

*Judgment of the Lords of the Judicial Committee of the Privy Council on the Appeal of The National Phonograph Company of Australia, Limited, v. Walter T. Menck, from the High Court of Australia; delivered the 3rd February 1911.*

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PRESENT AT THE HEARING :

LORD MACNAGHTEN.

LORD ATKINSON.

LORD SHAW.

LORD MERSEY.

LORD ROBSON.

[DELIVERED BY LORD SHAW.]

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This is an Appeal brought in an Action to restrain the Respondent, Mr. Menck, from (1) acting in breach of a certain contract between the parties, and (2) from infringing the patent rights of the Appellants, The National Phonograph Company of Australia. The facts were investigated by Mr. Justice Isaacs, and reported by him to the High Court of Australia, which delivered a Judgment dismissing the Action, and finding the Appellant Company liable in costs.

The Appellants own three patents for "Improvements in Phonographs," "Improvements in the production of Sound Records or Blanks," and "Improvements in Sound Records or Blanks." All of these patents were granted pursuant to the provisions of the Patents Act, 1903, of the Commonwealth of Australia.

Section 62 of the Statute is to the following effect :—

“ The effect of a patent shall be to grant to  
“ the patentee full power, sole privilege and  
“ authority, by himself, his agents, and licensees  
“ during the term of the patent to make, use,  
“ exercise, and vend the invention within the  
“ Commonwealth in such manner as to him  
“ seems meet, so that he shall have and enjoy the  
“ whole profit and advantage accruing by reason  
“ of the invention during the term of the  
“ patent.”

Substantially nothing depends upon the particular wording of this section, or of the language of the First Schedule, which contains the form of a grant of patent, it being admitted by the parties that their rights are not varied by the differences, if any, between the language of the Australian and the British Patent Acts.

The application for an injunction has been accompanied on the part of the Appellants by a series of charges and allegations against Mr. Menck of contravention of their rights, which have been rightly found to have no foundation. One of these charges, in fact, alone remains to be dealt with and this will be subsequently referred to. It has also been accompanied by propositions in law and arguments and pleas of a highly controversial and delicate character, producing marked differences of opinion among the learned Judges in Australia. Notwithstanding the insubstantial extent of the questions as matters of business which have been raised by the Appellants, and the difficulty of seeing that they have, at least as yet, suffered the slightest patrimonial loss by the actions of Mr. Menck, it appears to their Lordships that, in view of the Judgments of the Court below, in which the decisions of distinguished Judges of the English Courts have been examined in

much detail, it is expedient that the questions, more especially those dealing with the nature and effect of a patent grant, should be scrutinised and dealt with.

In the course of their business the Appellants sold Edison phonographs, records, and blanks, made in accordance with, and under the protection of, the Letters Patent. Their mode of proceeding was to sell to jobbers under jobbers' contracts. Jobbers had power to sell to dealers, but the dealers' contracts were made direct with the Appellants. Mr. Menck, the Respondent, was a dealer and had various dealers' agreements dated April and May 1906, and the Appellants entered him in their dealers' list. The position of being upon this list appears to have been one of commercial importance. By the ninth head of the Dealers' Agreement it was provided that "dealers violating any of the foregoing conditions of sale or any other reasonable conditions that may from time to time be imposed" by the Appellants ". . . may be at once withdrawn from the dealers' list." On the dealer's part, he undertook that "in the event of my name being removed from the dealers' list, I will in no way handle, sell, or deal in or use, either directly or indirectly, Edison phonographs and parts thereof, Edison records and Edison blanks, unless authorised to do so in writing" by the Appellants.

There are, as stated, two questions which arise in the case. The first has reference to the allegation by the Appellants that the Respondent has acted in breach of this contract. The second—much more important in principle—is that he has acted in breach of their rights as patentees.

(1.) A considerable portion of the Judgments and opinions of the learned Judges of the High Court is occupied with the investigation of the

transactions upon which the charges of breach of contract made by the Appellants depended. Much weight must necessarily attach to the Judgment of Mr. Justice Isaacs, in which these transactions were most carefully resumed. Their Lordships do not think it necessary to enter upon these details further than to state that they concur in the statement of the general result of his investigation made by that learned Judge when he declares:—"With regard to the breach of contract, whatever else may prove to be the legal relations of the parties, no special damage was proved, and indeed none of the alleged breaches were substantiated as laid." But Mr. Justice Isaacs, while holding this general opinion, is constrained, manifestly with reluctance, to hold that one breach of the agreement was "technically justified." He thus describes his position:—"A more difficult consideration is whether the Beckett transaction was a violation of Clause 4 or Clause 6 of the Agreement. On the facts found, no other alleged violation occurred, and the Beckett dealing was in any aspect a trivial matter upon which to hang such momentous consequences. But if it constitutes a violation, the removal of the Defendant's name from the Plaintiff's list of dealers was technically justified by the contract." It may be said that upon the contract question, by three to two, the Judges of the High Court held that no violation of the Appellants' rights had occurred. The Appellants might well, in their Lordships' opinion, have been content with this part of the Judgment. They, however, challenged it, and it is accordingly necessary to deal with it.

One cannot peruse either the Dealers' or Jobbers' Agreement without perceiving that the main object of those documents, so far as the Appellants were concerned, was to secure that

there should be no selling of their productions at less than their standard prices to the public. Commissions were fixed to jobbers and to dealers respectively, but, so far as the ordinary purchasers were concerned, no undercutting of prices was permitted. The Appellants started their case with various allegations of undercutting, all of which have proved to be unfounded. As Mr. Justice Isaacs has found, Menck never even contemplated such a thing, nor did he ever engage in that method of business, and whether the transactions were before or after his name being deleted from the dealers' list, that is the case. But a second object of the agreements was to secure by the prevention of exchange that the articles of rival manufacturers should not, by the assistance of jobbers or dealers, be, so to speak, put into circulation. The fourth condition accordingly is in these terms:—"Exchanging or tendering Edison phonographs or parts, records or blanks, in whole or part payment for privileges of any character, or for advertising or for goods of some other make or nature, or the exchange or acceptance of merchandise of other make or nature in whole or part payment for Edison phonographs or parts, records or blanks, is not permitted. This does not prohibit the acceptance of a talking machine at full list price, if good as new, or less cost of repairs to make good as new, in exchange for an Edison phonograph sold at full retail list price; but does prohibit the acceptance of records or blanks of any kind, at any price, in exchange for Edison phonographs or parts, Edison records or Edison blanks." The Appellants strenuously argued that the last portion of this clause prohibiting the acceptance of records or blanks of any kind at any price was absolute and universal. It is plain, however, that the clause deals with the introduction of

rival goods into the market, goods spoken of thus: "exchanging or tendering" Edison goods in whole or part payment for privileges or for advertising "or for goods of some other make " or nature, or the exchange or acceptance of " merchandise of other make or nature." Having made that general point clear, it is however added that "this does not prohibit the acceptance of a " talking machine at full list price," and so on, " but does prohibit the acceptance of records or " blanks of any kind at any price in exchange " for " Edison goods. In the opinion of their Lordships, the majority of the learned Judges of the Court below are right in holding that this is not a prohibition against one dealer in Edison goods, who happens to be out of one class of them, exchanging with another dealer who happens to have a surplus of the class needed, the condition being always observed that the transaction is regulated on the trade prices so as to prevent, first, any undercutting, and, secondly, the introduction of rival goods. It is found as a fact in this case that Mr. Menck, in one solitary and small transaction, exchanged a Gem phonograph of the Appellants' make (worth a few guineas) for another of the Appellants' phonographs and 21 records, these also being of the Appellants' make. The exchange was arranged on the basis of the dealers' price list. "It was " certainly not a wilful breach," and Mr. Menck made no profit from it. It is the view of their Lordships that such a transaction, apparently perfectly reasonable from the point of view of business, did not constitute a contravention of the agreement of parties.

When, therefore, the 9th Condition of the Contract sets out that dealers violating any of the foregoing conditions may be at once withdrawn from the dealers' list, and when Mr. Menck covenanted that, in the event of his name being

removed from that list, he would in no way handle sell or deal in or use the Edison goods, it appears clear that, if the Appellants are to found a matter of contract upon this comprehensive restraint on Mr. Menck's conduct as a trader, they must justify their withdrawal of his name from the list on the ground of having established that he has violated the contract. As it is not established that he has done so, and all the allegations to that effect have failed, it follows that the Respondent stands free of obligations to the Appellants in so far as these are contractual obligations.

It was in these circumstances not unnatural that the Respondent should consider himself as free as any ordinary member of the public with regard to the dealing in and sale of the Appellants' goods. The second point of the case is thus reached.

(2) Large portions of the contentions of the Appellants, both in their written pleadings in the Court below, and as these may be supposed to be reflected in their stated case to this Board, consisted of propositions and views in law which are unsound, and their Lordships are not surprised that the learned Judges of the High Court were put to great difficulty in endeavouring to disentangle such pleadings. On the other hand, the Respondent, believing, and being possibly advised, that his position, there being no agreement which bound him, was that of an ordinary member of the public buying goods in the ordinary market, also put forward a view of the case which was lacking in soundness. On the one hand, the Appellants not only maintained, that they, as owners of the Letters Patent, could sell their goods upon terms and conditions importing only a limited right to deal with the goods, but they went the length of maintaining that such a limited license "runs with such goods

“ in the hands of all persons into whose possession  
“ they may come, and whether such persons  
“ acquired such goods with or without notice of  
“ the terms of such limited license.” On the  
other hand, the Respondent maintained that a  
Patentee imposing conditions upon the use or  
sale of his patented articles is not entitled “ to  
“ enforce such conditions upon a subsequent  
“ purchaser of those articles apart from any  
“ contract with such subsequent purchaser.”  
Two of the learned Judges supported the former  
proposition, and three (the majority) of the  
learned Judges supported the latter proposition.  
In their Lordships’ opinion, both propositions  
are unsound.

An examination is made by Griffith, C.J., of  
the Appellants’ proposition, both from the point  
of view of principle, and from an examination of  
the authorities. These authorities are examined  
in detail; certain observations are made upon  
the judgments therein, and the learned Judge  
comes to the conclusion that he is not bound by  
the various dicta to which he refers.

It would rather appear accordingly that,  
standing the present judgment on the one hand  
and those English judgments or dicta referred  
to on the other, a different conception might  
prevail with regard to the rights of a vendee of  
patented articles in Australia from that which  
prevails in England; and this would of course  
result *pro tanto* in a different administration of  
the law on the same subject. It may accordingly  
be as well, from that isolated point of view,  
that an appeal was taken to this Board.

To begin with, the general principle, that is  
to say, the principle applicable to ordinary goods  
bought and sold, is not here in question. The  
owner may use and dispose of these as he thinks  
fit. He may have made a certain contract with  
the person from whom he bought, and to such a



contract he must answer. Simply, however, in his capacity as owner, he is not bound by any restrictions in regard to the use or sale of the goods, and it is out of the question to suggest that restrictive conditions run with the goods. The judgment of Mr. Justice Swinfen Eady in *Taddy v. Sterious* (1904, 1 Ch., 358), is plainly sound. It would be contrary to the public interest and to the security of trade, as well as to the familiar rights attaching to ordinary ownership, if any other principle applied.

The real point of difficulty is the enforcement of that principle without impinging upon something else, namely, the right of property granted by the State and by way of monopoly to a patentee, and his agents and licensees, "to make, use, exercise, and vend the invention, . . . in such manner as to him seems meet." This is, of course, with reference to the grant of the right as a sole right, that is to say, put negatively, with a power to exclude all others from the right of production, &c., of the patented article, and also with reference to the imposition of conditions in the transactions of making, using, and vending, which are necessarily an exception by statute to the rules ordinarily prevailing.

In the opinion of their Lordships it is perfectly possible to adjust the incidence of ownership of ordinary goods with the incidence of ownership of patented goods in such a manner as to avoid any collision of principle. In their Lordships' view this has been done for a long period of years in England by decisions which are consistent and sound.

The learned Chief Justice, after dealing with the case of patent rights confined geographically to England, deals with the general subject of the sale of a patented article thus: He remarks that it has "come into lawful existence and

“ circulation as a chattel, the owner of which is  
“ entitled to make such use or disposition of it  
“ as he pleases, unless forbidden by Statute.  
“ Such an article may be regarded, to use the  
“ American phrase, as having ‘ passed out of the  
“ ‘ limit of the monopoly.’ ” It is accordingly  
plain that, if this doctrine be correct, the owner of  
patented goods which he has purchased could,  
notwithstanding his full knowledge at the time  
when he made the transaction of purchase as to  
conditions and restrictions having been attached  
by the patentee to the rights in the articles sold,  
maintain that the ordinary incidents of sale of a  
chattel should apply, and that these wiped such  
conditions and restrictions out, and that the  
purchaser, notwithstanding his knowledge thereof,  
stood free therefrom. The learned Judge arrives  
at the same conclusion under his view of the  
word “ vend,” which he properly does not limit  
to the idea itself, but extends to the product of  
the invention. Commenting upon the argument  
that after “ vending ” the patentee may still have  
rights of restriction, &c., which bind the owner  
of the goods, he observes : “ it would follow  
“ that, by the introduction of that word (vend)  
“ into the English Patents Act of 1883, a radical  
“ change was effected in the law of personal  
“ property, and that there came into existence a  
“ new class of chattels, to which is attached the  
“ quality or character of being inalienable with-  
“ out the consent of some person other than the  
“ owner, although that other has no right of  
“ property in them.” There is no doubt that, if  
the doctrine contended for by the Appellants and  
affirmed by the dissentient Judges in the Court  
below were to be given effect to, namely, that the  
conditions imposed by the patentee run with the  
goods, a radical change in the law of personal pro-  
perty would have been made. But if that latter  
view be an extreme view, and if the restriction

upon alienation, use, or otherwise of the chattel purchased, be a restriction arising from the fact that the person who has become owner has done so with the knowledge brought home to him of the limitation of his rights of alienation or otherwise, then there seems to be no radical change whatever. All that is affirmed is that the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by Statute, gave the original patentee a power to impose. Whether the law on this head should be changed and the power of sale *sub modo* should be withdrawn or limited is not a question for a Court. It may be added that where a patented article has been acquired by sale, much, if not all, may be implied as to the consent of the licensee to an undisturbed and unrestricted use thereof. In short, such a sale negatives in the ordinary case the imposition of conditions and the bringing home to the knowledge of the owner of the patented goods that restrictions are laid upon him.

These principles harmonize the rights of the patentee with the rights of the owner. They are not, in their Lordships' opinion, novel, nor did they start, as might appear to be the view of the Case Law adopted by some of the Judges in the Court below, with the Judgment of Mr. Justice Wills in the case of *The Incandescent Gas Light Company, Limited, v. Cantelo* (12 Patent Cases, 262).

*Betts v. Willmott* (6 Chancery Appeals, 239), was decided in the year 1871. In that case "the owner of an English patent manufactured the patented article in France as well as in England. In a suit to restrain the sale of the article in England, the Plaintiff proved that it was not made at his manufactory in England, but could not prove that it was not made at his manufactory in France." It being incumbent accordingly on the Plaintiff to prove, not only the sale but that the article was not made by himself or his agents, and he having failed in this proof, he failed in his suit. In that case Lord Hatherley deals with the general point both as to what arises from the ordinary case of purchase of an article and also as to the case where a patented article is sold with notice of restrictions. "When a man," says his Lordship, "has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself." As to an ordinary vendee as distinguished from the mere agents of the patentee, what is required of the patentee is not only to show "that there is some clear injunction to his agents, but that there is some clear communication to the party to whom the article is sold" of any restrictions in the rights. Accordingly these two points, first, as to the ordinary effect of a sale, with the presumption of the sale carrying everything, unless in the case of licensed goods there be clear agreement to the contrary; and secondly, that that agreement must be, not a communication to agents merely, but to the party to whom the article is sold, are made clear by that decision.

In 1883 the same two points appeared in the Judgment of Lord Justice Cotton in *Société*

*Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Company* (reported in 25, Ch. D., 9).

Again in 1888, in *Heap v. Hartley* (5 Patent Cases, 610), Bristowe, Vice-Chancellor of the Palatine Court, followed up the two cases of *Betts v. Willmott* and *Société Anonyme des Manufactures de Glaces v. Tilghman's Sand Blast Company* on exactly the same lines.

Then in 1895 there occurred the case of *The Incandescent Gas Light Company, Limited, v. Cantelo* (12 Patent Cases, 262). As the Judgment has been much canvassed, and as, in their Lordships' opinion, it forms undoubtedly a leading authority in the law of England, these passages from the opinion of Wills, J., may be cited: "The sale of a patented article carries  
 " with it the right to use it in any way that  
 " the purchaser chooses to use it, unless he  
 " knows of restrictions. Of course, if he knows  
 " of restrictions, and they are brought to his  
 " mind at the time of the sale, he is bound  
 " by them. He is bound by them on this prin-  
 " ciple: the patentee has the sole right of using  
 " and selling the articles, and he may prevent  
 " anybody from dealing with them at all.  
 " Inasmuch as he has the right to prevent people  
 " from using them or dealing in them at all, he  
 " has the right to do the lesser thing, that is to  
 " say, to impose his own conditions. It does not  
 " matter how unreasonable or how absurd the  
 " conditions are. It does not matter what they  
 " are, if he says at the time when the purchaser  
 " proposes to buy or the person to take a licence:  
 " 'Mind, I only give you this licence on this  
 " ' condition,' and the purchaser is free to take it  
 " or leave it as he likes. If he takes it, he must  
 " be bound by the condition. It seems to be  
 " common sense, and not to depend upon any  
 " patent law or any other particular law." As

to the attempt, however, to bind a purchaser to a condition not brought to his notice at the time of the sale such an attempt cannot succeed. The purchaser "had bought it subject to no condition, and the bringing of a condition to his mind after the sale was completed will not do, and it ought not to do. It would be a most oppressive thing that any person who bought a box of this kind, and who happened to find out before he used the thing that it was covered with a label of this kind—it would be a most oppressive thing if he were bound to observe the conditions which are upon it." So far as this Judgment is concerned, it will be seen that it only put with force and clearness what had been the result of authority in England for about at least a quarter of a century on the two main points, namely, first, the effect of sale without conditions, and secondly, the limitation of the rights of an owner who buys a patented article with knowledge of the conditions. It may be said to have introduced a third element which was really a clearing up of the other two, namely, that the imposition or knowledge of restrictive conditions must occur at the time of sale, and that a purchaser who has made his bargain is not bound to conform to conditions which are attempted to be subsequently imposed upon him.

In 1901 occurred the case of the *British Mutoscope and Biograph Company, Limited, v. Homer* (reported in 1901, 1, Ch., 671). The case had reference to the seizure of a patented chattel on the premises of a licensee under the operation of a distress for rent issued by the landlord. The distinction taken between a chose in action, which has no locality and is incapable of manual seizure, and a chose in possession found upon the demised premises, need not be entered upon; but upon the rights

of a patentee Farwell, J. made these observations, entirely in accord with, by that time, the long line of authority: "A patentee is entitled to restrain any person in whose hands he finds an article which infringes his patent from infringing such patent unless the Defendant can show a title direct or derivative from the patentee to use the patent; and it has recently been held in *Incandescent Gas Light Company v. Brogden* that a purchaser who buys with knowledge of the conditions under which his vendor is authorized to use the patented invention, is bound by such conditions, and that such conditions are not contractual, but are incident to and a limitation of the grant of the licence to use, so that if the conditions are broken there is no grant at all."

There was then in 1904 the case of *McGruther v. Pitcher* (1904, 2 Ch. 306). This had reference to the case of ordinary, that is, unpatented, goods, which were held free, on a transaction of sale, from conditions restrictive of the power and price of resale. The judgment of the present Master of the Rolls (then Lord Justice Cozens-Hardy) is, in the opinion of their Lordships, of value, in this especial respect, that it clearly and expressly pointed the distinction between the sale of unpatented and of patented goods. His Lordship said: "I cannot help thinking that in the argument in the Court below some confusion was introduced by reference to patent rights. Now this action is neither in form nor in fact an action by a patentee claiming an injunction to restrain an infringement of his patent. In such an action it is open to the Defendant to plead a licence by the Plaintiff. That licence may be express, or it may be implied from the sale by the patentee of the patented article, but, if the

“ Defendant pleads a licence, then it is competent for the Plaintiff to reply, ‘The licence which I granted is a limited licence, and you, the person who has now got the patented article, were aware it was only a limited licence, and you cannot therefore defend yourself against my claim for an infringement of my patent, because you are going outside the licence which to your knowledge I gave with reference to this article.’ Such a case would not depend upon any condition running with or attaching to the article. It would depend only upon the limits of the licence which the patentee had granted when he first parted with the goods.”

In their Lordships’ opinion, it is thus demonstrated by a clear course of authority, first, that it is open to licensee, by virtue of his statutory monopoly, to make a sale *sub modo*, or accompanied by restrictive conditions which would not apply in the case of ordinary chattels; secondly, that the imposition of these conditions in the case of a sale is not presumed, but, on the contrary, a sale having occurred, the presumption is that the full right of ownership was meant to be vested in the purchaser; while thirdly, the owner’s rights in a patented chattel will be limited if there is brought home to him the knowledge of conditions imposed, by the patentee or those representing the patentee, upon him at the time of sale. It will be observed that these propositions do not support the principles relied upon in their absolute sense by any of the Judges of the Court below. On the one hand, the patented goods are not, simply because of their nature as chattels, sold free from restriction. Whether that restriction affects the purchaser is in most cases assumed in the negative from the fact of sale, but depends upon whether it entered the conditions upon which the



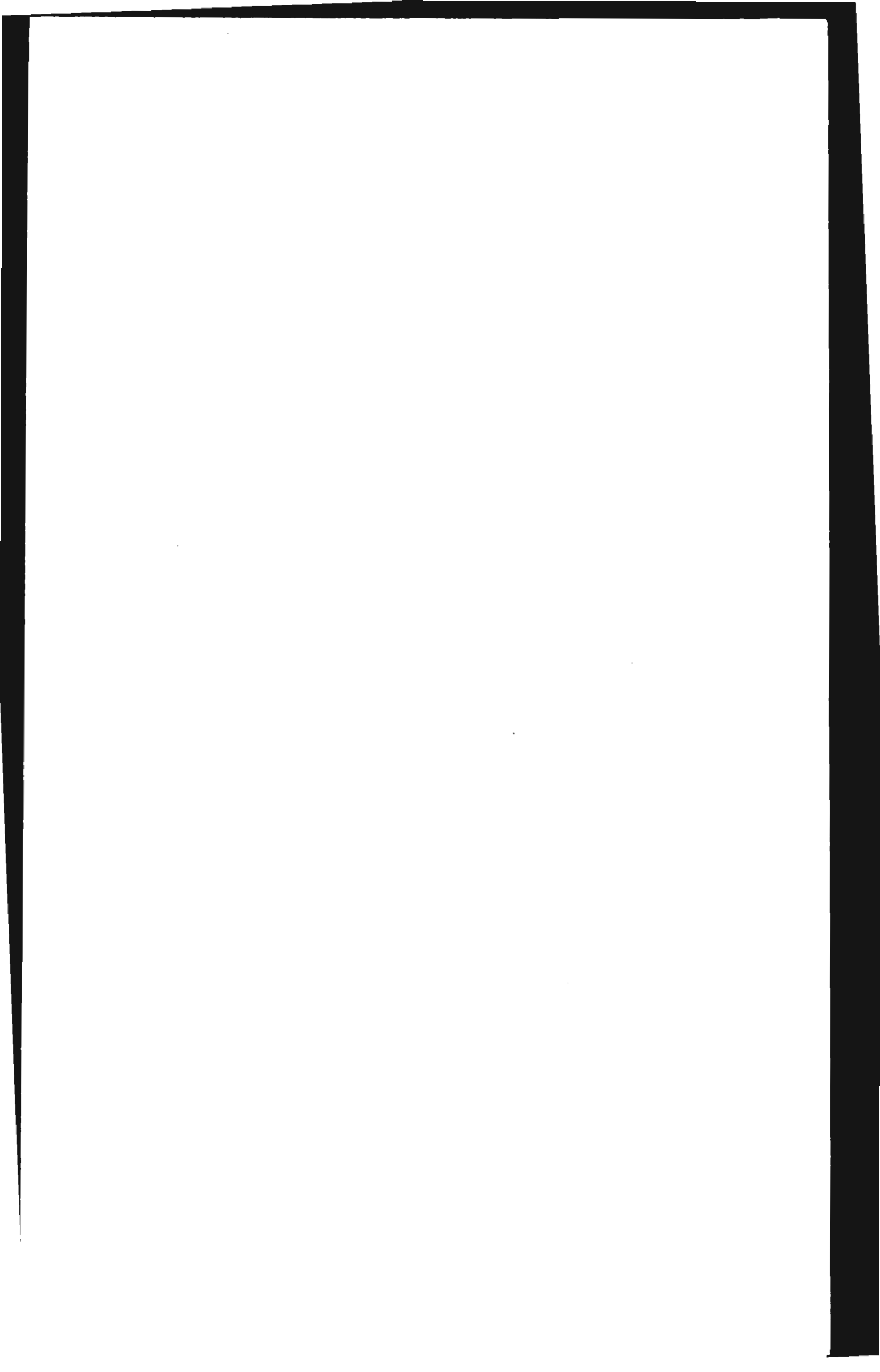
owner acquired the goods. On the other hand, restrictive conditions do not, in the extreme sense put, run with the goods, because the goods are patented.

Applying these principles to the present case, the result is this: the Respondent, Mr. Menck, has been acquitted of every charge of violation of contract which was laid against him by the Appellants. He has also succeeded in showing that the claim made by the Appellants as patentees was in its nature extreme and unsound in law. But he made this mistake: he assumed that, being guiltless of violation of contract, he was as free as an ordinary member of the public who had acquired possession of articles embodying the Appellants' patent. His misfortune, however, consists in this, that by the very fact that he entered into contractual relations with the Appellants, he has become seized with the knowledge of the conditions on which they dispose of their goods, and he is not free to propose the plea that such conditions have not been brought home to him. When he therefore announced his intention to deal in these articles as ordinary articles of commerce, he must be held to have pursued a mistaken course, the course of treating himself as an unrestricted instead of a restricted trader. In this particular case the result may involve some hardship to him, but their Lordships cannot see their way to a departure from the principle that a restriction rests upon a purchaser of goods which are covered by a grant of patent, and which have come into the possession of a purchaser in the full knowledge of the restrictions imposed by the patentee upon their disposal. Notwithstanding the most able presentment of his case by his Counsel, Mr. Levinson, their Lordships are of opinion that in the one particular referred to it cannot be given effect to.

Their Lordships do not further examine the attitude and action of the Appellants, but they are of opinion that the award of costs in favour of the Respondent in the Court below should stand and that having regard to the condition upon which special leave to appeal was granted the Respondent is entitled to his costs as between solicitor and client in this Appeal.

Their Lordships will humbly advise His Majesty that the Judgment of the High Court of Australia be reversed, and that in lieu thereof an injunction in the limited sense before mentioned do issue against the Respondent, namely, to restrain him, his servants or agents, from infringing the Letters Patent, and that *quoad ultra* the Appellants' claims in the action be dismissed, with an order as above indicated as to costs.

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In the Privy Council.

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THE NATIONAL PHONOGRAPH  
COMPANY OF AUSTRALIA, LIMITED;

v.

WALTER T. MENCK.

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