of *Park* v. *N. W .D. A.,* 175 N. Y., 1, must be regarded as based solely on the exclusive rights given under the patent laws, it being said by the same court, in the case of *Strauss* v. *American Publishers' Association,* 177 N. Y., 473, that such was the sole ground of the decision.

The conclusion that to attempt to carry out such a scheme as the petitioner is here seeking to do would be unlawful on the part of anyone who has not a right to the benefit of the patent and copyright laws, appears conclusively from the following cases:

> *Strauss* v. *American Pub. Assn.*, 177 N. Y., 473;
> *Gamewell* v. *Crane*, 160 Mass., 50;
> *Vulcan Powder Co.* v. *Hercules Powder Co.*, 96 Cal., 510;
> *Tecktonius* v. *Scott*, 110 Wisc., 441;
> *Pasteur Vaccine Co.* v. *Burkey*, 22 Texas Civ. Apps., 231;
> *Fox Solid Pressed Steel Co.* v. *Schoen*, 77 Fed., 29,

in all of which cases attempts to carry out exactly such schemes as petitioner here sets forth, with reference to articles not patented, were held to be unlawful.

Nor do the decisions in the cases of

> *Walsh* v. *Dwight*, 40 App. Div., 513;
> *Elliman* v. *Carrington* (1901), 2 Chan., 275,

in any way affect the conclusion which must inevitably be drawn from the cases first referred to. As we have already pointed out the decision in the *Walsh* case was expressly, and in the other case necessarily, based upon the fact that the contracts in question did not affect the general trade in such articles, whereas in this case it is apparent from the allegations of the bill that the scheme relates to and affects and controls the entire trade in an articles of general trade and commerce.

Nor is there anything at all contrary to this proposition in the decision in the case of

> *Heaton, etc., Co.* v. *Eureka Specialty Co.*, 77 Fed., 288.

In this case it was held that patent rights on certain machines for making shoes gave a right to the owners thereof to impose upon the purchasers the restriction that only certain fasteners should be used with such machines, notwithstanding the fact that thereby possibly a monopoly was created in such fasteners, which were not patented. On examination, however, this case will not be found to lay down any rule recognizing the rights of persons not holding patents or copyrights to establish a monopoly. In fact what the court speaks of as an incidental monopoly in the unpatented fasteners will not, on examination, be found to be such at all. There was nothing preventing anyone else from manufacturing such fasteners, nor anything preventing anyone from manufacturing any other kind of fasteners. The condition simply was that no fasteners, except those manufactured by the owners of the patent on the machine, should be used with the machine. If persons manufacturing the same or other fasteners were unable to dispose of them because they were not available for use with any other machine, this would be simply a consequence of the exclusive rights which the patentees had in the machine.

Nor is there anything contrary to the proposition which we are here discussing in the fact that, in certain cases above referred to, the particular contracts under consideration in each were held to be not only permitted under the patent rights of the parties, but also otherwise lawful.

That a patentee may make a contract which is lawful at common law does not warrant the converse of the proposition, i. e., that persons having only common law rights can make a contract warrantable only under the patent and copyright laws.

By the express decisions, therefore, and especially the cases which sustain the rights of patentees and holders of copyrights to establish and maintain restrictions and conditions with respect to, and a control over, the trade in their articles which would otherwise be unlawful, *it must be regarded as conclusively settled that such* *rights do not exist in favor of, and can not be claimed or exercised by, any other person, or as to any other species of property.*

To hold to the contrary would, in fact, be imputing to the Justices of the Supreme Court of the United States, and to those of the other Federal and State courts, who have considered and sustained such rights on the part of the patentees and the owners of copyrights as being a part of the right of monopoly conferred upon them by the patent and copyright laws of the United States, the great absurdity of having regarded as exclusive and as rights founded only on such laws, what were really the common law rights of every one. To reach a conclusion contrary to the proposition which we are here advancing, it would be necessary to overrule the express and authoritative decisions, and the basic and underlying principles involved, in every case in which the rights conferred by the patent and copyright laws of the United States have been considered.

The identity in fact of that which the petitioner is doing in the present case and that which the courts, and especially the Supreme Court of the United States in the cases above referred to, have held to be lawful on the part of patentees and the holders of copyrights solely because of the right derived under the patent and copyright laws, makes the scheme and system of control over the subsequent trade in its articles which the petitioner sets forth in its bill necessarily unlawful under the conclusive and binding authority of these decisions; and any decisions to the contrary are in direct conflict with these authorities, which are controlling.

Nor is the argument attempting to avoid this conclusion at all sufficient.

The distinction which it is attempted to draw between the right of a patentee or the holder of a copyright to exercise such control, which would otherwise be unlawful, by a system of licenses, which, it is said, is a right solely derived from the patent and copyright laws and can be exercised by no one else, and the right of other persons to do identically the same thing by a system of contracts, which would not then be unlawful because the right of contract is a common law right, is based upon a fallacy of argument, the weakness of which we have already pointed out.

To attempt to so distinguish between a license and a contract *is to mistake the form for the substance of the thing,* and to overlook entirely the real question at issue, which is one of the right to do, by contract or otherwise, that which is unlawful in the absence of affirmative grant. The common law right of contract does not involve a right to contract in an unlawful manner. This right to do something, by contract or otherwise, which is unlawful at common law is a right derived only from the patent and copyright laws, which can not be exercised except under these laws.

The facts in this case being identical with what were held, in the cases above referred to, to be lawful solely because of the rights derived from the patent and copyright laws, the necessary conclusion is that what the petitioner is doing in this case is unlawful.

B. The Control Which the Petitioner is Attempting to Maintain Over the Subsequent Trade, by its Vendees, in the Goods Manufactured by it, is in General Restraint of Trade and is Therefore Unlawful at Common Law.

The principle of the common law here invoked is fundamental. It has sometimes been supposed to have had its origin in the antagonism, during the middle ages, to that system of control of trades and professions known as the guilds; possibly a good deal of the uncertainty which existed, at times, with regard to the correct application of this doctrine, has arisen from this idea as to its origin. This principle of common law is, however, of much greater antiquity. Its connection with the questions affecting the guilds, and the use and application of its principles to their suppression, was incidental only. But because this class of questions was the one largely presented by the economic situation for several centuries, and at the very time English law became a matter of written record, it was only that phase of the doctrine which for a long time became a matter of record and reports. It was merely a consequence of the particular class of cases which arose that lead the courts to inquire largely into the limitations of the restraint an individual could lawfully impose upon himself, in view of public interest, and not into the limitations of restraint upon public trade, to which the doctrine really applied. The result was that definitions were advanced, as statements of the general rule, and many so-called exceptions were applied, that were really merely corollaries to the general principle.

Within the last quarter of a century, however, the change in the character of the economic questions presented to the courts has necessitated an examination of the full scope of the principles involved in this doctrine, and it has been clearly recognized that, in its application to trade, and in its proper use to suppress and prevent any restraint injuriously affecting public interests in trade and commerce, the doctrine is still in force and effect and must be maintained and strictly applied as one of the most basic principles of law and the most fundamental bulwark of economic liberty.

The same tendency of the times has found its expression in the numerous statutory enactments, reaffirming the principles of the common law.

Without regard to the effect of such recent statutory enactments on the subject, the principle is clearly recognized by all the courts as a fundamental doctrine of common law, that any general restraint of trade, or any restraint of the entire trade of an article of commerce, or any restraint which affects a sufficient amount of trade *to be of injury to the public,* is unlawful and that any contracts or agreements, having that effect or purpose, are illegal.

The primary test of what is unlawful at common law, as in restraint of trade, is the effect of the restraint upon public interests. Any classification of permissible restraints must respond to this basic test, and all subordinate bases of such classifications must imply, as a primary premise, that the public interests are not injuriously affected by the permitted acts.

A careful analysis of the numerous authorities upon this subject discloses that the ruling cases respond to the above test. There is some slight confusion in terminology—a confusion arising from the paucity of our language rather than from lack of definite thought. Restraints are referred to as "general" and "partial." The facts to which these terms have been applied show conclusively that "general" is not used as synonymous with "total," nor does "partial" mean "fractional." "General" is used whenever the restraint affects the general public interests. "Partial" is used when the restraint affects primarily the particular interests of the individual, without being so extensive as to affect injuriously the general interests of the public. Thus a fractional restraint is "general" if it is of such magnitude as to affect the public; a total restraint is necessarily "general" if it covers any subject of general trade and commerce.

From these premises two broad propositions are to be deduced:

1st. General restraints of trade are always unlawful.

2d. Partial restraints of trade are sometimes legal.

Under this second division falls an extensive subordinate classification, because, although the public interests, in the commercial sense, may not be directly affected by the restraint in question, still the public is interested in preventing the individual from restraining himself in the free exercise of his energies beyond what the circumstances of his case may reasonably demand. Hence, when once it has been determined that the restraint is not of sufficient breadth to injuriously affect the commercial-economic interests of the public, *i. e.,* that is partial, the further question must be determined whether the restraint is of such character as to affect injuriously the individual-economic public interests, in restraining an individual more than the circumstances of the transaction make reasonably necessary.

There is no logical foundation for a classification based upon whether the act in question is done by one, two or many. It is true, generally speaking, that a combination can more effectively do injury to the public than can the individual, but if the circumstances are such that an individual can do and does injury to the public interests by restraints of trade, his acts are as unlawful as those of the combination accomplishing the same results. For example, the petitioner herein can not combine with any other manufacturer, for it is the sole manufacturer of its product and will continue to be such as long as it preserves its secret. But if there had been other manufacturers with whom it had combined, they could not have exercised any greater control over the trade in the articles which it manufactures than it, individually, has already established; hence, if the control which the petitioner has established would have been unlawful, as in restraint of trade, if accomplished by a combination, it is equally unlawful if established by the petitioner without combination. As a basis of classification the presence or absence of combination is immaterial.

As the above outline would indicate, it is apparent that a restraint of trade may affect the public directly, or the interests of the parties to the contract or agreement directly, and the public only indirectly. The illegality of the contract or agreement may arise upon either ground.

> *2 Parsons on Contracts* (7th Ed.), p. 887.
> *Alger* v. *Thatcher*, 19 Pick., 51.

Although there are not many cases in which these distinctions have been expressly considered, their existence has been assumed in every case in which partial restraints of trade have been under consideration, and have been expressly recognized in cases whose weight and authority are conclusive.

Thus in the case of *Fowle* v. *Park*, 131 U. S., 88, the court said:

> "Public welfare is first considered, and if that be not involved and the restraint upon the one party is not greater than the protection of the other requires, the contract may be sustained."

Again, in the case of

> *Central Transportation Co.* v. *Pullman Car Co.*, 139 U. S., 24, at p. 53,

the Supreme Court of the United States, referring to the class of cases in which partial or reasonable restraints of trade are upheld, expressly said that the basis of the rule is that the public is not interested in the question. The same general principle was distinctly laid down in the case of

Vickery v. *Welch*, 19 Pickering, 523,

where the court sustained a contract by which a secret process was to be preserved because it was of no consequence to the public whether the secret be used by the plaintiff or the defendant; that the interest of the public was in having a trade in the articles free and unrestrained; and that its interests were not affected by a transfer of the sole right to manufacture from one person to another.

An examination of the cases in which a partial restraint of trade has been sustained as reasonable, will show that they all rest upon the express statement, or upon the assumption, that the restraints are partial only and the interests of the public not injuriously affected.

Thus in the case of

U. S. v. *Addyston, etc., Co.*, 85 Fed., 271,

Judge Taft, in giving a classification of the cases in which restraints are upheld, prefixes it (at page 281) with the words:

> "Covenants in partial restraint of trade are generally upheld as valid when they are agreements," etc.

This opening part of the sentence, necessarily limits the entire classification. The language used by Judge Taft and the intention of the court in that opinion is very clear, that it is only where the restraint in question is a partial one, *i. e.*, where public interests are not injuriously affected, that the classification and principles therein involved have any application.

Authorities in support of these views might be multiplied, but we believe that the above cases, in view of their weight and authority, are sufficient to show that the primary inquiry is as to the injurious effect of the restraint upon public interests; that the distinction between a general restraint, which is always unlawful, and a partial restraint which may be lawful, is founded upon that basis only; that that distinction and classification must first be determined and made; and that the question of the reasonableness, and hence lawfulness, of a partial restraint does not rise, and can not rise, until after a finding that the public interests are not being injuriously affected.

The respondent's contention is that the scheme of the petitioner for the control of the subsequent trade in its goods, and the system of contracts by which it is attempting to keep it, is unlawful because it is a general restraint of trade.

It has established and is maintaining, and seeks the aid of the court in the enforcement and carrying out of, a complete and entire control, *i. e.*, a general restraint, of all the trade in a separate and distinct article of general trade and commerce.

The articles which the petitioner manufactures, the subsequent trade in which it is attempting to control, are separate and distinct articles of trade. This clearly follows from the fact that they are manufactured under secret processes and formulas which the petitioner alone has the power to use. There may be other medicinal preparations used for the same purpose, and there are, of course, other classes of medicines, but petitioner's remedies are, from their very nature, all of the articles of their nature in commerce. They are things which no other manufacturer can make. *Therefore the system, estab-*

lished and maintained by the petitioner, controls the entire trade in the articles manufactured by it and is necessarily a general restraint of the trade in the articles in question.

The averments of the bill show clearly that this is so. The allegation is that the purpose and object of the system of contracts, etc., is to control the entire trade in the articles manufactured; that wholesalers and retailers complying therewith can obtain the goods, but that it is not possible for any one in the world to buy or handle these articles except under the system of control. This system fixes the prices from the manufacturer to the consumers, so as to prevent all competition in the entire trade therein.

The bill also clearly avers that the articles in question have been made the subject of general trade and commerce. It would not be possible to conceive of a stronger averment of an entire control and general restraint of an article of trade. Such general restraint is unlawful.

In no case has a complete control of the entire trade in an unpatented article of general commerce been held legal. In practically every case in which control of part of the trade in an unpatented article of general commerce has been held legal, it has been so held on the express ground that the part of the trade controlled was not sufficient to affect the public interests injuriously, and that therefore, upon the determination that such control was reasonably necessary for the protection of one of the interested parties, the contracts enforcing such control were upheld.

Excluding from this discnssion those cases sustaining restraints over property and trade in which the public has no interest, such as contracts ancillary to the sale of secrets, those remaining are cases wherein the right of the vendor of property to impose restrictions on his vendees for the purpose of protecting the vendor's interest in property or business which he retains was upheld because the restraint did not injuriously affect public interests and was reasonably necessary for the protection of the vendor. Other cases bold that even where the restraint imposed was reasonably necessary, still because the restraint injuriously affected the public interests, it was, notwithstanding its reasonableness, unlawful.

Thus in the case

Oliver v. *Gilmore,* 52 Fed., 562,

a stipulation that a factory sold should not be operated at all was held to be illegal, it not being a mere substitution of some one else to carry on a trade, and the interests of the public being therefore injuriously affected. In the cases

Dolph v. *Troy,* 28 Fed., 523,
In re Greene, 52 Fed., 104,

the courts held the contracts not unlawful because the arrangement did not affect the right of others to engage in the same business and hence affected in no way the general trade in the articles. In

U. S. v. *Nelson,* 52 Fed., 646,
Dueber Watch Co. v. *Howard,* 55 Fed., 851,
Olmstead v. *Distilling Co.,* 77 Fed., 265,
Phillips v. *Iola Cement Co.,* 125 Fed., 593,
Knapp v. *Jarvis,* 135 Fed., 1008,

the contracts in question were held lawful because they did not affect the trade in the entire commodity. To this class of cases also belong the decisions in the cases of

Grogan v. *Chaffee,* 156 Cal., 611,
Walsh v. *Dwight,* 40 App. Div., 513,
and
Garst v. *Harris,* 177 Mass., 72,
Garst v. *Charles,* 187 Mass., 144,

it being expressly stated in the former cases, and it being the only proper construction to be put upon the decisions in the latter, that the contracts in question were upheld solely because they affected a part only of the entire trade in the articles in question.

Another class of cases relied on by the petitioner, including

> *Whitwell* v. *Continental Tobacco Co.*, 125 Fed., 454,
> *Commonwealth* v. *Strauss*, 188 Mass., 229,

involved nothing more than the right of a manufacturer to sell his goods at a lower price to those who agreed to buy only from him. In neither of these cases did the vendor control the entire output of the articles sold, nor was the entire trade in such articles affected. In the second case the court stated that the arrangement would have been clearly illegal if the purchasers had been obliged to agree not to handle other goods as a condition of being able to purchase of the vendor. The only differences between the suppositious facts stated by the court in the Strauss case and the case at bar are, that in the former the exclusion related to the goods; here it relates to the persons who handle the goods, and to the price of resale, for here the contract absolutely excludes all persons who will not submit to the general control imposed by the vendor.

A necessary inference from the reasoning of the cases in which the contracts were upheld is, that if they had imposed restraints affecting the entire trade in the articles in question, or so much thereof as to injure the public interests, they would have been held invalid. These cases have been considered at some length because they have been relied upon by the petitioner to sustain his claim. Their analyses show, while the express decisions did uphold the contracts in the particular cases, that the reasoning of the courts is directly against the petitioner's contention.

We are not, however, dependent upon inferential authority, the affirmative of the proposition having been expressly decided times without number. Thus in

> *U. S.* v. *Jellico, etc., Co.*, 46 Fed., 432,
> *U. S.* v. *Coal Dealers Ass'n of Cal.*, 85 Fed., 252,
> *Chesapeake & Ohio Fuel Co.* v. *U. S.*, 115 Fed., 610,
> *U. S.* v. *Addyston*, 85 Fed., 271, aff. 175 U. S., 211,

the contracts in question were held illegal as constituting or tending to create a monopoly, because their effect was to control and regulate all or such a large proportion of the entire trade in an article of commerce as to affect injuriously the public interests. In the case last cited, the reasoning of the Circuit Court of Appeals on this point was affirmed by the Supreme Court, the modification of the decree being upon a different ground.

To the same effect are the following cases:

> *Cravens* v. *Carter*, 92 Fed., 479.
> *Montague* v. *Lowry*, 115 Fed., 27.
> *Gibbs* v. *McNeeley*, 118 Fed., 120.
> *Swift & Co.* v. *U. S.*, 196 U. S., 375.
> *Getz* v. *Federal Salt Co.*, 147 Cal., 115.
> *Hunt* v. *Riverside Club*, 12 Detroit Leg., N. 264.
> *Owen* v. *Bryan*, 77 N. E. Rep., 302.
> *Clancy* v. *Onondago, etc., Co.*, 62 Barb., 395.
> *Dewitt Wire Cloth Co.* v. *N. J. Wire Cloth Co.*, 16 Daly, 529.
> *People* v. *Duke*, 19 Misc. (N. Y.), 292.
> *Tuscaloosa Ice Co* v. *Williams*, 127 Ala., 110.

In

> *Finch* v. *Granite Co.*, 187 Mo., 244, and
> *Charleston, etc., Co.* v. *Kanawha, etc., Co.*, 50 S. C. Rep., 876,

the rule is announced that any restraint affecting the public interest adversely is unlawful, however much it may benefit or protect the parties, or however reasonable from their standpoint.

In

Lowry v. *Tile, Mantel & Grate Ass'n*, 106 Fed., 38, and
Ellis v. *Inman*, 131 Fed., 182,

it was pointed out as a further ground of illegality, that the effect of the contracts was to prevent any one from dealing in the articles, except in accordance with the rules and schemes sought to be enforced by such system of contracts or general agreements.

The decision of this court in

Montague v. *Lowry*, 193 U. S., 38,

expressly pointed out that it is immaterial that the trade in the articles is not a large one, nor one in which the public has much general interest, if the effect is to control the general trade in the entire article. In

Cummings v. *Union Blue Stone Co.*, 164 N. Y., 401, at p. 404,

the court indicates the distinction between contracts unlawful as in general restraint of trade, and the right of persons to impose conditions upon each other where the situations do not affect the interests of the general public. Enforcement of the contract was refused on the ground that it tended to create a monopoly in a sufficiently large proportion of the trade in blue stone to make it illegal as in general restraint of trade. In addition to the cases cited at page 405 of this case, to which we beg leave to refer without citation, are to the same effect:

Cohen v. *Berlin & Jones Envelope Co.*, 166 N. Y., 292.
Salt Co. v. *Guthrie*, 35 Ohio State, 666.

Distilling Co. v. *Moloney,* 156 Ill., 448.
State v. *Standard Oil Co.,* 49 Ohio State, 137.
People v. *North River Sugar Co.,* 54 Hun., 345, aff. in 123 N. Y., 587.
Bishop v. *Preservers Co.,* 157 Ill., 284.
Harding v. *Glucose Co.,* 182 Ill., 551.
Chicago, etc., Coal Co. v. *People,* 214 Ill., 421.
Texas Standard Oil Co. v. *Adone,* 83 Texas, 650.
State v. *Armour Co.,* 173 Mo., 356.
Santa Clara v. *Hayes,* 76 Cal., 287.
Pacific Factor Co. v. *Adler,* 90 Cal., 110.

In

Cleland v. *Anderson,* 66 Neb., 252,

a scheme, practically identical in effect with that in issue in this case, was held unlawful, and in

Brown v. *Jacobs,* 115 Ga., 429,

substantially identical systems of contracts, with reference to wholesale and retail trade in drugs, were held to be unlawful at common law, as an attempt to create a monopoly.

In the above review of the cases no reference is made to those relating to railroad combinations and pools, conspiracies and combinations to injure a business, strike cases, etc., in which, although substantially identical principles have been laid down, the decisions do not directly affect the situation of the case at bar.

The petitioner seeks support in the opinion in the case of

N. Y. Bank Note Co. v. *Hamilton Bank Note Co.,* 180 N. Y., 280.

Here the legality of a contract for the sale of "Kidder Printing Presses," with attachments enabling them to do a certain class of work, was at issue. Parts of the press were patented; the attachments were not patented. The court upheld the contract, partly upon the patent rights and the right of monopoly thereby conferred, and partially because the machines in question were the result of the joint invention of both parties to the contract, and hence a contract restraining their use as between themselves was lawful.

We make no comment upon

> *Hopkins* v. *U. S.*, 171 U. S., 578, and
> *Anderson* v. *U. S.*, 191 U. S., 604,

because of the familiarity of this court with those cases, which have been sufficiently distinguished in the subsequent opinion in

> *Addyston* v. *U. S.*, 175 U. S., 211.

We believe that the authorities above discussed clearly determine the illegality, at common law, of what the petitioner is attempting to enforce. Whether or not the restrictions imposed are, from its standpoint, reasonably necessary for its protection and for its benefit, they constitute a general restraint of trade and therefore, under the overwhelming weight of the authorities heretofore cited, are clearly unlawful.

C. The Restraint Which the Petitioner is Attempting to Maintain is, Even if Partial, Unreasonable and Therefore Unlawful.

Counsel for the respondent do not intend to concede the possibility of the restraint in this case being other than general. But in view of possible differences of opinion upon the reasonableness of the restraint, we deem it advisable to discuss this question as if such possibility existed. In

> *John D. Park & Sons Co.* v. *Hartman,* 153 Fed., 24, at 41,

the Circuit Court of Appeals (overruling the Circuit Court) held this restraint illegal whether partial or general.

The learned District Judge (whose conclusion was overruled by this decision) apparently adopted a classification wherein all restraints of trade fell into two classes, contracts made by individuals, and restraints imposed by combinations. The restraints imposed by the former are lawful, if reasonable; apparently, those imposed by the latter are unlawful, without regard to their reasonableness. Having placed the case at bar in the former class, he decided that the restraints imposed were reasonable and therefore lawful.

That this classification is not supported by principle or authority would appear from the consideration of the decisions in which the nature of criminal conspiracy was considered. In

> *U. S.* v. *Watson,* 17 Fed., 145,
> *U. S.* v. *Britton,* 108 U. S., 199, at 207,
> *Pettibone* v. *U. S.,* 148 U. S., 197,

the rule was clearly stated that the unlawfulness of the conspiracy did not rest in the fact of the conspiracy but upon the lawfulness of the means used or the end to be accomplished.

The apparent exception to this rule appears in those cases wherein the multiplied effectiveness of the combination enables it to injure the public where an individual might have been powerless.

Among such cases are

> *Farmer's Loan & Trust Co.* v. *Northern Pacific Railway Company,* 60 Fed., 803.
> *Bobbs-Merrill Company* v. *Straus,* 139 Fed., 155.

It will be seen that here it is not the fact of conspiracy or combination that renders the act unlawful, but the act becomes in itself unlawful because of its effect upon public interests. This is the application to combinations and conspiracies of the accepted general doctrines of unlawfulness as in restraint of trade, to-wit: that whatever restraint affects the public interests injuriously, whether imposed by an individual or by a combination, is unlawful. This is a necessary implication from the decision of this court in the Northern Securities case and in the later cases in which this question was considered.

Under the views above advanced, it would make no difference whether the restraint imposed by the petitioner is the act of an individual or of a combination. But if we waive this proposition, it is equally clear that the restraint is the act of a combination. There is here a combination between all persons engaged in handling an entire article of trade. The Circuit Court of Appeals adopted its earlier opinion in *Hartman* v. *Park* upon this point (*Record,* pp. 32-33):

> "The general purpose of each separate contract is the regulation of the prices and sales of the line of preparations made by complainant. A common purpose unites each covenantee to every other and the 'system' is to be construed as 'one piece,' in which the complainant and every assenting dealer, whether wholesaler or retailer, is a party, and the agreement of each such covenantee to sell only at the prices dictated by the manufacturer constitutes one general scheme. The question here is, therefore, one of a totally different character from that which would arise if the question was the more simple one presented by a breach of a single covenantee. In *Continental Wall Paper Co.* v. *Voight & Sons Co.*, where was involved a combination in restraint of trade and where each wholesaler and

retailer in the business had executed separate but identical contracts with the corporation representing the combined manufacturers, we held that each separate covenantee was a party to the general scheme for enhancing prices. This was rested upon the holding that the several agreements constitute one whole. See, also, observations of Judge Taft in *United States* v. *Addyston Pipe Co.*, 85 F. R., 235, and of Justice Peckham in *Montague* v. *Lowry*, 193 U. S., 38, 45-6.

"The plain effect of the 'system of contracts,' the proposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the bill, is, first: to destroy all competition between jobbers or wholesale dealers in selling complainant's preparations. Complainant restrains himself by agreeing to sell at only one price and to only such persons as will sign one of the system of contracts. The contracting wholesalers or jobbers covenant that they will sell to no one who does not come with complainant's license to buy and that they will not sell below a minimum price dictated by complainant. Next, all competition between retailers is destroyed, for each such retailer can obtain his supply only by signing one of the uniform contracts prepared for retailers, whereby he covenants not to sell to anyone who proposes to sell again unless the buyer is authorized in writing by the complainant and not to sell at less than a standard price named in the agreement. Thus all room for competition between retailers, who supply the public, is made impossible. If these contracts leave any room at any point of the line for the usual play of competition, between the dealers in the product marketed by complainant, it is not discoverable. Thus a combination between the manufacturer, the wholesalers and the retailers

> to maintain prices and stifle competition has been brought about. It is true, that the complainant is not in a combination with other makers of 'Peruna.' There are no others. If there were, there would not be a complete or general restraint, for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was adequate for the public demand, the public might be in no wise affected."

If we adopt the classification suggested by the lower court, the petitioner's system is illegal because enforced by a combination. With this as the test, the reasonableness of the restraint is immaterial. But assuming (although an impossible assumption) that its legality is to be tested solely by its reasonableness, it is nevertheless illegal. The allegations of the bill set forth a demoralization of the trade of the wholesalers and retailers, petitioner's vendees and sub-vendees, by the cutting of prices by other wholesalers and retailers. There is no fact stated in the bill justifying the conclusion that this system of contracts is necessary for the protection of the petitioner's own business. There is no authority supporting the right of the petitioner to establish such a system of restraint for the benefit and protection of those engaged in the subsequent trade in its articles. The restrictive contracts with the retail dealers, an essential part of the system whose enforcement it is seeking, are not contracts restraining the trade in goods sold by the petitioner, but of goods sold to such retail dealers by persons other than the petitioner. It is difficult to understand a construction of the bill leading to the conclusion that such contracts enforce restraints imposed by the vendor for the reasonable protection of its retained business. As our conclusion that the restraint which the petitioner is attempting to maintain is, even if partial, unreasonable, we quote the Court of Appeals in *John D. Park & Sons Company* v. *Hartman (supra)*:

> "Looking to the averments of the bill as a whole and to the scheme of business as disclosed by the contracts themselves, we can not escape the conclusion that the covenants restricting sales and resales have as their prime object the suppression of competition between those who buy to sell again. Any benefit to the retained business to result from them is manifestly but an incident of the main purpose, which *is to benefit his vendees and sub-vendees by breaking down their competition with each other.* Restraints which might be upheld if ancillary to some principal contract can not be enforced if, when unmasked, they appear to be the main purpose of the contract and not subordinate. The covenants in the contracts signed by the retailers are not even collateral to any sales by the complainant, but to sales made by the wholesalers. Although they run to the complainant, their prime purpose is neither the protection of the retained business of the complainant nor of the wholesaler, but only to prevent competition between retailers. Covenants protecting the seller of property against the competition of the buyer by its use against the business retained by the seller, which are upheld if not wider than necessary for that purpose, have been covenants where the main purpose has been to protect the seller himself against competition *directed against his retained business.* No instance has been called to our attention where the main purpose and principle, if not only result, is to protect buyers against the competition of each other. If such a principle shall find lodgment in the law it must be upon economic reasons which are in conflict with those which now pre-

vail. The single direct effect of the 'system of contracts' is to limit and restrain the right of each wholesaler and each retailer to transact business in the ordinary way. Each obtains a price enhanced by the 'system' over the 'cut rate' or 'cut price' method which had before prevailed and which it was the object of the new plan to abolish. It may be that sales went on as before; but at a higher price to the consumer than would otherwise have been paid. In *Addyston Pipe Co.* v. *United States,* 175 U. S., 211, 244, it was said:

"'We have no doubt that where the direct and immediate effect of a contract or combination among particular dealers in a commodity is to destroy competition between them and others, so that the parties to the contract or combination may obtain increased prices for themselves, such contract or combination amounts to a restraint of trade in the commodity, even though contracts to buy such commodity at the enhanced price are continually being made. Total suppression of the trade in the commodity is not necessary in order to render the combination one in restraint of trade. It is the effect of the combination in limiting and restraining the right of each of the members to transact business in the ordinary way, as well as its effect upon the volume or extent of the dealing in the commodity, that is regarded.'" (153 Fed., 24, at 45.)

D. The Control Which the Petitioner is Attempting to Maintain Over the Entire Trade, in the Goods Manufactured by it, and the System of Contracts by Which it is Attempting to Carry Out that Purpose, are Illegal Under the Provisions of the Sherman Anti-Trust Act.

We have considered above the legality of what the petitioner is attempting to do with reference solely to common law principles, and have shown, we think conclusively, that it is attempting to maintain a monopoly which is unlawful at common law.

We desire moreover to apply to the consideration of this case and to the determination of the legality of the petitioner's system of contracts, the provisions of the Sherman Anti-Trust Act and the decisions of the Federal Courts thereunder. This act is applicable only if the contracts affect interstate commerce. Of this fact there can be no question in this case. The petitioner alleges that its goods are sold by it to the wholesale and jobbing druggists throughout nearly all of the states of the United States. This is clearly interstate commerce.

> *Addyston* v. *United States,* 175 U. S., 211.
> *Montague* v. *Lowry,* 193 U. S., 38.
> *Swift & Co.* v. *U. S.,* 196 U. S., 375.

The effect of the Sherman Anti-Trust Act is to make illegal any contract or agreement in restraint of trade, whether reasonable or not.

> *U. S.* v. *Trans-Missouri Freight Association,* 166 U. S., 290.

A discussion or analysis of the opinions of the Justices comprising the Supreme Court is unnecessary both on account of the familiarity of this court therewith, and because the principal has become crystalized into the definite construction that the Sherman Act prohibits all contracts essentially in restraint of trade.

> *Lowe* v. *Lawlor,* 208 U. S., 274, at p. 293.

The provisions of Sections 1 and 2 of the Sherman Act of July 2d, 1890, are clear and specific, and remove any possibility of doubt, that under the provisions of that act, that which the petitioner is doing in this case is unlawful. The act enumerates both combinations in restraint of trade and individual contracts and acts to the same effect, and it declares both alike unlawful; and especially says that the acts of every person attempting to establish a monopoly is unlawful. If, therefore, there can be any question that that which the petitioner is doing, as showu by the bill in this case, is unlawful at common law, any doubt in this respect, or as to its illegality, is entirely removed by the provisions of the Sherman Anti-Trust Act.

We may therefore conclude this branch of the argument by again calling attention to the situation shown by the bill in this case. The petitioner by virtue of the fact that it has kept its process and formula secret, has preserved to itself the sole right to manufacture. It so avers, and it is the fact that it is the sole person manufacturing articles of very extensive trade throughout the entire United States and in foreign countries. The result is that there are now no other persous mannfacturing, or, possibly, who have the power to manufacture these articles. That system of contracts, by which it attempts to preserve a monopoly over the output of its factory, and to prevent competition in the trade in, and to fix the prices of, the goods manufactured by it, is necessarily a system of contracts and agreements in general restraint of trade, and unlawful both at common law and by statute.

Third. Whether upon the Allegations of the Bill, the Petitioner is Entitled to Relief Against the Respondent.

A. The Necessary Effect of Granting the Relief Would be to Create by Judicial Sanction a Right Which Can Only Arise From Statute.

As we have before pointed out, if petitioner be granted the relief it asks for, the effect would be to grant it by judicial sanction an exclusive right of monopoly, which, it is very clear, it does not have. The effect would be to grant it rights which can only be acquired under the patent and copyright laws of the United States, and even more extended rights than could be acquired under those acts.

It would be granting to it a right of monopoly for an unlimited period of time, and that without it making that concession of a subsequent free use of its invention or discovery by the public, which is the condition upon which a patent is granted. This would be equivalent to establishing by judicial decree a right which manifestly can have its rise, if at all, only in legislative action. This fact, that the effect of such a decree would be legislative and not judicial in character, and would create a new right which does not now exist, should be in itself sufficient to lead the court to refuse any relief.

B. The Relief Should Not be Granted Because Its Effect Would be to Aid the Petitioner in Carrying Out of that Which is Unlawful.

It has, we think, clearly been shown that the control which the petitioner is attempting to exercise over the subsequent trade in its goods, and the coutracts and agreements which it has taken for that purpose, are illegal and unlawful both at common law and under the provisions of the Federal statute; and that that which the petitioner asks the court to enforce, and for the protection of which it asks the aid of a court of equity, is illegal and unlawful.

The rule is well established, that under such circumstances, a court of equity will uniformly refuse to grant any relief. Where the necessary effect of a decree would be to aid a party in carrying out that which is illegal, a court of equity will refuse any relief. This principle is very clearly recognized in the case of

> *Chicago Ry. Co.* v. *Wabash R. Co.,* 61 Fed., 993, at 998-9,

where the court said:

> "Courts will not lend their aid to enforce the performance of a contract which is contrary to public policy or the law of the land, but will leave the parties in the plight their own illegal action has placed them."

This decision was based on the following cases:

> *Central Transp. Co.* v. *Pullman Palace Car Co.,* 139 U. S., 24; 11 Sup. Ct., 478.
> *Gibbs* v. *Gas Co.,* 130 U. S., 396; 9 Sup. Ct., 553.
> *Texas & P. Ry. Co.* v. *Southern Pac. Ry. Co.,* 41 La. Ann., 970; 6 South., 888.
> *Morris Run Coal Co.* v. *Barclay Coal Co.,* 68 Pa. St., 173.
> *Hooker* v. *Vandewater,* 4 Denio, 349.

See, also,

> *John D. Park & Sons Co.* v. *Hartman,* 153 Fed., 24.
> *Cummings* v. *Union Blue Stone Co.,* 164 N. Y., 401.
> *Emery* v. *Ohio Candle Co.,* 47 Ohio St., 320.

See also the general rule, in this respect, clearly set forth in the text books on this subject.

> *2 High on Injunctions,* 3d Ed., Section 1106.
> *1 Pomeroy Equity Jurisprudence,* Section 402 *et seq.*

Upon both of the grounds just considered it is, we think, clear that the petitioner is not entitled to any relief in a court of equity.

C. The Bill Does Not Set Forth Facts Entitling the Petitioner to Relief Against the Respondent.

In the above discussion of this case, which we have gone into at such length because of the general public importance of the questions and distinctions involved, we have considered the case without reference to any question of the right of the petitioner to relief against the respondent in this particular case.

The respondent in this case has never signed any contract binding itself to comply in any way with the petitioner's scheme. That fact is expressly alleged. The relief is asked against the respondent on two grounds. First: That the respondent knew the methods under which the trade in petitioner's goods is carried on and hence had, and has, no right to acquire the same. Second: That the respondent, by virtue of a conspiracy with various other persons to prevent the petitioner from carrying out the system of contracts set forth, has been, and is, inducing persons who have contracts with the petitioner to violate them by selling the goods to the respondent.

It is manifest, we think, that the allegations of the bill in this respect are insufficient to warrant any relief against the respondent, even conceding that the petitioner has the exclusive monopolistic right which it contends for and that its system of contracts and agreements is not illegal.

In the first place, it is manifest that the mere allegation of knowledge on the part of the respondent of the petitioner's method of business, is not sufficient to warrant the relief restraining it from purchasing the goods. This proposition has been clearly laid down by the authorities, among others:

Appollinaris Co. v. *Scherer,* 27 Fed., 18, at 21.
Sperry v. *Hertzberg,* 60 Atl., 368, (Court of Chan. New Jersey, March 4, 1905).
Taddy v. *Sterious* (1904), 1 Chan., 254.
McGruther v. *Pitcher* (1904), 2 Chan., 306.
Garst v. *Hall,* 179 Mass., 588.

In the latter case, in a situation somewhat similar to that here, except that, as we have pointed out above, a general and complete restraint of trade did not appear, upon a suit being brought to enjoin a third person from acquiring goods from persons who had signed contracts, the court held that mere knowledge, on his part, of such method of doing business was not sufficient to warrant the relief.

In all of these cases the rule is clearly laid down that to warrant the relief there must be an inducement by unlawful and fraudulent means. This is, moreover, the clear basis of the decision in all of the cases in which injunctive relief, restraining third parties from inducing others to break contracts, has been granted. It has been held in all such cases that the mere inducement is not sufficient, it must be an unlawful inducement, or an inducement by misrepresentation and fraudulent and wrongful means. That this is clearly the rule see, among others, the following cases:

National Phonograph Co. v. *Edison-Bell Co.,* L. R. (1908) 1 Chan. Div., 335, at pp. 362-371.
Benton v. *Pratt,* 2 Wend., 385.
Rice v. *Manley,* 66 N. Y., 82.
Angle v. *Chicago, etc., Ry. Co.,* 151 U. S., 1.

In the last case the rule, in this respect, clearly appears from the cases cited by the court at pages 13 *et seq.*

See, also, the case of

Garst v. *Hall,* 179 Mass., 588, *supra,* where the rule is expressly laid down that, in the absence of a contract between the parties, the relief can be granted only in case the defendant fraudulently induced and procured a breach of contract.

This wrongful and fraudulent inducement, therefore, being the gist of the cause of action, the facts constituting the cause of action in this respect must be averred. The mere averment that the inducement was fraudulent and wrongful, or brought about by misrepresentation or unlawful means is not sufficient in this respect. Such allegations are merely conclusions of law and do not make a cause of action. In the case of *Garst* v. *Hall, supra,* the court said that the use of the word "fraudulent" in characterizing the acts amounted to no averment of fact. The rule that such averments are mere conclusions of law, is moreover, too well established to need citation. The general rule is clearly laid down, that where an action is based upon fraud, misrepresentation, inducement by unlawful means, etc., the facts constituting such fraud, wrongful inducement and unlawful means, must be averred; and it is these facts which constitute the cause of action.

The same is true as to the charge of conspiracy. See in this respect the following cases:

> *Setzar* v. *Wilson,* 4 Ired. (N. C.), 501,
> *McHenry* v. *Hazard,* 45 Barb., 657,
> *Hanson* v. *Langan,* 30 N. Y. St. Rep., 828,

where the court said:

> "A general allegation of fraud without setting out the facts showing the existence of the fraud is bad. The facts upon which the charge is founded must be averred with sufficient particularity to warrant the conclusion asserted by the pleader."

To the same effect are the cases of

Butler v. *Viele,* 44 Barb., 166.
Reed v. *Guano Co.,* 47 Hun., 410.
Bank v. *Rochester,* 41 Barb., 341.
Hilson v. *Libby,* 44 N. Y. Superior Ct., 12.

Again it was said by the court in the case of *Benedict* v. *Dake,* 6 How. Pr., 352, at 353:

> "The plaintiffs state what the representations were. * * * Nothing short of this would have constituted a sufficient complaint for such a cause of action. These are the facts which constitute the cause of action, and not the evidence, as the defendant's counsel seem to suppose. The evidence to establish these facts will be quite a different thing. To allege in general terms that the defendant had obtained goods by fraudulent representations would no more constitute a sufficient pleading than it would to allege that the defendant had slandered the plaintiff without specifying the words used."

See, also,

Davenport v. *Taussig,* 31 Hun., 563.

The same rule has been clearly laid down in the Federal Courts:

Hazard v. *Griswold,* 21 Fed., 178,
Mobile Savings Bank v. *Board of Supervisors,* 22 Fed., 580,

where it is distinctly held that the mere allegation of fraud is insufficient, and that the facts constituting fraud, inducement or misrepresentation must be set out.

The allegations of the bill in this respect are, therefore, mere conclusions of law, and it does not present either the facts to which the respondent has a right to answer, or any facts from which the court can find that there has been any such wrongful inducement, misrepresentation or use of unlawful means by the respondent as to warrant the granting of any relief against it.

For the various reasons, therefore, discussed above, it is, we think, clear that the respondent's general demurrer to the entire bill was properly sustained.

Fourth. Whether the Petitioner has any Cause of Complaint because the Respondent Defaces and Mutilates the Labels or Printed Matter upon the Packages which it Purchases and Owns.

We believe it is so clear that the general demurrer to the entire bill must be sustained, that we will devote but a few words to the consideration of this special ground of demurrer.

It is manifest that the allegation of the bill, in which the respondent is charged with mutilating the labels and printed matter upon the packages containing the petitioner's preparations, must be considered under two different aspects; on the one hand, with reference to their connection with the main relief asked, and on the other as furnishing ground for separate relief.

We think it is apparent, that, in the first aspect, these allegations furnish no ground for the main relief asked, and are no part of that cause of action. If the petitioner has the rights which it contends for, and its scheme can be said to be lawful, then it might be that it would be entitled, upon proper allegations against the respondent, to restrain the respondent from buying the goods at all. If it should obtain this relief, we submit that restraining the respondent from buying, acquiring or dealing in the goods at all, and at the same time, and in the same decree, restraining it from altering or defacing the labels upon the bottles which it does purchase, is manifestly absurd.

If, therefore, the petitioner could make out a cause of action entitling it to restrain the respondent from purchasing the goods at all, the special relief asked for, as to the destruction of the labels, etc., would be wholly inconsistent with, and no proper part of that relief, and in this respect the special demurrer must be clearly sustained.

On the other hand, if the petitioner has not the right to restrain the respondent from acquiring the goods, and if it has the right to purchase and deal in them, it is, we think, clear that these allegations, with reference to the mutilation of labels, etc., furnish no independent ground of relief; the goods, being then rightfully purchased by the respondent would become its absolute property, which it would have a right to destroy or deal with as it saw fit.

It will be observed that the allegation here is not one of an alteration of the labels so as to indicate that the goods were manufactured by any one else, or to in any way interfere with the full extent of the right which the petitioner has under his trade-marks.

The nature and extent of this right we have fully discussed above, and need not here repeat.

All that the bill charges the respondent with doing, in this respect, is the removal of certain serial numbers, by which the goods are identified and can be traced, as a means of carrying out the general scheme of the petitioner for controlling the trade therein. If this scheme is unlawful and the respondent's rights, therefore, to acquire and deal in the goods, sustained, it is certainly manifest that the alteration of the labels, no longer having any object, would no longer continue.

Moreover, the alteration and mutilation of the labels and printed matter with which the respondent is charged in the bill, are not of a character entitling the petitioner to restrain them. All the cases in which the mutilation of trade-marks and labels have been considered have been cases where the object of the alteration was to deceive the public in the essential fact as to which alone the trade-mark or label gives any protection, to-wit, as to the origin or maker of the goods. Not only are no allegations made in this case bringing it within these decisions, but the contrary clearly appears. The respondent is not attemptiug in any way to represent the goods as being other than those of the petitioner, nor is it doing any act in an attempt to injure, or calculated to injure, the petitioner in its rights, unless it be conceded that the petitioner has the right to carry out the scheme of monopoly set forth in the bill.

We believe no case can be found sustaining the proposition that merely such a mutilation of labels and trade-marks as is here charged is unlawful on the part of the purchaser of the goods. On the contrary it would seem to be clearly the right of the respondent, if it has a lawful right to purchase the goods, to destroy them if it desires, or to resell them in any condition it desires. The injury, if any, from snch acts as are alleged in this respect, would be to the respondent and not to the petitioner. If the allegations of the bill are true, that the public is desirous of having the goods with the printed matter intact, then the result of offering them for sale in a different condition would be to decrease the possibility of the respondent reselling them.

In fact, the sole ground, taking the bill together, upon which the petitioner alleges any injury to itself by the respondent, by this mutilation or otherwise, is the interference with its general plan and scheme of monopoly of trade in its goods. If that scheme is unlawful, and the respondent has a right to purchase the goods, that would necessarily put an end to the whole matter. If not, the relief asked, restraining the respondent from purchasing or dealing in the goods, is complete in itself, and the partial relief asked in that connection, in the parts of the bill especially demurred to, wholly inconsistent therewith.

It is submitted that the special demurrer should be sustained.

CONCLUSION.

It is respectfully submitted that the petitioner's system is illegal and unlawful as in restraint of trade, both at common law and under the statute, and that the action of the courts below in sustaining the demurrers and in dismissing appellant's bill, should be sustained.

Respectfully submitted,

WILLIAM J. SHRODER,

Solicitor for Respondent.

ALTON B. PARKER,

WILLIAM J. SHRODER,

Of Counsel for Respondent.