

## Legal Notes.

**THE PRIVILEGE OF LICENSORS AND LICENSEES.**—Mr. P. A. Meyer's report on the privileges of licensors and licensees, submitted to the National Association of Implement and Vehicle Manufacturers, is well worth the consideration of inventors. We present herewith a summary of the report:

As to the trend of recent or modern decisions on the question of the power and right of patentees to regulate the prices and terms of sale of their patented articles, through and by their licensees, the federal courts have recently, in several judicial pronouncements, found and held that patentees have such right; that they may prescribe the price and lay down the terms of sale which their licensees shall charge and impose in selling to the general trade the patented articles covered by the patents under which the license is granted.

The Supreme Court of the United States in May, 1902, made such an announcement in the case of *Bement vs. National Harrow Company*, reported in volume 186, at page 70, United States Reports. In that case there was a license contract between the National Harrow Company, a New Jersey corporation, and a Michigan corporation. In this license, the licensee among other things agreed that it would not, during the continuance of the license, sell its products, manufactured under the license, at a less price or on more favorable terms of payment or delivery to purchasers than was set forth in a certain schedule, which was made part of the license. The licensee also agreed to pay the licensor, for each and every of the articles sold contrary to the strict provision of the license, the sum of five dollars as liquidated damages. The court said that the question was, whether or not such license contract was valid under the act of Congress approved July 2, 1890, Chapter 647 of the first session of the Fifty-first Congress.

Then the court said:

"On looking through these licenses we have been unable to find any conditions contained therein rendering the agreement void because of a violation of that act. There has been, as the referee finds, a large amount of litigation between the many parties claiming to own various patents covering these implements. Suits for infringement and for injunction had been frequent, and it was desirable to prevent them in the future. This execution of these contracts did in fact settle a large amount of litigation regarding the validity of many patents as found by the referee. This was a legitimate and desirable result in itself. The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

And as stating the rule of law on this subject, the court further said:

"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 contracts keep up the monopoly or fix prices does not render them illegal."

In June, 1902, in the District of Massachusetts, Judge Lowell decided the case of the *Edison Phonograph Company vs. Pike*, reported in Volume 116 Federal Reporter, at page 1863, in which he sustained the validity of a similar contract. The contract before him was one by which the owner of certain patents granted licenses to use and vend the patented articles, the licensees agreeing not to sell such articles for less than the price fixed by the licensor, and not to sell to any one who did not sign a similar agreement. The contract contained a further condition that as to any of the patented articles sold in violation of its terms, the license should be void, and that any vendor or user of such articles thereafter should be an infringer of the patents. The court held that such condition was valid and that the sale or use of the patented articles by one who purchased them from the licensee, with knowledge of the terms of the contract, and without signing the agreement required by the contract, constituted an infringement. Thus the court recognized the right of the patentees to impose the price at which the licensee shall sell the licensed articles, and the

further right of the patentees to require the licensee not to sell to any one as his customer who will not sign a similar agreement. The point in the case was whether one who had purchased the patented articles of the licensee and had sold them in disregard of the terms of the license to the licensee, was an infringer. The court held that such customer so ignoring the terms of the license under which the licensee sold the goods to him, was an infringer.

In April, 1903, the Circuit Court of Appeals for the Seventh District, which sits in Chicago, decided the case of the *Victor Talking Machine Company vs. The Fair*, which case is reported in Volume 123 Federal Reporter, at page 424. In this case the court laid down the right of the patentee to fix the selling price of the licensed article in broad terms. The court decided that the "owner of a patent who manufactures and sells the patented article may reserve to himself, as an ungranted part of his monopoly, the right to fix and control the prices at which jobbers or dealers buying from him may sell to the public, and a dealer who buys from a jobber with knowledge of such reservation, and resells in violation of it, is an infringer of the patent."

Thus it may be affirmed that the time has been reached and passed in the progress of judicial pronouncement when a patentee or owner of a patent may lawfully regulate the price and terms of sale, both as between himself and a jobber or dealer, and between the latter and the public to whom they sell.

**THE LEGAL STATUS OF TRADE SECRETS.**—Under the common law as it prevailed in England and in the American colonies, it was a fundamental principle that when an invention or secret was divulged, it passed into the possession of the public. So absolute was the transfer of title, that the general use of the invention could not be restrained; and so broad was the rule, that a patent could not be granted after public knowledge of the secret had been obtained. Common law rules are never abrogated; they are only modified by statute to meet existing necessities. And so our own patent statutes are to be construed, not as abolishing a doctrine brought with them by our forefathers, but as a modern change. Under our latest patent statute, the common law rule that general knowledge of a secret or invention inalienably vests the right to that invention or secret in the people, has been so far modified that an inventor is permitted to publish his secret two years before applying for a patent. With the exception of this change, the common law right of the public to an unprotected secret which has come into possession remains unaltered.

Under this still-existing, slightly-modified principle, an invention is the property of its inventor so long as it has not come to the knowledge of others, and so long as it has not been patented. For the purpose of giving an inventor absolute dominion over his secret, and also of permitting the public under certain conditions to enjoy the fruit of the inventor's labor, our government has enacted patent laws, which restrict the common law right of the public and of other inventors to a secret divulged. "An inventor has no right to his invention at common law. He has no right of property in it originally. . . . If to-day you should invent an art, a process, or a machine, you have no right to hold that for seven, ten, fourteen, or any given number of years against one who should invent it to-morrow without any knowledge of your invention, and thus cut me and everybody else off from the right to do to-morrow what you have done to-day. There is no absolute right nor natural right at common law, that I, the original and first inventor to-day, have to prevent you and everybody else from inventing and using to-morrow or next day the same thing." (Holmes quoted by Shipley, J., in 4 Fisher, 284.)

With the position of an invention or secret under the common law and under our statute clearly defined, the next question to consider is what is the right of the public to an invention which has been revealed by fraud?

It cannot be denied that it is not against public policy for an inventor to divulge his secret to another for a consideration, on the condition that the secret shall not be further communicated. In so far as he may thus be able to sell an important invention, an inventor may be said to possess a limited property right in a secret. The validity of such a limited property right would be tested most thoroughly in an action in equity to restrain one from breaking a promise not to reveal a purchased secret. The English courts have discussed the question exhaustively; our own courts have followed in their footsteps. In the case of *Bryson vs. Whitehead* (1 Sim. and S., 74), it was deemed to be not against public policy to restrain the communication of a secret sold on condition that it should not be revealed. And in *Yoratt vs. Winnyard* (1 J. and W.) an injunction to restrain a defendant from communicating certain recipes for medicines and vending them was granted on the ground that he obtained a knowledge of the mode of preparing them

by a breach of trust. It is essential that the inventor should have possession of a secret; otherwise an injunction will be denied. Thus, in *Williams vs. Williams* (3 Mer., 157) an injunction to compel a specific performance of an agreement not to divulge an important secret was dissolved on the defendant's denying the facts of the case, and on the ground that there was no secret. The distinction between public and private rights to a secret has been best drawn in the leading case of *Morrison vs. Moat* (9 Hare, 241), where it was held that a plaintiff not having the privilege of a patentee may have no title in the exclusive manufacture and sale of a medicine against the world, but he may notwithstanding have a good title against the particular defendant. In *James vs. James* (41 L. J. C., 351), the court likewise held that any person who, by fair means, has gained knowledge of a trade secret, may, after the death of the original inventor, continue the sale of the article; but he must not represent his as the only genuine article.

What are the rights of third persons in the matter of a secret developed? In the case of *Morrison vs. Moat* (*supra*) it was held that "a party may be enjoined from using a secret mode of compounding a medicine not protected by a patent, when he has acquired the knowledge by a breach of contract or fraud on the part of his informant."

As between two contractants it would, therefore, appear that publication of a secret can be restrained as the result of an action on the special contract. What should be the rule between employer and employe? If the employe specifically promises not to reveal the secret, it follows from what has already been said that he will be enjoined from breaking his promise. Thus in *Peabody vs. Norfolk* (98 Mass., 452), the complainant had built a mill and furnished it with machinery invented by him for manufacturing cloth by a secret process. An engineer in his employ, who had contracted not to give information concerning the machinery, but to preserve the process secret, was enjoined from violating his contract. A similar decision was rendered in *Thun vs. Tloczynski* (114 Mich., 149). Even without a special contract imposing secrecy, an employer can under certain conditions restrain a former employe from communicating a secret imparted to him during his employment; for if the employment is of a confidential nature, the promise not to reveal a secret will be implied (*Salomon vs. Hertz*, 40 N. J. E., 400; *Little vs. Gallus*, 4 Ap. Div., 569). But if no contract is either expressed or implied, one who has acquired knowledge of a secret may divulge that secret (*Bell and B. Soap Company vs. Pretoria Manufacturing Company*, Sup. Ct., 54 N. Y. Supp., 663).

The converse is also true. There is no reason why an employer to whom a secret may have been revealed under a special contract by an employe should not be restrained from breaking his contract if the employe should be discharged from his service. A court of equity will always consider the relations between the two parties and the nature of the agreement which has been drawn up by them or implied. Broadly stated, the rule would probably be that an injunction will be issued to restrain the use of a trade secret which has been acquired fraudulently or by a breach of trust.

Where a suit for infringement of a patent came on for hearing after the proofs had been closed, with an admission in open court as to the points in dispute, no claim being made against the complainant's title, such title is admitted, and cannot be thereafter questioned.

The effect of the words "substantially as described" in a claim of a patent is not to limit the claim to the precise construction shown in the specification, nor to deprive the patentee of the benefit of the doctrine of equivalents, where his invention is of a primary character.

The defense of anticipation is not made out where the alleged anticipatory process or machine is inoperative or a failure, while that of the patent is operative and successful, even though the same devices or parts are used, but combined in a new way.

An arrangement of parts in combination, so as to produce a new and useful result, shows invention, although such parts separately were well known and in common use, where such combination for the purpose intended was not obvious to persons of ordinary mechanical skill.

An assignee of a patent for an extended term is precluded by a license agreement, made by the patentee to induce the licensee to withdraw opposition to the extension, of which agreement it had knowledge, from maintaining a suit against such licensee for infringement.