

[HIGH COURT OF AUSTRALIA.]

NATIONAL PHONOGRAPH COMPANY OF } PLAINTIFFS;
AUSTRALIA LIMITED }

AND

MENCK DEFENDANT.

Patent—Infringement—Use and vending of patented invention—Conditions attached to patented articles on sale—Whether conditions binding apart from contract—Parties to contract—Breach of contract—Patents Act 1903 (No. 21 of 1903), secs. 4, 62, 65, First Schedule.

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MELBOURNE,
April 28, 29,
30;
May 1, 4.
Isaacs J.

A patentee is not, by the operation of his patent and apart from contract, entitled to impose conditions upon the use or sale of his patented articles.

So held by the Court, Isaacs J. dissenting.

Decisions and dicta to the contrary in *Incandescent Gas Light Co. v. Cantelo*, 12 R.P.C., 262; *Incandescent Gas Light Co. v. Brogden*, 16 R.P.C., 179; *British Mutoscope and Biograph Co. Ltd. v. Homer*, (1901) 1 Ch., 671; *McGruther v. Pitcher*, (1904) 2 Ch., 306; and *Badische Anilin und Soda Fabrik v. Isler*, (1906) 1 Ch., 605, dissented from.

Sept. 21, 22,
23, 24, 25;
Oct. 26.

Griffith C.J.,
Barton,
O'Connor,
Isaacs and
Higgins JJ.

The plaintiffs, who were manufacturers of their patented articles, sold them wholesale to "jobbers" upon the terms of an agreement which provided that jobbers should only sell the plaintiffs' articles to "dealers" who had signed a "retail dealers' agreement" in a form provided by the plaintiffs. Both the jobbers' agreement and the retailers' agreement provided that the plaintiffs' articles should not be sold on better terms than those authorized by the plaintiffs. The jobbers' agreement provided that all dealers must sign the retail dealers' agreement which was to be forwarded immediately to the plaintiffs. By the dealers' agreement the dealer covenanted and agreed that in consideration of the sale to him at current retail dealers' net prices or discounts of the plaintiffs' patented articles by the jobber or by the plaintiffs, he (the dealer) would comply with the attached conditions, and in the event of his name being removed from the dealers' list, would in no way handle, sell or deal in, or use the plaintiffs' patented articles. One clause of the

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conditions which formed part of the dealers' agreement provided that dealers violating any of certain other conditions might be at once removed from the dealers' list.

Held, that the retail dealers' agreement was as between the plaintiffs and the dealer a valid contract.

Held by Griffith C.J., Barton, O'Connor and Isaacs JJ., that the plaintiffs could not remove the dealer's name from the dealers' list except for a violation of the conditions.

Held further (Isaacs and Higgins JJ. dissenting), that on the evidence the defendant had not committed a breach of the conditions, that his name was improperly removed from the dealers' list, and, therefore, that he was not liable for a subsequent breach of the agreement not to deal in the plaintiffs' articles.

QUESTIONS of law reserved for the Full Court.

An action was brought in the High Court by the National Phonograph Co. of Australia Limited against Walter T. Menck, in which the pleadings were as follow :—

The statement of claim was as follows :—

"1. The plaintiffs are a company duly incorporated under the Companies Acts of the State of New South Wales.

"2. The plaintiffs by virtue of three transfers dated 24th March 1906 duly made and registered are the owners of three letters patent of the Commonwealth of Australia dated 6th December 1904 and numbered respectively 2108, 2109, 2110 granted to the New Jersey Patent Co. for inventions styled respectively 'Improvements in Phonographs,' 'Improvements in the production of sound records or blanks' and 'Improvements in sound records or blanks.'

"3. Since 24th March 1906 and prior to the issue of the writ herein the defendant has infringed each of the said letters patent in the manner set out in the particulars of infringement delivered herewith and unless restrained by this Honorable Court will continue to infringe the said letters patent.

"4. By each of five several contracts in writing dated respectively 6th January 1906, 14th April 1906, 19th April 1906, 20th April 1906 and 22nd May 1906 and made between the defendant and the plaintiffs or the plaintiffs' duly authorized agent the defendant amongst other things agreed for the several considera-

tions therein appearing that he would not sell or offer for sale any of certain goods known as Edison phonographs or parts Edison records or Edison blanks at less than certain prices specified in each of the said contracts.

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"5. The defendant in breach of each and all of the said contracts has since the said 22nd May 1906 and prior to the commencement of this action sold and offered for sale Edison phonographs and parts, Edison records and Edison blanks at prices less than those agreed upon as in paragraph 4 mentioned and will continue so to do unless restrained by this Honorable Court.

"6. By each of the said contracts the defendant further agreed that in the event of his name being removed by the plaintiffs from a certain list of dealers in the said goods which list is referred to in each of the said contracts as 'the dealers' list' he would in no way handle, sell or deal in or use Edison phonographs and parts, Edison records or Edison blanks unless authorized to do so in writing by the plaintiffs.

"7. On 28th July 1906 the plaintiffs removed the defendant's name from the said dealers' list and informed the defendant of such removal.

"8. The defendant has on various dates after the removal of his name as aforesaid and before the commencement of this action in breach of each and all of the said contracts handled, sold dealt in and used Edison phonograph records and blanks without the authority of the plaintiffs and will continue so to do unless restrained by this Honorable Court.

"9. The plaintiffs are wholesale sellers throughout Australia of Edison phonographs records and blanks and by the breaches of contract above mentioned have suffered loss of custom and damage.

"10. The plaintiffs claim—

- (a) An injunction to restrain the defendant his servants or agents from infringing the said letters patent or any of them.
- (b) An inquiry as to the damages sustained by the plaintiffs by reason of such infringements and payment of such damages.
- (c) An order for the delivery up to the plaintiffs of all

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goods in the defendant's possession made in accordance with the plaintiffs' patents or any of them.

(d) An injunction to restrain the defendant his servants and agents from selling offering for sale handling dealing in or using Edison phonographs records or blanks in breach of said contracts or any of them.

(e) £250 damages in respect of the breaches of contract mentioned in paragraphs 5 and 8 hereof."

(f) Costs."

The following particulars of infringements were given:—

"1. The defendant at all times between 24th March 1906 and the commencement of this action had in his possession at his place of business at No. 232 Nicholson Street, Fitzroy, in the State of Victoria, and there offered and exposed for sale to the public the under-mentioned goods made according to the plaintiffs' letters patent, that is to say—Edison Standard phonographs, Edison Gem phonographs, Edison Home phonographs, Edison records, Edison blanks.

"2. In or about the month of July 1906 the defendant at his said place of business sold to one Beckett an Edison Standard phonograph made according to the plaintiffs' letters patent.

"3. On 4th December 1906 the defendant at his said place of business sold to one Edward Whiting one Edison Gem phonograph made according to the plaintiffs' letters patent.

"4. On or about 7th February 1907 the defendant at his said place of business sold to one Alexander Campbell one Edison Home phonograph made according to the plaintiffs' letters patent.

"5. On or about 10th May 1907 the defendant at his said place of business sold to one F. L. Thomson one Edison Standard phonograph, nine Edison records and one collapsible horn, all made according to the plaintiffs' letters patent.

"6. Between 24th March 1906 and the commencement of this action the defendant at his said place of business sold in addition to the articles mentioned in paragraphs 2, 3, 4 and 5 of these particulars certain other phonographs and certain records and blanks, all made in accordance with the plaintiffs' letters

patent. Particulars of such sales are at present unknown to the plaintiffs.”

Further particulars were also given which it is not necessary to set out.

The defence was as follows:—

“The defendant says:—

“1. He does not admit any of the allegations in paragraphs 1 and 2 of the statement of claim.

“2. He denies each and every allegation in paragraph 3 of the statement of claim.

“3. If, which is not admitted, he ever had in his possession or offered or exposed for sale or sold respectively the goods mentioned in the particulars of infringements the same were manufactured and/or supplied or sold by the plaintiffs for the purpose and/or with the right in every purchaser thereof of use and/or resale and the defendant lawfully acquired the same by purchase, and he says that such alleged possession offering or exposing for sale or selling was lawful and was no infringement of the said letters patent.

“4. He denies each and every allegation in paragraph 4 of the statement of claim and further denies that he ever entered into any contract at all with the plaintiffs.

“5. He denies each and every allegation in paragraphs 5 and 6 of the statement of claim.

“6. He will contend that the conditions of the said alleged contract are illegal and void as being in restraint of trade.

“7. He does not admit any of the allegations in paragraph 7 of the statement of claim.

“8. He denies each and every allegation in paragraph 8 of the statement of claim.

“9. If, which is not admitted, the plaintiffs removed his name from the said dealers’ list such removal was wrongful and unjustifiable and in breach of the said alleged contract.

“10. Save that he admits that the plaintiffs are wholesale sellers of Edison phonograph records and blanks he denies each and every allegation in paragraph 9 of the statement of claim.”

“The reply was as follows:—

“The plaintiffs to the defence say:—

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“1. As to paragraph 3 of the defence they admit that the said goods were manufactured and sold by the plaintiffs, but say that the said goods were sold by the plaintiffs upon and subject to certain express terms and conditions and not otherwise that is to say upon and subject to the express terms and conditions that the person or persons buying the same should not sell or offer for sale either directly or indirectly the said goods or any of them save and except at certain specified prices or at prices not less than such specified prices and no purchaser of any of the said goods acquired any right to expose or offer for sale or sell the same except at the prices aforesaid. The offering and exposing for sale and sale by the defendant of the said goods complained of in the statement of claim and in the particulars of infringement delivered therewith did not comply with the terms and conditions aforesaid.

“1A. The said goods were sold by the plaintiffs upon the further express terms and conditions (in addition to those mentioned in paragraph 1 hereof) that in the event of the name of the person buying the same being removed from a certain list called the dealers' list such person should in no way handle sell deal in or use the said goods or any of them unless authorized to do so in writing by the plaintiffs. The defendant's name was removed from the said list on 28th July 1906 and the offering and exposing for sale and sale of the said goods by the defendant after 28th July 1906 was in breach of the said condition and without authority from the plaintiffs.

“2. Save as aforesaid and save as to admissions contained in the defence the plaintiffs join issue thereon.”

There was a rejoinder which was as follows:—

“As to the amended reply and the particulars thereunder the defendant says:—

“Save as to the admissions therein contained he joins issue.

“2. He will further contend that the said terms and conditions alleged in paragraphs 1 and 1A are illegal and void inasmuch as the provisions of the Patents Acts and the Regulations thereunder have not been complied with.

“Particulars.

“The defendant will rely upon sec. 22 of the *Patents Act* 1903

and Regulations 104, 105, 106 and 113 of the Statutory Rules No. 70. H. C. OF A.
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“3. He will further contend that the terms and conditions alleged in paragraph 1A are illegal and void as being in restraint of trade. NATIONAL
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“4. He will further contend that even if the said goods were sold by the plaintiffs subject to the terms and conditions alleged in paragraphs 1 and 1A (which he denies) it would be no answer to the defendant's defence herein as it is not alleged nor was it the fact that the defendant had notice of such alleged terms and conditions or any of them.

“5. Further he says that since prior to the said 24th day of March 1906 there has always been endorsed on all Edison's phonographs a notice in the words and figures following that is to say:—

‘Manufactured under the Patents of Thomas A. Edison at Orange N.J. U.S.A.’ (Then follows a number of dates).

‘This machine is sold under the conditions that it is licensed to be used or vended only so long as this serial number () is not removed or changed in whole or in part and that every possessor of this machine admits the validity of the above enumerated patents,’

and there has always been printed on each and every box containing Edison records a notice in the words and figures following that is to say:—

‘Made at the Edison Laboratory Orange N.J. U.S.A. under Patent of Thomas Edison. Patented.’ (Then followed a number of dates).

‘This record is sold by the National Phonograph Company upon condition that it shall not be sold to any unauthorized dealer or used for duplication and that it shall not be sold or offered for sale by the original or any subsequent purchaser (except by an authorized jobber to an authorized retail dealer) for less than 1/9 a piece.

‘Upon any breach of said condition the licence to use and vend this record, implied from such sale, immediately terminates.’

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and if the said goods were sold by the plaintiffs subject to any terms and conditions at all (which the defendant denies) the defendant will contend that by reason thereof the plaintiffs are estopped from saying that the said respective goods were respectively sold by the plaintiffs subject to any other terms and conditions respectively than those abovementioned."

The agreements referred to in paragraph 4 of the statement of claim were called "retail dealers' agreements," and were in the following form:—

"Conditions of Sale.

"All Edison phonographs and parts, records and blanks are sold at Sydney, N.S.W., subject to the following conditions:—

"1. No person, firm or corporation will be recognized as a dealer in Edison phonographs, parts, records and blanks unless such dealer signs a retail dealers' agreement, either direct with this Company or through an authorized jobber, and no one will be accepted by this Company as a dealer, nor will any agreement signed by a prospective dealer be accepted by this Company unless such dealer has an established place of business suitable for the display and handling of our goods, and then only on condition that such dealer purchase at least three machines, each of a different style, and one hundred and fifty records. Unauthorized dealers are not entitled to discounts provided for in this agreement.

"2. Retail dealers must not give away or sell or offer for sale, either directly or indirectly, Edison phonographs or parts, records or blanks at less than current list prices, nor allow any discounts whatever, nor include with Edison phonographs sold at current list prices any extra articles, materials, or supplies not listed to go with the same as a regular outfit. When other articles, materials, or supplies are included in a sale with an Edison phonograph, records or blanks, or are offered or advertised for sale as an outfit, the price of the phonograph, or records, or blanks, also of each and every other article included in such outfit not listed as part of the regular phonograph outfit, must be given, and the prices of such extra articles, materials or supplies so included must be the same as the current prices for such articles when sold separately.

"3. Edison phonographs or parts, records or blanks must not be disposed of as premiums, nor by lottery, raffle or any game of chance, nor in any other way whereby such articles would be acquired for less than full current list prices. Selling or offering for sale other goods at less than current prices, or the presentation of such goods, or the use of trading stamps or the like, or the giving of premiums of any kind in order to induce the sale of Edison phonographs or parts, records or blanks, is considered equivalent to selling or offering same for sale, at less than the current list prices, and will not be allowed.

"4. 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.

"5. Selling or offering for sale as second-hand articles, at reduced prices, Edison phonographs or parts, records or blanks, that have become shopworn or in any way damaged, or that have been taken in exchange, will be considered a cutting of prices and will not be allowed.

"6. Exchange between dealers.—Authorized dealers, in case of emergency, will be allowed to borrow from any other authorized dealer, provided the goods so borrowed are actually replaced with goods of the same style and make. In case a sale takes place between two retail dealers, it must be at the full list price and no discounts whatever can be allowed.

"7. All Edison phonographs bear a serial number and the

Trade

trade-mark, Thomas A. Edison, and dealers must keep a record

Mark

of the serial numbers of all Edison phonographs sold by them,

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the name and address of the purchaser and the date of sale, and when requested must furnish these particulars to the National Phonograph Co. of Australia Limited for the purpose of enabling it to trace machines when violations are reported. Refusal to furnish this information to the National Phonograph Co. of Australia Limited will constitute a violation of this agreement. Possession of, selling, or offering for sale by a dealer, an Edison phonograph from which the said trade mark has been removed or obliterated, or the serial number of which has been removed, changed or obliterated, wholly or partly, constitutes a violation of this agreement.

“8. Edison phonograph records bear a serial number, or title, or both and the trade mark—

Trade

Thomas A. Edison

Mark

and the package or box in which a record is sold by this Company carries a label bearing the following restrictions as to the sale and use of such records:—‘This record is sold by the National Phonograph Co. upon the condition that it shall not be sold to any unauthorized dealer, or used for duplication, and that it shall not be sold or offered for sale by the original or any subsequent purchaser (except by an authorized jobber to an authorized retail dealer) for less than 1s. 9d. apiece. Upon any breach of said condition, the licence to use and vend this record, implied from such sale, immediately terminates.’ Any dealer who sells or offers for sale an Edison phonograph record having its serial number or the Edison trade mark removed, or who sells or offers for sale, in a package or carton bearing the Edison trade mark, talking machine records not manufactured by this Company, or who sells or offers for sale an Edison phonograph record in a package or carton not bearing the Edison trade mark and the foregoing restrictions, or without the same accompanying the record violates this agreement.

“9. Dealers violating any of the foregoing conditions of sale, or any other reasonable conditions that may from time to time be imposed by the National Phonograph Co. of Australia Limited on dealers, or failing to pay accounts due the National Phono-

graph Co. of Australia Limited, will not be entitled to the net prices or discounts herein provided for, and may be at once withdrawn from the dealers' list of the National Phonograph Co. of Australia Limited, and may also be proceeded against for any breach of or non-compliance with this agreement."

"Retail Dealers' Agreement.

"This copy to be signed and returned to G. Firth who will forward it to National Phonograph Co. of Australia Limited, Sydney, N.S.W.

"In consideration of the sale of Edison phonographs and parts thereof, Edison records and Edison blanks to me/us at current retail dealers' net prices or discounts by

a jobber, or direct by the National Phonograph Co. of Australia Limited, and after carefully reading the above price list, discounts, net prices, terms and conditions of sale, which are to be taken and read with and as part of this agreement, I/we hereby covenant and agree with the said National Phonograph Co. of Australia Limited to conform with, and strictly adhere to, and be bound by the same, and not to do or suffer any of the acts or things thereby prohibited; and I/we also understand and admit that this agreement gives me/us no exclusive rights or privileges of any nature whatsoever; and I/we also covenant and agree with the National Phonograph Co. of Australia Limited that in the event of my/our name being removed from the dealers' list, I/we 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 authorized to do so in writing by the National Phonograph Co. of Australia Limited.

Clause 1 of the "jobbers' agreement," hereinafter referred to, was as follows:—

"1. Jobbers must not deal in any manner in Edison phonographs or parts, records or blanks with any persons or dealers who have not signed the required jobbers' or retail dealers' agreement governing and controlling the sale of same. Jobbers must not establish as a dealer any person or persons not having an established place of business suitable for the display and handling of our goods, and then only on condition that such dealer purchases at least three machines, each of different style,

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and one hundred and fifty records. All dealers established by jobbers must sign the retail dealers' agreement (Form No. 590a) issued by this Company, and the copy marked 'Original' must be signed and dated, in the presence of a subscribing witness, by the dealer personally, or if a co-partnership, by a member thereof, or if a corporation, by an officer thereof duly authorized. All agreements executed through jobbers must be forwarded immediately by the jobber to the National Phonograph Co. of Australia Limited, Sydney, N.S.W."

April 28.

The action was heard before *Isaacs J.*

Weigall K.C. and *Mann* for the plaintiffs.

H. I. Cohen for the defendant.

Cur. adv. vult.

May 4.

ISAACS J. read the following findings of fact:—

The plaintiffs' claim against the defendant is rested on two positions, first, upon the proprietorship of Commonwealth patents which it is alleged the defendant has infringed, and next upon contracts which it is said were made between the plaintiffs and the defendant and have been, and unless restrained by injunction will be further, broken by the defendant.

Three Australian patents numbered respectively 2108, 2109 and 2110 were on 6th December 1904 granted to the New Jersey Company for phonographs, records and blanks, and on 24th March 1906 these were assigned by the patentee to the plaintiffs. The assignments were before action duly registered by the Commissioner of Patents. It has been contended that that is not sufficient to establish the plaintiffs' proprietorship of the patents, and that it is possible that, between the date of registration and the commencement of this action, the plaintiffs may have parted with the patents. No suggestion has been made of any such transaction, and so far as the question is one of fact I find that the company were at the time the action was commenced and are still the owners of the patents relied on.

The plaintiffs are a company formed and incorporated in the State of New South Wales, the date of their incorporation being

4th January 1906. Their head office is in Sydney, whence their operations are directed. They carry on throughout Australia the business of selling phonographs, records, and blanks made in accordance with their patents and do so upon a system which I shall describe. They do not sell direct to the public, but to jobbers and dealers. They fix a minimum price for which each article is to be sold to the public, and allow no departure from this price to the public under any circumstances whatever. They permit however a reduction of that price to the two classes of persons I have mentioned, namely, jobbers and dealers. Jobbers are persons who buy direct from the company on a large scale and they get a large discount; dealers are persons who buy either direct from the company or from a jobber but on a smaller scale, and receive a smaller discount.

In each case a special contract must be signed by the intending jobber or dealer. The defendant was a dealer, and purchased from various jobbers. Before being permitted to do so he was required by the jobbers to sign and he did sign the several documents relied on here as his contracts with the company.

It is contended on the part of the plaintiffs that any departure from the terms and conditions of his contract by a jobber or a dealer constitutes not only a breach of the contractual obligations created by the agreement, but also a tortious infringement of the plaintiffs' patent. It is said that whatever the breach of the contract may be, whether as to the price at which the contractor is to sell the goods, or otherwise, it renders him liable as for infringement of the patent. Further, it is argued if a person deals or otherwise purchases from a jobber, under circumstances which as he knows are a contravention of the jobbers' agreement in any particular, the purchaser is committing a like infringement, and may be restrained from the use or sale of the goods purchased. Thus if a member of the public knowing or believing a dealer to be bound by agreement not to sell a phonograph at less than say £5 should succeed in getting it for £4 15s., the purchaser though admittedly getting a perfect title to the instrument itself, must not use it as a phonograph, under penalty of committing an infringement of the plaintiffs' patent. This it is said is the case

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quite independent of any personal contract on the purchaser's part with the company.

The defendant denies in the first place that the bargains he entered into amount to binding agreements with the plaintiff company. They are undoubtedly expressed to be promises by him to the company, but he says no consideration passed to him from the company, and no communication in the nature of acceptance of his offer as it is termed was ever made to him by the company. He also contends that, so far as his undertaking extends to a promise to totally and for ever abstain from dealing in the plaintiffs' goods, it is illegal as being in restraint of trade. The case against the defendant is presented under three heads. First, it is said he broke his contract as a dealer not to sell or offer to sell the plaintiffs' goods (as I shall shortly term them) at prices below the minimum fixed. It is said he did sell or offer to sell at lower or cut prices, and therefore has laid himself open to an action for breach of contract. Next, it is urged that the same breach of contract is also a departure from and nullifies the only licence or permission given by the plaintiffs to the defendant to sell the company's patented goods, and that it consequently constitutes a tortious interference with their franchise or exclusive right to vend or use the invention. Thirdly, it is contended that since the company removed the defendant from their list of dealers, and so placed him outside the pale of actual authorization, he is debarred from selling the company's goods under any circumstances at any time and for any price, because he has undertaken in such case not to do so, and also, and independently of any undertaking on his part, he knows, if indeed his knowledge is necessary, that no jobber or dealer to whom the plaintiffs sell goods or permit goods to be sold has any authority or right to sell him the goods except perhaps as a member of the public at full list prices, and not for the purpose of sale.

It is asserted under this head by way of wrongful act that although the plaintiff company have in fact removed his name from the list of dealers, and caused him to be notified of that fact, the defendant has persisted ever since in selling the patented goods of the plaintiffs, and whether at lower prices or not it is for this purpose immaterial. The defendant disputes the legal

position taken up by the plaintiffs, and asserts that having lawfully purchased goods from the jobbers, he was while a recognized dealer at liberty to sell them as he pleased, and at any prices he pleased, subject only to any contractual obligation he may have entered into, and in this case he says there was none. Of his having given a solemn and honourable promise and undertaking that he would not transgress the conditions upon which he was permitted to become a recognized dealer and that he would not disloyally undermine the business arrangements of the plaintiffs by cutting prices and expose other vendors of their goods to unfair competition, there cannot be any doubt, and if he has while still a recognized dealer sold at prices under the list prices he has contravened the undertaking he gave whether it is legally binding on him or not. It is equally beyond dispute that he has made a distinct promise to the company that in the event of his being removed from the dealers' list he would not again deal in the plaintiffs' goods. A continuance in such dealing after lawful removal would be of course a literal breach of that undertaking, and if it has occurred the only escape for the defendant would be to show that the agreement for some reason had no binding force as between him and the company.

I proceed therefore to examine the facts, some of which, though uncontroverted at the trial, are formally put in issue in the pleadings and must as formally be disposed of.

The incorporation of the company as alleged is proved as already stated.

The facts regarding the proprietorship of the patents I have already dealt with. The alleged acts said to constitute infringement are numerous, and I shall take them in order. The defendant had in his possession at 232 Nicholson Street, Fitzroy, and there offered and exposed for sale, the goods mentioned in his answers to the 1st, 14th and 16th interrogatories. This is a mere statement of the defendant's admission on oath.

The next alleged infringement however raises a severe controversy, almost the only seriously disputed question of fact in the case. It is whether in July 1906 and before the 28th of that month the defendant by one Kerrigan offered to Mr. Pettifer, a director of the plaintiff company, a Standard phonograph and a

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H. C. OF A. Home phonograph at reduced prices. (His Honor analyzed the
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There are other circumstances which have to some extent weighed with me in this connection; on the whole I feel no hesitation in arriving at the conclusion that I cannot accept Pettifer's evidence as to the Kerrigan offers. I need not analyse various collateral arguments as to the credence to be given to the two opposing witnesses respectively, but it is sufficient for me to say that it would in my opinion be in the highest degree improper to take the testimony of Pettifer, contradicted by Menck, and opposed in material particulars by his own written account of the transaction, as any basis of responsibility on the part of the defendant. I may add that the Kerrigan offers relied on comprised the only evidence of any sale or attempted sale in the ordinary sense by the defendant or his agent at an under price. That disappearing, there is no pretence for saying that he broke his undertaking in respect of what is usually understood as a sale.

There are, however, two charges made which are relied on by the plaintiff as sales at an under price. The first is in relation to a man named Pearson. On 4th June 1906 the defendant, writing to Mr. Wyper, the plaintiffs' manager at Sydney, at a time when the defendant was still recognized by the company as a dealer, spoke of "a branch that I have opened in Kensington under the title of The Kensington and Newmarket Phonograph Dépôt (Manager M. J. Pearson)." He states that he has placed four pictures received from Mr. Pettifer in that branch, and asks for more pictures for the same place. It appears that the Pearsons carried on upon their own account a news agency at the place in question, the name of M. J. Pearson, that is Mrs. Pearson, being painted upon the windows. The defendant, however, made an arrangement with the husband, Frank Pearson, to sell phonographs and records on the terms of Pearson having half the profit. Whether the arrangement amounts to a sale by the defendant to Pearson or not is difficult to say. The evidence leaves the question far from clear. Apparently the defendant started Pearson in the news agency business at the shop, and having done so, gave him some of the company's productions to

sell. Menck retained the property in these articles until sold to a customer, Pearson not purchasing them beforehand, but having them on hand for the purpose of sale if opportunity offered, and always at the full list price. In the event of Pearson effecting sales he from time to time would settle up with Menck upon the following basis. I take the defendant's words "Supposing Pearson sold a machine at £2 10s. the profit on that would be twelve shillings and Pearson would take half the profit. After having sold a machine he would bring me the money less half the profit." And again, describing the position to me he said "I said 'Frank you have got to sell these goods. Sell as many as you can and sell at certain prices. Here are the prices you have got to sell them at. We will go half shares in the profits arising out of any transaction you might make.' I supplied him with time payment forms and I said 'You can make me a return every now and then when you do business.' That was the understanding. No machines were sold, but he sold records. He had not sold many records and I said 'The best thing you can do is to make a record now and then and every few months we will have a squaring up on the basis of half the profits.' He would come and make a payment on account. He did come and square up with me entirely. He would say 'There is the price of the article. Here is the money that I have got for the goods.' If it was £5 he would say 'There is the £5 I got for the goods. There is £2 profit, you take a £1 and I'll take a £1.' He always sold at the list price, and he always accounted to me on that basis."

Menck also stated, "When we squared up he would put 21/- down on the counter and say 'There is 14/- for the cost of the goods and 3/6 for your profit Walter, and 3/6 my profit.'" As far as the parties intended, I do not believe either of them regarded the transaction in the nature of a sale by Menck to Pearson, or that Menck thought he was breaking the conditions of his contract in that regard. The transaction comprised records only and not machines, and are not alleged to have been in any degree extensive.

The second alleged constructive sale consists of an isolated transaction with one Beckett. During Pettifer's investigations in Melbourne, Menck voluntarily informed him that he had, as

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Pettifer swears, sold to Beckett, and, as Menck swears, exchanged for Beckett a Standard machine. There is no doubt Beckett, another authorized dealer, obtained from Menck a Standard machine and gave in return a Gem machine and 21 records. The exchange was arranged on the basis of the dealers' price list. This is said to be utterly wrong. If the basis taken had been the full public list price, there would I presume have been nothing wrong about it as a sale. If on that basis there was anything in contravention of the agreement, it must have been by reason of clause six (6) forbidding an exchange even between dealers unless the goods exchanged, that is borrowed and afterwards replaced, are of the same style and make. The defendant made no profit whatever out of the transaction, it stands absolutely alone, and was, as I have stated, voluntarily brought by the defendant to the knowledge of Mr. Pettifer. It was certainly not a wilful breach. Unless then the Pearson or Beckett transaction can be treated as a sale or sales at under prices, the defendant has never, so far as disclosed by the evidence, sold below list price.

With regard to the suggestion that he probably did so, though proof cannot be obtained, I may say I do not believe it. Mr. Pettifer admits that Menck offered him an open letter to any buyer in order to ascertain at what price a machine had been sold. He did not take advantage of that offer. All the evidence shows full prices for goods. Every machine has a number, so that it might be traced, and, in the face of the possibilities of detection, the offer of the letter and the direct testimony, I am not prepared to adopt the suggestion that Menck has sold at cutting prices.

The remaining instances of alleged infringement are easily disposed of. The defendant's answer to the 16th interrogatory substantiates the fact that on 4th December 1906 a Gem phonograph was in fact sold to Whiting. As to Campbell there is no evidence, and my finding as to this must be for the defendant. The sale to Thomson on 10th May 1907 of a Standard phonograph and records is proved. Thompson is the company's secretary, and on the date mentioned he went to the defendant's place of business under the name of Millar and endeavoured to get the goods at a price lower than the list price, but although the defendant had ceased to be an authorized dealer, he, Thomson,

could not get a reduction of price. He paid full price for the articles he bought. Lastly, there is a general allegation that between 24th March 1906 and the commencement of the action the defendant sold goods of the company's production to the public. This is proved by the answer to the 16th interrogatory. It is admitted by the defendant that all the goods in question were of the plaintiffs' manufacture and production, and were the subject of the company's patents.

Any goods sold by the plaintiff company themselves were sold upon what has been termed the jobbers' agreement, a sample of which is Exhibit F—Firth's agreement with the company. Any goods purchased by defendant from a jobber were purchased by him on what is termed the dealers' agreement, a sample of which is Exhibit J—Menck's agreement with Firth. One Gem phonograph was obtained as above described from Beckett. From the dates of Reymont's agreements the defendant obtained the goods from Reymont, the latter being his dummy, for the purpose of becoming an authorized dealer, though whether this was known to be the case by the jobbers or not I am not able to say. At all events Menck was present at Firth's when the agreement was signed by Reymont, and often went personally to get goods upon Reymont's orders. There was apparently no concealment of the fact that Menck was in some way interested in the Reymont purchases, although he improperly put forward Reymont as the person actually intending to operate as a dealer. It was an imposition upon the company, which was deceived into giving its consent to recognize Reymont as a dealer. Menck therefore indirectly and, so far as the company were concerned, secretly obtained a footing as a dealer notwithstanding the fact that he knew the company had refused and would still, if aware of the facts, refuse to accord him recognition. The one redeeming feature is that apparently Menck contemplated no underhand cutting of prices, nor ever engaged in that method of business—he making no use of the position he gained by Reymont's connivance to undersell competitors who were honestly abiding by the terms of their agreements. Menck knew, of course, that a dealer, such as Reymont must as against him be assumed to be, was absolutely forbidden to sell to any other person, dealer or

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otherwise, any of the goods except at full list price. It cannot be doubted that, treating Reymont as such dealer, he did part with his goods to Menck at forbidden rates, and both he and Menck were parties to the contravention. Nor can Menck better his position by disregarding Reymont—if that were possible—because he then becomes subject to the same objection in relation to Firth though Firth may not have been a conscious participator in the breach. The other material facts relating to the claim for infringement only are that the defendant's name was removed from the plaintiffs' dealers' list on 28th July 1906, that he was notified of this about two days afterwards, that since notification he has in May 1907 sold the Standard phonograph and records to Thomson as already mentioned, that he has handled and used a Gem phonograph, and has generally dealt in similar goods of the plaintiffs' production as set forth in the answers to interrogatory 16, and finally that he not only continued this business up to the commencement of the action, but would continue it indefinitely unless restrained by injunction. With special reference to the claim as upon the dealers' contracts, that in respect of the contract of 6th January 1906 was abandoned for obvious reasons, having regard to the date of the assignment of the patents. The contracts of 14th April 1906, 19th April 1906, 20th April 1906, and 22nd May 1906 were all entered into by the defendant as alleged. They purport to be made with the company and to bind the defendant to the company and, whether they were so made or not, or do so bind the defendant or not, depends upon the construction of the terms and conditions of sale which are incorporated in each contract itself, and upon how far the company gave valuable consideration for the promise therein contained. The company undoubtedly had as between them and the jobbers the power of disapproval, on receipt of the contract signed by the defendant, and had they signified any disapproval, the jobbers would not have sold any further goods to the defendant beyond the initial purchase. In fact the company did not signify any disapproval, or, in other words, remove the defendant from the list, until 28th July, and until that date the defendant under his contracts purchased from the jobbers. As far as it consists of a matter of fact, I find that the conduct of

the company from the time they were notified of the defendant's contracts, that is shortly after they were respectively made, until 28th July 1906, amounted to, and were understood by the jobbers and by the defendant to amount to, an approval by the company of the defendant as a dealer, and placing him on the list of dealers. As to any of the alleged breaches of the contracts so long as he remained dealer by selling below the minimum prices, I have already stated that the Kerrigan cases are not proved, and, as I think, disproved; the Pearson and Beckett cases, if sales, were apparently below the list prices; the Whiting case is not proved, and is in fact disproved; and the Campbell case unfounded.

For the rest it appears that no special or substantial damage or loss of custom has been proved. Mr. *Weigall* asked for nominal damages merely, and desired only to establish the plaintiffs' right. To complete the formal findings of fact, it is true that the machines and records bear the inscription and notice referred to in paragraph 5 of the amended rejoinder. These being the facts, the question is how do the rights of the parties stand in relation to them?

As to the claim on the contracts for selling below the list prices, the instances, even if established to be breaches of an enforceable agreement with the plaintiffs, never were productive of actual loss, and can never be repeated, because Menck is no longer a recognized dealer, and cannot become one without the company's consent. It may be a material consideration too that, apart from recovering actual damage, an effectual remedy for such a breach is in the hands of the plaintiffs themselves, namely, removal from the list.

The real contest, as frankly put by Mr. *Weigall*, is to stop the defendant, and consequently all others in his position, of whom there are doubtless very many, from trading in the company's goods at all. This, resting first on the express undertaking of the defendant, admittedly concerns a large number of persons. But the still broader foundation on which the contention is rested involves every person in the community though he has never entered into any bargain with the company, and has never afforded any ground for saying he has contracted himself out of

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a possible licence to sell. It affects the defendant and those of his class not merely as to new machines, which are hardly procurable by them at paying prices unless by means of a breach of a jobber's or a dealer's contract, but also as to machines that have reached the public at full list prices, and are purchasable second-hand either out and out at reduced amounts, or are directly or indirectly taken over as partly paid time payment purchases. It raises a most important question as to how far the right to use a patented article is separable from the right of ownership of the article itself, and although there are *dicta* of eminent English Judges of first instance, the Court of Appeal by reaching a conclusion upon evidence as to estoppel refrained from deciding other points. Questions here arise in various forms as to what constitutes a licence, a condition or a breach of condition, and an infringement of a patent. There are other questions of law of considerable importance not merely to the parties immediately concerned, but to patentees and the public generally. If the result of this action were confined in its immediate effects to the parties themselves, I should feel bound to decide it at once and leave the unsuccessful party to appeal, but as its ambit is admittedly far wider I think the questions involved should from their nature receive the attention of the Court of Appeal. If my decision were against the plaintiffs, this would undoubtedly follow, but if in its favor, I am afraid that the defendant could not obtain the opinion of the Full Court without a severe strain on his resources, if at all. I have therefore decided to state the case appearing on the facts as found by me, and to reserve all the questions of law for the consideration of the Full Court so that the whole case can be argued before the Full Court, which will determine how and upon what terms judgment is to be entered.

I am satisfied that this will ensure a completely authoritative decision for the guidance of Australian patentees and their purchasers, direct and remote, on matters of novelty and importance, and that this end will be achieved more quickly and expeditiously and with less expense than by the ordinary method of an appeal.

His Honor reserved for argument before the Full Court all the questions of law arising in the case, and the question in

whose favour, and what judgment should be entered upon the pleadings and the determination of the issues of fact.

The matter now came on for argument before the Full Court.

Weigall K.C. and *Mann* for the plaintiffs. The defendant is liable as for an infringement of patent. A patentee when selling his patented article, an article made according to his patented process, where his patent is for a process, may impose any conditions he pleases upon the use and resale of the article by the purchaser, and he has a right to treat as an infringement the use or sale of his patented article without his licence. That is altogether apart from contract. A licence to use or sell the patented article may be express or necessarily implied from the circumstances. Where a patentee sells his patented article, *primâ facie* the law implies an irrevocable licence to the purchaser to deal with the article as he pleases, and that right, of course, passes to sub-purchasers. The right conferred by a patent is a right to exclude others from using the patented invention: *Potter v. Broken Hill Proprietary Co.* (1). [They referred to *Patents Act* 1903, secs. 4, 62, 65, 87 (6), 125.] Thus the purchase of patented chattels at a sheriff's sale does not give the purchaser a right to use the chattel: *British Mutoscope and Biograph Co. Ltd. v. Homer* (2). See also *Vavasseur v. Krupp* (3); *Stephens v. Cady* (4); *Stevens v. Gladding* (5). The property in the article made in accordance with the patent is one thing, the right to use the article is another thing. Knowledge that a condition has been attached to the use or sale of a patented article is immaterial, except perhaps for the purpose of estopping the patentee from asserting that he has attached conditions: *Badische Anilin und Soda Fabrik v. Isler* (6). In the case of a sub-purchaser, *primâ facie* he is liable as an infringer unless he shows that the patentee has been so careless as to throw other persons off their guard, and ought, therefore, to be estopped from saying that he gave no licence.

[ISAACS J.—In *Cortelyou v. Johnson & Co.* (7) there was judg-

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(1) 3 C.L.R. 479, at pp. 493, 502, 507.

(2) (1901) 1 Ch., 671.

(3) 9 Ch. D., 351, at p. 360.

(4) 14 How., 528.

(5) 17 How., 447.

(6) (1906) 1 Ch., 605.

(7) 207 U.S., 196.

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ment for the defendant on the ground that he did not have notice. That case recognizes that a condition can be imposed on purchasers apart from contract.]

The right to "vend" the invention was not inserted in the Patents Acts until 1883, and it covers the sale of articles manufactured in accordance with a patented invention, that is, a patented process, as well as sales of patented articles: *Badische Anilin und Soda Fabrik v. Hickson* (1).

If a purchaser knows of the restrictions at the time of the sale he is bound by them, but a restriction cannot be imposed after sale: *Incandescent Gas Light Co. Ltd. v. Cantelo* (2). It is a question of fact whether a purchaser is justified in assuming that he has a licence from the patentee to do what he chooses with the article. In *Incandescent Gas Light Co. Ltd. v. Brogden* (3) it was held that where a patented article was sold under a limited licence, if the terms of the licence were known to the purchaser, whether he bought direct from the patentee or from a third party, the breach of the conditions imposed by the limited licence constituted an infringement. See also *Victor Talking Machine Co. v. The Fair* (4); *National Phonograph Co. v. Schlegel* (5). Although in *McGruther v. Pitcher* (6) it was held that on a sale of goods a condition could not in the absence of agreement be attached to their re-sale, it was admitted that such a condition might be attached by a patentee on the sale of his patented article.

[HIGGINS J.—In *Keeler v. Standard Folding Bed Co.* (7) it was held that the purchaser of a patented article became possessed of an absolute property in it unrestricted in time or place, and that conditions can only be imposed by contract. By sale the patented article is taken out of the monopoly. See also *Thomas v. Hunt* (8).]

The *Patents and Designs Act* 1897 (7 Edw. VII. c. 29), by sec. 38 prohibits certain conditions being attached by contract to the sale of a patented article or process, assuming that conditions can be attached.

(1) (1906) A.C., 419, at p. 422.

(2) 12 R.P.C., 262.

(3) 16 R.P.C., 179.

(4) 118 Fed. Rep., 609, at p. 611;
123 Fed. Rep., 424.

(5) 128 Fed. Rep., 733.

(6) (1904) 2 Ch., 306.

(7) 157 U.S., 659.

(8) 17 C.B.N.S., 183.

[O'CONNOR J.—The only inference from that section is that before the Act such conditions in a contract would have been good, not that their breach would have been an infringement of the patent.]

The defendant has contracted with the plaintiffs that he would not deal in their goods after he should be struck off the dealers' list, and he is liable for breach of that contract.

[ISAACS J.—The consideration for the contract moving from the plaintiffs is the putting the defendant on the dealers' list. See *National Phonograph Co. Ltd. v. Edison-Bell Consolidated Phonograph Co. Ltd.* (1).]

H. I. Cohen, for the defendant. In order to effect the purposes of the *Patents Act* 1903 it is not necessary to do more than protect the patentee up to the point when he sells the articles manufactured according to his patented invention. When once those articles are sold the object of the law has been attained, and they are in the same position as other chattels: *Hindmarch on Patents*, p. 493; *Webster's Patent Cases*, p. 413 (n). Conditions cannot be attached to chattels so as to bind all purchasers with notice: *Taddy & Co. v. Sterious & Co.* (2). The use or sale of an article manufactured according to a patented invention is not a use or vending of the invention within the meaning of sec. 62 of the *Patents Act* 1903: *Chanter v. Dewhurst* (3).

The *Patents Act* 1903 draws a distinction between a patented invention and a patented article which is not drawn in the English Acts. See secs. 4, 87, 125. The purpose of the *Patents Act* 1903 must be considered in construing it: *Badische Anilin und Soda Fabrik v. Hickson* (4). See *Maxwell on Statutes*, 4th ed., p. 122. There is no necessity for a licence to authorize the use or sale of articles manufactured according to a patented invention, though there may be for the right to manufacture those articles. In an action for infringement the onus is upon the patentee of showing that the article complained of as an infringement did not come into existence through him: *Frost on Patents*, 3rd ed., vol. I., p. 470; *Betts v. Willmott* (5). A "licence"

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(1) (1908) 1 Ch., 335.

(2) (1904) 1 Ch., 354.

(3) 13 L.J. Ex., 198; 12 M. & W., 823.

(4) (1906) A.C., 419, at p. 422.

(5) L.R. 6 Ch., 239.

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within the meaning of sec. 62 implies the granting of some species of ownership in the patent itself, an authority to exercise the same rights as the patentee has, such as to manufacture articles in accordance with the patented invention.

[GRIFFITH C.J. referred to sec. 87 of the *Patents Act* 1903.

HIGGINS J. referred to *Thomas v. Hunt* (1).

ISAACS J. referred to *Société Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Co.* (2).]

The "use" of a patented process takes place whenever the process is put into operation, but the "use" of a patented article is at an end when it is manufactured. The word "vend" may extend to a patented process, but it does not include the sale of the product of that process. It means the habit of selling and offering for sale: *Webster on Patents*, p. 77 (n).

[GRIFFITH C.J.—The word "vend" is useful to cover a case where an article made according to a patented invention, but by a person other than the patentee, and without the authority of the patentee, is attempted to be sold by that person.

HIGGINS J.—The effect of the use of the words "make" and "vend" may be that a sale of an article made by the patentee cannot be an infringement.

ISAACS J. referred to *Darcy v. Allin* (3); *Robinson on Patents*, vol. II., pp. 617, 624; *Bennett v. Wortman* (4).]

The English cases relied on in support of the proposition that conditions may be attached to patented articles so that their breach is an infringement are built up upon what is a dictum in *Incandescent Gas Light Co. Ltd. v. Cantelo* (5). In *Badische Anilin und Soda Fabrik v. Isler* (6) there was a licence granted to exercise the invention, and conditions could be imposed in that case although they could not be imposed on a sale of the product of the invention. [They also referred to *Frost on Patents*, 3rd ed., vol. I., p. 377; *Broom's Legal Maxims*, 7th ed., p. 347; *Keppell v. Bailey* (7); *McGruther v. Pitcher* (8).]

As to the claim based on contract, there was no breach of contract in respect of Pearson and Beckett. There was no sale

(1) 17 C.B.N.S., 183.

(2) 25 Ch. D., 1, at p. 9.

(3) Web. Pat. R., 1.

(4) (1901) 2 Ontario L.R., 292.

(5) 12 R.P.C., 262.

(6) (1906) 1 Ch., 605.

(7) 2 My. & K., 517, at p. 535.

(8) (1904) 2 Ch., 306.

in either case. The plaintiffs had no right to take the defendant off the dealers' list. He could only be taken off in conformity with clause 9 of the dealers' agreement. There was no consideration moving from the plaintiffs for the agreement. If there was, there was also consideration moving from the jobber who is therefore a necessary party. But the whole consideration moved from the jobber.

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[ISAACS J. referred to *Fleming v. Bank of New Zealand* (1).]

The plaintiffs having broken the agreement by wrongly striking the defendant off the list, he was entitled to treat the contract, if any, as at an end.

[GRIFFITH C.J. referred to *General Billposting Co. Ltd. v. Atkinson* (2).]

In *National Phonograph Co. Ltd. v. Edison-Bell Consolidated Phonograph Co. Ltd.* (3) it was held, under similar circumstances, that there was no contract. The condition in clause 9 of the dealers' agreement is bad because it is not restricted in time or place, and is irrespective of whether the goods dealt in are or are not patented.

Weigall K.C. in reply. The word "manufacture" in the definition of "invention" in sec. 4 of the *Patents Act* 1903 includes both process and product: *Frost on Patents*, 3rd ed., vol. I., p. 22. The unauthorized sale of articles manufactured according to a patented process is an infringement: *United Horse-Shoe and Nail Co. v. Stewart & Co.* (4); *Terrell on Patents*, 4th ed., p. 306.

[ISAACS J. referred to *Chaffee v. Boston Belting Co.* (5).]

There has been no breach of agreement by the plaintiffs. Although the transactions with Pearson and Beckett may not be sales, they may be relied on as breaches of the agreement by the defendant.

Cur. adv. vult.

The following judgments were read:—

GRIFFITH C.J. The plaintiffs' claim is in substance for an

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(1) (1900) A.C., 577, at p. 586.

(2) (1908) 1 Ch., 537, at p. 545.

(3) (1908) 1 Ch., 335.

(4) 13 App. Cas., 401, at p. 408.

(5) 22 How., 217, at p. 223.

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injunction to restrain the defendant from selling, dealing in or using phonographs and phonographic records and appliances of which the plaintiffs are patentees. Their case is presented in two ways; first, as a claim to restrain an infringement of the plaintiffs' patent, and, second, as a claim to restrain a breach of contract between the parties, by which the defendant bound himself in the events that have happened not to sell, deal in or use these things.

The facts material to the alleged infringement are that the plaintiffs are in the habit of selling their patented goods to a limited class of persons only, and of imposing upon those purchasers restrictions as to the persons to whom, and the prices at which, they may resell, and that the defendant has obtained from such purchasers the plaintiffs' patented goods contrary to the terms of the restriction, of which he had notice, and resold them. The plaintiffs contend that this is a use of their invention without their permission, and is consequently an invasion of their monopoly. They claim that they are entitled to impose any condition they think fit upon the use to which their patented articles may be put during the term of the patent, not by way of contract, but by the operation of the patent itself, and they say that the right which they thus assert is firmly established by judicial decision. I will first consider the matter upon principle, and then examine the authorities relied upon.

The plaintiffs' right, whatever it may be, is founded upon sec. 62 of the *Patents Act* 1903, which enacts that:—"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." It has often been pointed out that the patentee's right to put his invention in practice is not conferred upon him by the patent, but arises at common law. The Act does not confer on him a right to enjoy his own domain, but to prevent other persons from trespassing upon it.

The foundation of patent law is the *Statute of Monopolies* (21

Jac. I. cap. 3), passed in 1623, which, after declaring grants of monopolies to be void, made an exception in favour of grants of privilege for 14 years "of the sole working or making of any manner of new manufacture" to the true and first inventors. For nearly three centuries after this Act was passed it appears to have been the accepted law that when once the patentee by himself or his licensees had by putting the invention in practice produced an article and disposed of it to some member of the public the making use of the article so disposed of by anyone whomsoever was not an infringement of the monopoly of "working or making" the new manufacture.

In *Webster's Patent Reports* (published in 1844) the law is thus stated in a note to the case of *Crane v. Price* (1):—

"For suppose a particular article, starch for instance, to be the subject of letters patent, and that all the starch in the country was patent starch; there are attached to the making and selling of that article certain exclusive privileges, but the individual who has purchased it of the patentee has a right to sell it again, and to use it at his will and pleasure; the exclusive privileges are, in respect of that particular portion of the article so sold, at an end, and do not pursue it through any subsequent stage of its use and existence, otherwise every purchaser of starch would be obliged, according to the terms of the letters patent, to have a licence in writing, under the hand and seal of the patentee; the absurdity of which is manifest. Hence it is obvious, that if a person legally acquires, by licence or purchase, title to that which is the subject of letters patent, he may use it or improve upon it in whatever manner he pleases; in the same manner as if dealing with property of any other kind."

This passage was referred to by the Supreme Court of the United States in the case of *Bloomer v. Millinger* (2), as authority for the proposition laid down by the same Court in the earlier case of *Chaffee v. Boston Belting Co.* (3), that "when the patented machine rightfully passes from the patentee to the purchaser, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. By a

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(1) Web. Pat. R., 393, p. 413.

(2) 1 Wall., 340, at p. 351.

(3) 22 How., 217, at p. 223.

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valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States," (*i.e.* the patent laws), "but by the laws of the State in which it is situated. Hence it is obvious, say the Court, that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

In a later case, *Adams v. Burks* (1), the same Court said:—"In the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the Court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

It is an elementary principle of the law of personal property that the owner of chattels has an absolute right to use and dispose of them as he thinks fit, and that no restrictions can be imposed upon this right, except by positive law or by his own contract. The right asserted by the plaintiffs in this part of their case must therefore depend upon the meaning of the words "use" and "vend" in sec. 62 of the Act.

It appears that the letters patent issued in England under the *Statute of Monopolies* purported to grant the patentee the sole right "to make use exercise and vend the invention" and to forbid any other person "to make use or put in practice the said invention." The form of letters patent in use in Australia does not contain the prohibitory clause, but follows the words of sec. 62, taken from the English Act of 1883, which itself, no doubt, derived them from the form of letters patent then in use. In both cases the substance of the privilege is, as already said, the right to forbid the use of the invention by others.

(1) 17 Wall., 453, at p. 456.

It is contended for the plaintiffs that the word "use" as applied to "invention" extends to every employment of the product of the invention, and that the word "vend" has an equally extensive meaning. Hence it must follow that no one is entitled to make any use of the product unless he can show a personal licence from the patentee to do so. Such a licence, they say, may be implied from a sale in the open market made in fact without conditions: *Thomas v. Hunt* (1). They admit that in the case of a sub-purchaser who buys without notice of any restrictive condition the patentee may be estopped from denying the existence of such a licence. There is no doubt that, in one sense, the making use of a corporeal thing which has been brought into existence by putting in operation the idea which is the life giving essence of the invention is using the idea, since without the idea the thing would not have existed. In this sense the word "use" is synonymous with "taking advantage of." In some cases, no doubt, the word must have that extended meaning. Thus in *Walton v. Lavater* (2) it was held that a sale in England of an article made abroad by a process patented in England was a use of the invention in England. Such a construction was plainly necessary in order to give the patentee the full benefit of the monopoly of making and working the invention in England. As *Erle* L.C.J. said:—"The object is to give to the inventor the profit of his invention; and the most effectual way of defeating that object would be the permitting others to derive from the sale of the patent article the profit which it was intended to secure to the patentee."

But the same considerations do not apply to a patented article made and sold by the patentee himself or his licensee, and which has therefore 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." In my opinion, the words "use the invention" mean put the invention, *i.e.*, the idea, in practice for the purpose of bringing some new thing into existence, or effecting a physical change in some existing thing,

(1) 17 C.B.N.S., 183.

(2) 8 C.B.N.S., 162, at p. 185.

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and do not mean or include the case of making use of the product of the invention except in the case where the product has been brought into existence without the licence of the inventor.

There is more apparent difficulty in the use of the word "vend." The meaning of "invention" as the object of that verb, cannot, I think, be limited to the idea. If it means the product of the invention *simpliciter*, and applies to all products, it would follow that by the introduction of that word into the English *Patent 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 without the consent of some person other than the owner, although that other has no right of property in them. The difficulty or ease of proving that consent is not material for this purpose.

Having regard to the manner in which the word "vend" came to be introduced into the Statute book, and to the recognized rule that the legislature is not to be taken to have made a change in the fundamental principles of the common law without express and clear words announcing such an intention, I think that the words "vend the invention" mean to put the product of the invention in the possession of the public, and do not refer to any sale of the article after it has once, without violation of the monopoly, become part of the common stock.

On principle, therefore, I do not think that this branch of the plaintiffs' claim can be supported.

I proceed to consider how far it is supported by authority.

The idea of extending the patentee's right of monopoly in the use of the invention to a right to control the use of the product of the invention after it had become part of the common stock of personal property appears to have originated about the end of last century. There is some evidence of its having originated in America before the year 1890. The first reported case in England in which it was put forward is the *Incandescent Gas Light Co. v. Cantelo* (1), decided by *Wills J.* in 1895, in which the plaintiffs claimed an injunction to restrain the defendants from infringing their patent by using the patented article in

(1) 12 R.P.C., 262.

violation of a condition, which they alleged was attached to it on its sale, to the effect that the licence to use the article was strictly limited to the immediate purchaser, and further that it should only be used as an adjunct to other articles sold by the plaintiffs. The case is only reported in the Reports of Patent Cases. According to this report, *Sir R. Webster* for the plaintiffs referred to the case of *Betts v. Willmott* (1) and *Société Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Co.* (2). In the latter case *Cotton L.J.* said (3) that "when an article is sold without any restriction on the buyer . . . that, in my opinion, as against the vendor gives the purchaser an absolute right to deal with that which he so buys in any way he thinks fit." In that case, as in *Betts v. Willmott* (1), the restriction set up was as to locality. There is nothing to indicate that the learned Lord Justice in using the words "without any restriction" had in view anything more than a contractual restriction as between the vendor and purchaser. *Sir R. Webster* also referred to a case of *Heap v. Hartley* (4) before Mr. *Bristowe Q.C.*, Vice-Chancellor of the County Palatine of Lancaster, in which case also a territorial restriction was set up. After referring to some passages which he cited from the case of *Betts v. Willmott* (1) the Vice-Chancellor said (5):—"I cannot look upon these passages, or the other passages referred to in *Betts v. Willmott* (1) as having any other meaning than this:—That where a patentee sells that which he has a perfect right to do abroad to a person who has a perfect right to buy a machine abroad and to use in England the thing so sold, you must, before you can attach the conscience of any sub-purchaser from that man, have something in the form of notice to that man that there is a restrictive user attachable to the particular machine so bought. I think the effect of Lord Justice *Cotton's* judgment in the case of *Société Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Co.* (2) is to the same effect, and gives further effect to that which is already said in *Betts v. Willmott* (1). I think it would be stretching the matter far beyond any case that I know of to say that an exclusive licensee shall have a right to an injunc-

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(1) L.R. 6 Ch., 239.

(2) 25 Ch. D., 1.

(3) 25 Ch. D., 1, at p. 9.

(4) 5 R.P.C., 603.

(5) 5 R.P.C., 603, at p. 610.

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tion against a sub-purchaser to the twentieth degree from a man who had a perfect right to buy and to use the machine which is his own, and which is afterwards bought by a person within the prohibited district. It seems to me that it must come to a question of notice as against the particular person before you establish the right." It was also suggested that under sec. 36 of the English *Patents Act* 1883, relating to assignments of patents, patentees may break up their patent rights into as many parts as they like. Apparently the right to impose the restriction set up was not contested by the defendant, who contented himself with denying notice of it. *Wills J.* found as a fact that he had no notice, but in the course of his judgment he is reported to have said (1):—

"If so," (*i.e.*, if there is no defect in the sale) "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 principle: 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 on any patent law, or any other particular law."

If the doctrine of *Tulk v. Moxhay* (2) applied to chattels, this dictum—for it is no more—would be unanswerable. The observations of *Bristowe V.C.* made with regard to territorial restrictions seem to have been made in this view, and to have been accepted in *Cantelo's Case* (3) as a correct statement of the law, but extended so as to apply to any restrictions whatever. I do

(1) 12 R.P.C., 262, at p. 264.

(2) 2 Ph., 774.

(3) 12 R.P.C., 262.

not think that this case can be regarded as an authority for a revolutionary change in the law of personal property.

The next reported case is *Incandescent Gas Light Co. v. Brogden* (1), decided by *Kennedy J.* (now *Kennedy L.J.*) in 1899. In that case also the plaintiffs alleged that their patented goods were sold with a limited licence to sell and make use of them. The defendant's counsel contended that such a restriction could only be a matter of contract. The plaintiffs' counsel relied upon the terms of the patent. On this point *Kennedy J.* said (2):—"Mr. *Terrell* has satisfied me that a patentee has a right not merely by sale without reserve to give an unlimited right to the purchaser to use, and thereby to make in effect a grant from which he cannot derogate, but may attach to it conditions, and if those conditions are broken then there is no licence, because the licence is bound up with the observance of the conditions. I think that the defendant buying an article subject to those conditions the conditions formed a part of his right to deal with it at all." The point that the common law does not admit restrictions upon the right of the owner of chattels to dispose of them as he thinks fit does not seem to have been presented to the mind of the learned Judge.

The next case in which a similar question arose was *British Mutoscope and Biograph Co. Ltd. v. Homer* (3), in which the plaintiffs, patentees of an invention, had delivered some of their patented articles to another person for exhibition upon his leased premises on certain conditions, the articles remaining their property. They were seized and sold under a distraint for rent. *Farwell J.* (now *Farwell L.J.*) said that it had been recently held in *Incandescent Gas Light Co. v. Brogden* (1) that the person 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 incidental 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. He appears simply to have followed that decision, and expressed no independent opinion on the point. The case was not argued by counsel for the defendant, who appeared in person. I do not

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(1) 16 R.P.C., 179.

(2) 16 R.P.C., 179, at p. 183.

(3) (1901) 1 Ch., 671.

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think that this case can add anything to the authority of *Brogden's Case* (1). Possibly it may be distinguished on the ground that the patentee had never put the articles into the possession of the public.

In *Taddy & Co. v. Sterious & Co.* (2) *Swinfen Eady J.* held that conditions of such a kind could not be imposed on goods by a seller so as to bind a subsequent sub-purchaser. The plaintiffs in that case, however, were not patentees.

In *McGruther v. Pitcher* (3) a similar claim was made by the plaintiffs, who were sole manufacturers of patented articles under a licence from the patentee. *Farwell J.* held that the conditions imposed on the sale ran with the goods, apparently treating the action as one brought to enforce the rights of the patentee through his licensee: See *per Vaughan Williams L.J.* (4). The Court of Appeal reversed the decision, and approved the decision of *Swinfen Eady J.* in *Taddy & Co. v. Sterious & Co.* (2), *Vaughan Williams L.J.*, having pointed out the view taken by *Farwell J.* of the nature of the action, added (5):—"I say nothing as to those rights, because in my judgment this is simply an action for breach of contract, and the plaintiffs were not parties to the contract." *Romer L.J.* said (6):—"I cannot find any case established which would justify the Court in giving the plaintiffs relief on the footing of patent rights," and added that in general a vendor cannot impose a condition on the sale of his goods, binding upon a subsequent purchaser.

Cozens-Hardy L.J. said (7):—"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

(1) 16 R.P.C., 179.

(2) (1904) 1 Ch., 354.

(3) (1904) 2 Ch., 306.

(4) (1904) 2 Ch. 306, at p. 310.

(5) (1904) 2 Ch. 306, at p. 310.

(6) (1904) 2 Ch. 306, at p. 311.

(7) (1904) 2 Ch. 306, at p. 312.

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."

This is, no doubt, a weighty dictum in favour of the plaintiffs' claim in the present action, but it is no more.

In *Badische Anilin und Soda Fabrik v. Isler* (1) *Buckley J.* (now *Buckley L.J.*) said:—"If a patentee sells the patented article to a purchaser and the purchaser uses it, he, of course, does not infringe. But why? By reason of the fact that the law implies from the sale a licence given by the patentee to the purchaser to use that which he has bought. In the absence of condition this implied licence is a licence to use or sell or deal with the goods as the purchaser pleases: *Thomas v. Hunt* (2); *Betts v. Willmott* (3). If the patentee sells, imposing no restriction or condition upon his purchaser at the time of sale, he cannot impose a condition subsequently by delivery of the goods with a condition indorsed upon them or upon the package in which they are contained. Unless the purchaser knows of the condition at the time of the purchase and buys subject to the condition, he has the benefit of an implied licence to use free from condition. But suppose the purchaser buys, not from the patentee, but from a licensee, the patentee may have attached to his licence any conditions he pleased, and if he did attach a condition, then upon principle it seems to me that nothing (so far as licence as distinguished from estoppel is concerned) can turn on the question whether the purchaser from the licensee knew of the condition or not. If a person innocently uses a patented invention, not knowing that there is a patent, he is none the less an infringer, and if a person innocently buys a patented invention from a licensee and uses it not knowing that there are limits on the licence, I conceive that he is equally an infringer. Suppose the patentee sells to A., with the condition that A. shall not resell or grant the right of use to another, then, if B. becomes sub-purchaser from

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(1) (1906) 1 Ch., 605, at p. 610.

(2) 17 C.B.N.S., 183.

(3) L.R. 6 Ch., 239.

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A., it cannot be said that he is licensed by the patentee to use, for *ex hypothesi* he is not. It may be that the patentee may be estopped, as between himself and B., from saying that B. is not so licensed, and as regards *Incandescent Gas Light Co. v. Cantelo* (1) this must, I think, have been the *ratio decidendi*, for it would seem that the agent there was not authorized to sell except subject to conditions. If the purchaser knows the restrictions of course he is bound by them: *Incandescent Gas Light Co. v. Brogden* (2). In such a state of facts the patentee cannot be estopped, and to a patented article conditions may be attached because the goods have this special quality or characteristic, that, except with the licence of the patentee, they cannot be used or sold, thus differing from goods in general to which a condition cannot be attached so as, so to speak, to follow the goods: *McGruther v. Pitcher* (3)."

The learned Judge appears to have accepted *Brogden's Case* (2) as binding upon him, as perhaps it was. He, however, held that in that case no conditions had in fact been imposed upon the sale, so that the passage quoted is only a dictum. On appeal the Court declined to express any opinion on this point.

In *Gillette Safety Razor Co. Ltd. v. A. W. Gamage Ltd.* (4), decided in March 1908 by Warrington J., the same point was raised. In that case the conditions had not been imposed by the patentees themselves but by licensees from them. In this respect the case was like *McGruther v. Pitcher* (5). The learned Judge held that the conditions amounted to nothing more than a compact between the vendors and the persons to whom they sold. On appeal to the Court of Appeal, however, the case was remitted for trial (6). Thus stand the English authorities, and, as they stand, I think that this Court is free to decide the case upon principle.

I do not think it necessary to refer to the numerous decisions of the Circuit and District Courts of the United States, which are in conflict with each other. The point does not appear to have been directly decided by the Supreme Court of the United States or by any Appellate Court in England.

(1) 12 R.P.C., 262.

(2) 16 R.P.C., 179.

(3) (1904) 2 Ch., 306, at p. 312.

(4) 25 R.P.C., 492.

(5) (1904) 2 Ch., 306.

(6) W.N., 11 July, 1908.

If the plaintiffs' contention is sound, the effect would be that a patentee of a valuable improvement in an article *communis juris* would practically be enabled to obtain a monopoly of the sale of that article by attaching to his patent a condition that it should only be used with that article when sold by him.

For the reasons already given I am of opinion that this branch of the plaintiffs' claim cannot be supported.

I pass to the second branch of the plaintiffs' case.

It is the practice of the plaintiffs not to sell their goods directly to the public but through the medium of two classes of agents, called jobbers and retail dealers, to whom considerable discounts from what are called "list prices" are allowed, and who are, before being allowed to become jobbers or retail dealers, required to sign an agreement with the plaintiffs. The jobbers are directly appointed by the plaintiffs, and have authority to select dealers, who are also sometimes directly appointed by the plaintiffs. The retail dealers' agreement is on a printed form, having prefixed to it lists of prices and discounts and what are called conditions of sale, nine in number. The first condition provides that no one will be recognized as a dealer in the plaintiffs' goods unless he signs a retail dealers' agreement either direct with the company or through an authorized jobber, and that no agreement signed by a prospective dealer will be accepted by the company except on condition of his buying a specified minimum quantity of goods. The second condition imposes stringent restrictions upon the prices at which the plaintiffs' goods may be disposed of. Conditions 3 to 6 impose further restrictions to prevent the goods from being disposed of otherwise than by sale at a full price. Condition 9 provides that dealers violating any of the conditions of sale, or any other reasonable conditions that may from time to time be imposed by the company on dealers, will not be entitled to the discounts specified, and may at once be withdrawn from the plaintiffs' dealers' list.

After the conditions come the following words:—"Retail Dealers' Agreement—This copy to be signed and returned to (the jobber) who will forward it to" the plaintiffs. Then comes the agreement itself, which so far as material is as follows:—

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“In consideration of the sale of Edison phonographs and parts thereof Edison records and Edison blanks to me at current retail dealers’ net prices or discounts by a jobber, or direct by the National Phonograph Co. of Australia Limited, and after carefully reading the above price list, discounts, net prices, terms and conditions of sale, which are to be taken and read with and as part of this agreement, I hereby covenant and agree with the said National Phonograph Co. of Australia Ltd. to conform with, and strictly adhere to and be bound by the same, and not to do or suffer any of the acts or things thereby prohibited; . . . and I also covenant and agree with the National Phonograph Co. of Australia Ltd. 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 authorized to do so in writing by the National Phonograph Co. of Australia Ltd.”

The defendant, who was selected by an authorized jobber, signed an agreement in this form, which was sent to the plaintiffs by the jobber, and accepted by them, and the defendant was put upon the dealers’ list. Subsequently the plaintiffs removed his name from the list.

The plaintiffs’ complaint under this part of their case is that the defendant, after his name had been removed from the dealers’ list, sold and dealt in their goods without their authority.

The defendant contends that the plaintiffs are not entitled to sue upon the contract, inasmuch as the consideration for his promise did not move from them. He also pleaded that the removal of his name from the list was wrongful and in breach of the agreement.

The promise is in terms made with the plaintiffs. The consideration is stated to be “the sale of” the plaintiffs’ goods “at current retail dealers’ net prices” by the named jobber or by the company. The defendant contends that this means the sale of the first parcel of goods, which under condition 1 was to be a condition precedent to the defendant’s acceptance as a dealer, and that this consideration moved from the selling jobber. In my opinion this is not the true construction. It appears on the face

of the contract and prefatory conditions that the opportunity of dealing freely in the plaintiffs' goods on privileged terms could only be acquired by entering into the agreement with the approval of the plaintiffs. And I think that the words "the sale to me at current retail dealers' net prices or discounts" mean the privilege granted by the company of becoming a dealer on those terms. This was regarded by both parties as an advantage or benefit to the defendant, and it admittedly moved from the plaintiffs. I think also that it appears from the first condition that the jobber was the plaintiffs' agent to enter into such an agreement with the defendant. This objection therefore fails.

With regard to the other defence to the claim for breach of contract, the plaintiffs contend that the promise not to sell or deal in the plaintiffs' goods after removal from the dealers' list is absolute and unconditional, and that their right to remove from that list is also absolute. I do not agree. I think that the removal from the list on which the promise becomes operative refers to condition 9, by which the right of removal is conferred in the events there mentioned, and is conditional upon the happening of those events. Any other construction would allow the plaintiffs to remove the dealer's name from the list immediately after it was placed upon it, with the result that he would for ever lose the right to deal in the plaintiffs' goods. The case of *General Billposting Co. Ltd. v. Atkinson* (1) shows that, when a contract conferring rights is to remain in force until terminated under specific circumstances, if one party unlawfully terminates it in the absence of those circumstances, the other party may elect to treat the contract as wholly at an end, so that he is not liable for a breach of a promise which was only conditional upon a termination of the contract under those circumstances. This is only an instance of the application of the rule that the party suing on a contract must aver and prove that he was ready and willing to perform it on his own part.

It is necessary, therefore, to inquire whether the defendant had before his removal from the list violated any of the conditions of sale. The onus of proof of readiness and willingness to perform the contract lay on the plaintiffs, as also of showing some viola-

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(1) (1908) 1 Ch., 537.

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tion which entitled them to remove the defendant's name from the list. The inartistic form of the pleadings does not alter the burden of proof.

The plaintiff set up two breaches by the defendant. One was a sale to one Pearson at an under price. It appears that the defendant appointed Pearson his agent to sell the articles for him on the terms that Pearson should retain half the profits made on resale. In my opinion, this was not a sale to Pearson.

The other breach was a transaction with one Beckett, another authorized dealer, by which the defendant gave Beckett one of the plaintiff's phonographs, called a "Standard" machine, in exchange for another of their machines called a "Gem" machine and 21 phonographic records, which, at dealers' prices, *i.e.*, the prices at which dealers might buy from jobbers, were together equal in value to the Standard machine. The plaintiffs at first contended that this transaction was a sale, and was in violation of condition 6, which is introduced by the words "Exchange between dealers," and provides that "in case a sale takes place between two retail dealers, it must be at the full list price and no discounts whatever can be allowed." This point was, however, not pressed. It was then contended that the transaction was in violation of condition 4, which is as follows:—"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 merchandize 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 as 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." Condition 5 is as follows:—"Selling or offering for sale as second-hand articles, at reduced prices, Edison phonographs or parts, records or blanks, that have become shopworn or in any way damaged, or that have been

taken in exchange, will be considered a cutting of prices and will not be allowed." H. C. OF A.
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Having regard to the collocation of these three clauses, and to the express provision in condition 6 for the case of exchange between dealers, I think that condition 4 should be read as referring only to transactions between dealers and the public. I am strongly disposed also to think that it refers only to the bartering of Edison goods for those of other makers, and not to the exchange of Edison goods for other Edison goods. The words used plainly refer to the case of barter, and the object of the provision is, on its face, to secure that a full price shall always be paid by the public for the plaintiffs' goods. If the words are capable of a wider meaning, I think that it is cut down by the context, or, if not, that the language is, at least, so ambiguous that it ought to be construed so as to avoid rather than to work a forfeiture of the privileges conferred by the agreement.

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It follows, in my opinion, that the defendant's name was wrongfully removed from the list of dealers, and that the promise sued upon never became operative.

I think that there is nothing in the objection that the contract is void as being in unreasonable restraint of trade.

BARTON J. I have had the opportunity of perusing the judgment just read. I agree in it and do not propose to add much. On the question of infringement, however, I desire to make a few additional remarks with regard to what I believe to have been the state of the law in England and America up to the dictum of *Wills J.* in the case of the *Incandescent Gas Light Co. v. Cantelo* (1) in 1895. *Hindmarch*, an undoubted authority, writing in 1846, states at p. 493 the position of a purchaser of a patented article sued for infringement:—"In answer to a plaintiff's *prima facie* case, the defendant may show that the articles which he sold were manufactured either by the patentee himself, or by some other person with his licence, and had been sold either to the defendant or to some other person. For when a patentee, or any other person by his authority, makes an article according to the invention, and sells it to the public, it must be

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understood that the purchaser acquires an absolute dominion over it, with a right to sell it or dispose of it in any manner he pleases. Indeed, when an article has once been sold by the patentee, or his licensee, the object of the law has been attained; the patentee has obtained (or had the means of obtaining) the profit which it was intended he should receive, and any subsequent sale of the article is not within the meaning of the prohibition contained in the patent."

That this was the law of the United States in 1852 appears from the case of *Bloomer v. McQuewan* (1), where *Taney C.J.*, for the Court, distinguishes between the grant by the patentee of the right to *make and vend* the machine, and the grant by him of the right to *use* it, and points out that the purchaser of the exclusive right to make or vend the machine, limited, for instance, by particular local bounds, buys a portion of the right conferred by the franchise, a share in the monopoly, terminating at the time limited for its continuance by the law which created it.

He then proceeds (2):—"But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the Act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the Act of Congress."

I refer to the case of *Adams v. Burks* (3) to show that at its date (1873) the law laid down by *Hindmarch* in 1846 was again pronounced by the chief tribunal of the United States. Following the case of *Bloomer v. McQuewan* (1), *Miller J.*, for the Court, said (4):—"The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.

"But, in the essential nature of things, when the patentee, or

(1) 14 How., 539.

(2) 14 How., 539, at p. 549.

(3) 17 Wall., 453.

(4) 17 Wall., 453, at p. 456.

the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the Court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

In 1894, a year before the case of the *Incandescent Gas Light Co. v. Cantelo* (1), the Supreme Court decided the case of *Keeler v. Standard Folding Bed Co.* (2), where *Shiras J.*, for the Court, after a careful review of the previous authorities, including those I have mentioned, says:—"Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

In 1894, then, the position was this. In England, the doctrine now relied on does not appear to have been formulated or indeed asserted, and no exception to the law, as summarized nearly fifty years before by *Hindmarch*, seems to have been suggested. In the United States, the final authority had maintained that statement of the law in practically identical terms. In addition, the Supreme Court there had guarded itself against expressing an opinion "whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers." But it had flatly refused to admit that such a doctrine could be founded upon the inherent meaning and effect of the patent laws, and had clearly affirmed that the question would only arise as a question of contract. My learned brother has analyzed the effect of the English cases in and since 1895, beginning with *Cantelo's Case* (1)

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(1) 12 R.P.C., 262.

(2) 157 U.S., 659, at p. 666.

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and ending with *Gillette Safety Razor Co. v. A. W. Gamage Ltd.* (1). I have nothing to add to that analysis, but would mention that in December 1907 the question again came before the Supreme Court of the United States in *Cortelyou v. Johnson & Co.* (2), where *Brewer J.* delivered the unanimous judgment of the Court. There the Circuit Court of Appeals was upheld in the opinion that on the evidence the defendant had not sufficient notice of the licence restriction to make him chargeable with what was termed "contributory infringement," and the Court said (3):—"While in *E. Bement & Sons v. National Harrow Co.* (4) this Court held, in respect to patent rights, that, with few exceptions, '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,'" yet, the judgment significantly adds, "it is unnecessary to consider how far a stipulation in a contract between the owner of a patent right and the purchaser from him of *a machine* manufactured under that right, that it should be used only in a certain way, will sustain an action in favour of the vendor against the purchaser in case of a breach of that stipulation."

It appears to me that, while no decision in England has been given by any Court of Appeal on this question, the reasoning of the Supreme Court of the United States has been very cogent against the application of the suggested doctrine to the case of the purchase of the machine or article made by the patentee and sold by him. In the present state of authority it is, I think, our duty to deal with the matter on principle, and it is in this regard that I think the reasoning of the highest American Court helpful. On the whole I think that as to the Statutes the presumption applies in favour of a pre-existing law to the extent that a subsequent one has not clearly altered it; and in favour of the common law to the same extent. To hold that the right of the buyer of a chattel should be so radically altered by the mere alteration that has been made in the diction of the law would in my view be to attribute to it an effect in effacement of what have

(1) 25 R.P.C., 492.
(2) 207 U.S., 196.

(3) 207 U.S., 196, at p. 199.
(4) 186 U.S., 70.

been regarded as essentials of the law of personal property ; an effect much larger than we can fairly conclude that those who framed the later Statute had in view. As I do not see that the words necessarily or clearly carry that meaning I do not so interpret them.

On the questions of the contract, the construction of it, and the alleged breaches, I have nothing to add.

I am of opinion that the defendant is entitled to judgment.

O'CONNOR J. I have had the opportunity of reading the judgment of my learned brother the Chief Justice, and I agree with his conclusions and the reasoning by which he has arrived at them. As to that portion of the plaintiff company's claim which is founded on contractual relations between the parties, I do not think it necessary to add anything to what he has said. In reference however to the other ground, which raises an important question as to the rights of a patentee, I shall express my views.

The contention of the plaintiff company amounts to this : the grant of the patent not only confers the exclusive right of exercising the invention and of licensing others to exercise it, but it empowers the patentee to attach what conditions he pleases to the sale of goods, the product of the invention, not only by way of contract but as a condition inherent in the goods, and following them so as to bind any person into whose hands they may come, whether with or without notice of the condition. In other words, the protection which the patent throws round the exercise of the invention extends equally to goods the product of the invention. This once admitted it would follow that any person who bought or used the goods in violation of the condition however innocently would become an infringer. In such a case, subject to the operation of estoppel in special circumstances, notice of the condition would, as *Buckley J.* points out in *Isler's Case* (1), be as immaterial as would be notice of the existence of the patent in ordinary cases of infringement.

It is a well known principle that covenants and conditions cannot be attached to goods so as to run with them as certain

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(1) (1906) 1 Ch., 605, at p. 611.

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covenants run with the land. But if the plaintiff company's contention is right, goods which are the product of a patent stand in this respect on a different footing. The patentee may attach to them, from the moment of their manufacture, any conditions he deems advisable as to their sale and their use, as to price, as to locality, as to the person who may sell, who may buy, and who may use, and the limitations under which their use will be permitted, and such conditions will follow the goods from hand to hand, rendering liable to action any person who may use or deal with them in breach of the condition, although in entire ignorance of its existence. If the mere grant of a patent confers such a profitable right of controlling the use by the public of goods the product of the invention, it is remarkable that until recent years no patentee has ever attempted to assert it, and no Court has even suggested its existence.

In the English Courts the question does not seem to have been raised until 1895, when *Wills J.* in *Cantelo's Case* (1), made the observation on which this new departure seems to have been built. As to that case, *Brogden's Case* (2), and *Isler's Case* (3), upon which the plaintiffs rely in support of their contention, I do not propose to say more than this. The opinions of the learned Judges who decided those cases are entitled to due weight and consideration, but are not binding on this Court. The reasoning on which they are based does not in my opinion justify so wide a departure from the line of interpretation of the *Statute of Monopolies* adopted by the English Courts for the last three hundred years. In my opinion, therefore, the Court is entitled to treat the question in so far as the English cases are concerned as without authority.

In America of late years the same question has been raised, and the decisions of individual Judges in the Federal District and Circuit Courts have been contradictory. The Supreme Court of the United States has never had to decide this particular question, but it has in many cases stated the general nature and extent of the rights conferred by the grant of a patent in terms which would be equally applicable to the case of a patent

(1) 12 R.P.C., 262, at p. 264.

(2) 16 R.P.C., 179.

(3) (1906) 1 Ch., 605.

under British law. *Miller J.*, delivering the judgment of the majority of the Court in *Adams v. Burks* (1), says:—

“The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.

“But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the Court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.”

I turn now to the enactment under which the grant of patent was issued, and upon the interpretation of which the plaintiff company's rights must depend.

Patents of inventions in Australia are regulated by the Commonwealth *Patents Act* 1903, which is founded, as English patent law is, on the *Statute of Monopolies* (21 Jac. 1, c. 3). The Australian Statute is in all respects material to the matter now under consideration identical with the English Act, and in the absence of expressions to the contrary it will be taken that the Commonwealth legislature, in adopting the forms of expression used in the English Acts from the *Statute of Monopolies* downwards, has used them in the sense which the English Courts have always attached to them.

Except for the group of cases upon which the plaintiff company relies, there are no decisions attributing to the words of the English Statutes any meaning other than their natural and ordinary meaning. The rights of patentees in Australia are therefore to be found by interpreting the Commonwealth *Patents Act* 1903 in accordance with the natural meaning of the words which the legislature has used. The rights conferred by the patent are to be found in the form of grant set out in the First Schedule of the Act. The effect of the grant is described in

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(1) 17 Wall., 453, at p. 455.

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sec. 62 as follows: "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."

"Invention" is defined in sec. 4 as follows:—

"‘Invention’ means any manner of new manufacture the subject of letters patent and grant of privilege within section six of the *Statute of Monopolies* (that is the Act of the twenty-first year of the reign of King James the First, chapter three, intituled ‘An Act concerning monopolies and dispensations, with penal laws and the forfeiture thereof’), and includes an alleged invention."

It will be observed that the definition is not an "inclusive" definition. It limits the meaning as set out in the section unless the context clearly indicates the contrary. Taking the words of the section in their natural meaning, "invention" is used to describe the method of building the new machine or carrying out the new process, not the output of the machine or the result of the process, and I shall first deal with sec. 62 on that assumption. The word "make" protects the exclusive right of putting the invention into a condition to effect its object; the words "use" and "exercise" protect the exclusive right of putting the invention to actual use; the word "vend" protects the transfer to another person on sale or licence of the exclusive rights above described. The patentee's right to sell the product of his invention is not given him by the patent law, for it is at common law the right of every man to dispose of his own property. All that is necessary to secure him the full benefit of his monopoly is the protection of his exclusive right as against all the world to make use of and exercise the method or process of his invention and to transfer those rights to other persons. That is the protection which, in my opinion, the Act gives him. It gives him no more.

But assume that the word "invention" in sec. 62 and the interpretation clause include the product of the invention as well as the method or process of carrying it out. The word "vend"

must be taken, as I have pointed out, to have been used by the legislature in its ordinary meaning. The words: "full power, sole privilege and authority, . . . to . . . vend the invention . . . 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" must be read as giving "a power, privilege and authority" to be exercised according to existing law which does not allow the attaching of conditions of sale running with the goods as covenants run with the land. Such words cannot on any principle of interpretation be held to have thus by a side wind altered the law in so important a particular as to confer on the vending of goods the product of a patented invention of a new incident differentiating so materially the vending of that class of goods, from all others. Taking therefore the latter view of the meaning of the word "invention" in the Act, the rights claimed by the patentees to control the sole product of their invention cannot be found in the Act. In either view of the meaning of the word "invention" when the goods are once produced under the protection of the patent the advantages of the Act to the patentee are exhausted, and the public are entitled when the goods are once in distribution to trade with them as freely as in other goods. The patentee can, of course, make and enforce any contract he pleases with a purchaser or with a licensee, but he cannot, apart from contract, attach to the product of his manufacture any conditions which will inhere in the product when it has once passed into the hands of persons with whom he is not in privity of contract.

In my opinion, therefore, according to the proper interpretation of the *Patents Act* 1903, there is no ground upon which the plaintiffs can rest the very extensive powers of controlling the sale and use of the products of their invention in the hands of the public which they have attempted to assert in this case. I agree that on the whole case judgment should be entered for the defendant.

ISAACS J. The plaintiffs' claim has been narrowed down to two questions:—(1) Are they entitled to an injunction to restrain a threatened breach of contract, and (2) Are they entitled to an

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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. Neither the Pearson nor the Beckett transaction was a sale. But the plaintiffs are not so limited in their claims to restrain the defendant under the circumstances alleged in paragraphs 6 and 7 of the statement of claim. If there was a contract between the parties, and if the stipulation relied on was valid and broken, then it becomes a mere question as to whether an injunction should be awarded.

I am of opinion that the document of 14th April 1906, signed by the defendant and witnessed by Firth, constituted in view of the circumstances a binding bargain between the plaintiffs and the defendant. The agreement by the defendant that, in the event of his name being removed from the dealers' list, he would not deal in the company's goods refers to a removal that is contemplated by the parties, that is, for violation of the conditions of sale or any reasonable conditions imposed, or failing to pay accounts due to the plaintiffs. It is not so unreasonable as to go beyond the necessary protection of the plaintiffs and be invalid as an improper restraint of trade. It is limited, in my opinion, to the subject matter, namely, the area and period covered by the patent under which the goods are protected.

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 plaintiffs' list of dealers was technically justified by the contract.

Not without doubt I have come to the conclusion that the last part of the 4th condition prohibited the defendant from accepting the records in exchange for the Standard phonograph, and that he was not protected by clause 6 because the goods exchanged were not of the same style and make.

The only question so far is as to the remedy, with which I shall presently deal.

A question of wider import is raised by the second branch of the case, namely, whether the course of action persisted in by the defendant would amount to an infringement of the plaintiffs' patent rights.

The plaintiffs contend that they have a right in selling their goods to affix any conditions they please to future sales, and that the breach of these conditions is in law an infringement and a tort, irrespective of any contractual relation between the plaintiffs and the person who transgresses the conditions.

The defendant, on the other hand, maintains that once the patentees sell their goods they pass them into the common stock of the country, and in that case no condition can lawfully be attached to the disposal of the goods, though as between the vendors and the purchaser breach of the condition may be treated as breach of a contractual stipulation, but cannot reach down to a sub-purchaser so as to give as against him any right of action to the patentees.

A number of cases, English and American, were cited. The American cases are in the Federal Circuit and Districts Courts, and on the whole clearly support the plaintiffs' contention. Some of them are *Edison Phonograph Co. v. Kaufmann* (1); *Edison Phonograph Co. v. Pike* (2); *Victor Talking Machine v. The Fair* (3); *National Phonograph Co. v. Schlegel* (4); *John D. Park and Sons Co. v. Hartman* (5).

There has been no express decision on the point in the Supreme Court of the United States, though the words of *Clifford J.* in *Mitchell v. Hawley* (6), in 1872, strongly support the same view. His words were:—"A patentee, when he has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, without any conditions, and the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be

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(1) 105 Fed. Rep., 960.

(2) 116 Fed. Rep., 863.

(3) 123 Fed. Rep., 424.

(4) 128 Fed. Rep., 733.

(5) 153 Fed. Rep., 24.

(6) 16 Wall., 544, p. 547

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understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold and delivered or authorized to be constructed and operated." In *E. Bement & Sons v. National Harrow Co.* (1), Peckham J. said:—"An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it." *Robinson on Patents* (1890) vol. 2, at pp. 617 and following (sec. 824) sets out the substance of American decisions up to that date, in accordance with the argument urged by the plaintiffs.

The English cases which deal specifically with this point, either decisively or by dicta, begin with *Incandescent Gas Light Co. v. Cantelo* (2) and continue with unbroken continuity of opinion; as *Incandescent Gas Light Co. v. Brogden* (3); *British Mutoscope and Biograph Co. Ltd. v. Homer* (4); *McGruther v. Pitcher* (5); and *Badische Anilin und Soda Fabrik v. Isler* (6). The English cases represent the opinion of *Wills J.*, *Farwell J.*, *Kennedy J.*, *Buckley J.*, (the last three now Lords Justices), and *Cozens-Hardy L.J.* now Master of the Rolls.

The line of reasoning and the ultimate views expressed by these learned Judges are precisely the same as those to be found in the American cases I have referred to. No actual decision on the point has been given by an appellate Court. The latest English text writers apparently regard the question as settled by the above mentioned cases. See for instance *Frost on Patents*, 3rd ed., vol. 1, p. 377 *et seq*; *Wallace and Williamson on Patents*, p. 339.

On the other hand there are some cases in America—comparatively few and not generally followed—which look the other way, and there is a passage in *Webster's Patent Reports*, p. 413, note (p), which is relied on by the defendant. These competing contentions compel reference to fundamental considerations.

Sec. 62 of the *Patents Act* 1903 is in the following terms:—"The effect of a patent shall be to grant to a patentee full power,

(1) 186 U.S., 70, at p. 88.

(2) 12 R.P.C., 262.

(3) 16 R.P.C., 179.

(4) (1901) 1 Ch. 671.

(5) (1904) 2 Ch., 306, at p. 312.

(6) (1906) 1 Ch., 605.

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."

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The form of patent (Schedule I. to the Act) grants "Our especial licence full power sole privilege and authority that the said patentee by himself his agents or licensees *and no others* may at all times hereafter during the term of years herein mentioned make use exercise and *vend* the said invention within the Commonwealth of Australia," &c.

The nature of the patent right is therefore precisely the same as that which has existed since the *Statute of Monopolies* and at common law before that Act.

Lord *Herschell* L.C. in *Steers v. Rogers* (1) said:—"What is the right which a patentee has or patentees have? It has been spoken of as though a patent right were a chattel, or analogous to a chattel. The truth is that letters patent do not give the patentee any right to use the invention—they do not confer upon him a right to manufacture according to his invention. That is a right which he would have equally effectually if there were no letters patent at all; only in that case all the world equally have the right. What the letters patent confer is the right to *exclude others* from manufacturing in a particular way, and using a particular invention." So *per Taney* C.J. in *Bloomer v. McQuewan* (2):—"The franchise which the patent grants, consists altogether in the *right to exclude* everyone from making, using, or vending the thing patented, without the permission of the patentee. That is all that he obtains by the patent."

The patentee obtains from the Crown, under legislative authority in Australia, the exclusive right to *make*, or *use*, or *exercise*, or *vend* the invention, that is, in such a patent as this, to make, use, or sell articles made according to the invention or in any way "put in practice" the invention. (See *Saccharin Corporation v. Reitmeyer & Co.* (3). That is, it has the incorporeal right of pre-

(1) (1893) A.C., 232, at p. 235.

(2) 14 How., 539, at p. 549.

(3) (1900) 2 Ch., 659, at p. 663.

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venting, by legal process if necessary, any other person from either making, using or selling such articles anywhere in Australia, at any time, in any circumstances, during the period covered by the patent.

But, says the defendant, once the patentee makes and sells an article he necessarily places that article outside the range of the monopoly granted by the patent. The argument is that once the patentee parts with the title to the article, the patent rights cease to operate. For instance, if a patentee were to *give* any person a patented article upon strict condition not to sell it, the gift, it is said, being complete, the prohibition is void, and unless some claim can be rested on contract, the donee is free to sell the article without committing any infringement of the patent.

The contention is evidently rested on the ordinary common law rule that no person can impose a condition repugnant to his grant, a doctrine applicable equally to real and personal property. (See *Co. Litt.* 223a; *Bradley v. Peixoto* (1); *Keppell v. Bailey* (2); *Metcalfe v. Metcalfe* (3)).

But while it is perfectly true that no person can of his own will create a new species of property, or impress upon property a character which the law does not recognize, or create a negative obligation to follow or attend ordinary rights of ownership, yet the law itself can. And when an Act of Parliament followed by a grant from the Crown reverses the public policy which gave rise to the general unfettered alienability of property, and, for the public welfare, creates an exclusive privilege in favour of the grantee, the common law principle no longer controls the matter, but becomes inapplicable to the case.

Though not dealing directly even by way of mere judicial opinion with the exact class of circumstances we have now to consider, yet in the case of *Betts v. Willmott* (4) Lord *Hatherley* L.C. enunciated the principle upon which, as I understand the English cases above referred to, the learned Judges acted. The Lord Chancellor had to consider how far a purchaser from an English patentee who had also establishments in France, and who sold his

(1) 3 Ves., 324, at p. 325.

(2) 2 Myl. & K., 517, at p. 535.

(3) 43 Ch. D., 633, at p. 639.

(4) L.R. 6 Ch., 239.

goods in France, was entitled to use those goods in England. His Lordship rested the whole case upon "the doctrine of leave and licence"; that is, not the technical "licence" referred to in the Patents Acts, but the common law right of any person to relax his own privilege and rights by granting leave and licence to another.

Quilibet potest renunciare juri pro se introducto. And Lord Hatherley L.C. clearly thought that the right to the property in the patented articles themselves was quite distinct and severable from the right to *sell* them or *use* them. He pointed out that a sale without "some clear communication to the party to whom the article is sold" necessarily transfers with the goods the *licence* to use them anywhere. And the Lord Chancellor says (1):—"When a man 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 *licence* to *sell* the article, or to *use* it wherever he pleases as against himself. He cannot use it against a previous assignee of the patent, but he can use it against the person who himself is proprietor of the patent, and has *the power of conferring a complete right on him* by the sale of the article." If it were an invariable rule that the mere sale of a patented article carried with it a licence to re-sell or to use the article at the pleasure of the purchaser, the observations of the learned Lord Chancellor would be unmeaning or wrong.

The right, therefore, is as complete as the express or implied terms of the bargain make it.

Tilghman's Case (2) contains an observation of Cotton L.J. which, while distinguishing it from *Betts v. Willmott* (3), the one referring to a statutory licence to manufacture, and the other to a common law leave and license to sell or use, nevertheless bears strongly on the point now under consideration. The Lord Justice said (4):—"When an article is sold *without any restriction on the buyer*, . . . that, in my opinion, as against the vendor gives the purchaser an absolute right to *deal with* that which he so buys in any way he thinks fit."

(1) L.R. 6 Ch., 239, at p. 245.

(2) 25 Ch. D., 1.

(3) L.R. 6 Ch., 239.

(4) 25 Ch. D., 1, at p. 9.

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The important question is—what is the starting point? In the case of ordinary property not affected with monopoly, the rule of common law—subject to certain exceptional instances—is that no fetter exists on alienation. The power of disposition is incident to ownership. And that is the initial consideration. To overcome it some law must be indicated which modifies the general rule. But in the case of a monopoly established by law, the primary rule is just the opposite. There the law inhibits to all but the favoured person not merely the creation, but, if created, the use and also the sale of the article the subject of the privilege. He may relax the rule, or he may not—that is his privilege. He may grant a full licence to do all he can do himself, he may limit his licence. He may permit a man to make but not to sell. The right of ownership in the article itself must be kept distinct from the right to the privilege under the patent. An instance of lawful manufacture but unlawful sale is afforded by the Canadian case of *Bennett v. Wartman* (1). A patentee may permit manufacture but not use, as in *Basset v. Graydon* (2), where Lord *Watson* says:—"The right conferred upon the appellant is strictly limited to the process of construction. He has no authority given him either to use himself any patented apparatus which he has constructed, or to sanction its use by others. That power is reserved to the patentee." This, though turning on the construction of the agreement, shows very clearly how separable are the rights of making and using.

The patentee may permit the manufacture and sale, and either absolutely or at stated times, or places, or prices. In short the ambit of the licence he selects is within the absolute discretion of the patentee. *Miller J.* in *Adams v. Burks* (3) said:—"The right to manufacture, the right to sell and the right to use are each substantive rights, and may be granted or conferred *separately* by the patentee"; and the learned Judge, following the line of thought indicated by Lord *Hatherley* L.C., refused to *imply* a restriction upon use which was "not within the reason of the contract." Each of the three powers "make," "use" and "vend" represents what has been aptly called "a separate field of opera-

(1) (1901) 2 Ont. L.R., 292.

(2) 14 R.P.C., 701, at p. 713.

(3) 17 Wall., 453, at p. 456.

tion," each is a distinct subject of the privilege and each has its own extent. Not only may the patentee mark off any of these from the rest and exclude it altogether from the freedom he confers upon another person, but within the area of each several operation he may erect limitations. *Cujus est dare, ejus est disponere*. He cannot be compelled to give more than he will. And whoever transgresses beyond the limits conferred, is a trespasser (see *Pollock on Torts*, 8th ed., 376).

As *Wills J.* puts it in *Cantelo's Case* (1), "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." The learned Judge is in perfect accord with Lord *Hatherley L.C.*, and the starting point of all that he says is the fact that the patentee has by law, to begin with, the sole right of using or selling the articles and may prevent others from dealing with them at all. To the same effect are the observations of *Kennedy J.* in *Brogden's Case* (2).

This idea of leave and licence—that is the permission—permeates all the cases in the English Courts and all the American cases I refer to. The right of the licensee is coextensive with the permission granted—no greater and no less.

The observations of *Cozens-Hardy L.J.* in *McGruther v. Pitcher* (3) are distinct. True, they are only a dictum; but they are not alone the dictum of a most eminent Judge, but were introduced for the very purpose of pointing the actual decision, by emphasizing the difference between patented and non-patented goods.

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(1) 12 R.P.C., 262, at p. 264.

(2) 16 R.P.C., 179, at p. 183.

(3) (1904) 2 Ch., 306, at 312.

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Buckley J. in the *Badische Anilin Case* (1) states the ground of differentiation between patented and non-patented goods in accordance with the principles I have endeavoured to enunciate, and he adds an extremely important element in the scheme of adjustment, viz., estoppel. A permission limited in fact may yet be accompanied by circumstances which to the world naturally induce a belief in an unlimited licence, and on ordinary principles the patentee must be bound by the apparent authority he has created. (See *per Cotton L.J.* in *Proctor v. Bennis* (2)). This, however, as *Buckley J.* says, does not in the least affect the principle of actual infringement.

The passage cited by the defendant's counsel from *Webster's Patent Reports*, p. 413, note (p), is I think quite reconcilable with all that I have said. The learned writer was illustrating one of the points in the judgment of *Tindal L.C.J.* in *Crane v. Price*. That point was this: That a patent including the subject matter of a prior patent still in force is valid in law. The learned L.C.J. had said (3):—"The new patent, after the expiration of the old one, will be free from every objection, and whilst the former exists, the new patent can be legally used by the public by procuring a licence from Neilson" [the former patentee] "or by purchasing the apparatus from him or some of his agents."

Then the learned text writer, who like the learned Judge evidently had in his mind an actual licence or the licence that is implied from an ordinary sale—but always a licence—takes patent starch as an illustration, and concludes his observations in these words (*Webster's Patent Reports*, p. 413, note (p)) :—"Hence it is obvious, that if a person legally acquires, by licence or purchase, title to that which is the subject of letters patent, he may use it or improve upon it in whatever manner he pleases; in the same manner as if dealing with property of any other kind."

There is nothing more in the illustration than showing that, assuming an actual licence or an unconditional sale implying a licence, improvements may be added, and therefore a patent for

(1) (1906) 1 Ch., 605.

(2) 36 Ch. D., 740, at p. 761.

(3) Web. Pat. R., 393, at p. 413.

improvements is not invalid by reason of an already existing patent for the thing improved upon. H. C. OF A.
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Applying those principles to the present case, and putting aside the Beckett incident, the material instance upon which the company relies is the Reymont transaction. Whatever Menck's rights or wrongs may otherwise be, he cannot, as I conceive, be heard to deny that Reymont was a dealer, and that he (Menck) purchased goods from Reymont at a discount, a course of conduct which everybody knew was forbidden to Reymont. Menck's stratagem to circumvent the company—whatever his own idea of moral justification on account of the company's supposed severity may have been—cannot be upheld in a Court of Justice. Menck unless restrained would doubtless endeavour to repeat his ruse, as often as necessity required and opportunity offered.

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In these circumstances should an injunction be awarded? In *McEacharn v. Colton* (1) Lord Macnaghten says:—"The appellant threatens to commit a clear breach of a plain contract expressed in a negative form. According to the doctrine expounded by Lord Cairns in *Doherty v. Allman* (2), that is a case in which the Court of Chancery in this country would not hesitate to grant an injunction."

This contract once being interpreted, the principle of those two decisions applies to the facts of this case, even if regarded merely as a breach of contract, and the plaintiffs are therefore entitled to an injunction to restrain the defendant from "handling, selling dealing in, or using" the plaintiffs' goods during the existence of the patent, that is, from doing just those things he had agreed not to do.

But if, as I have said, the defendant's acts and intended acts amount also to a tort independently of contract, the plaintiffs are entitled to an injunction in wider terms, namely, an injunction restraining the defendant from infringement in any shape or form, as, for instance, from being an active participator with such a person as Reymont, or any jobber selling to Menck at a discount whether for purposes of sale or dealing or not. Practically it might or might not amount to anything of importance, but the plaintiffs are entitled, as I apprehend, to an injunction not limited

(1) (1902) A.C., 104, at p. 107.

(2) 3 App. Cas., 709, at p. 719.

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by the mere words of the contract, but extended so as to cover all possible forms of infringement, even making the article—see *Kerr on Injunctions*, 4th ed., p. 270—and so as to provide against the defendant's ingenuity causing the necessity of another action.

HIGGINS J. I concur in the view that unless there was a contract between the plaintiffs and the defendant this action should be dismissed. The first claim is for infringement of the plaintiffs' patent. As I understand the way in which this claim is put by the plaintiffs' counsel, a condition restricting user and sale can be made to run with patented articles, although not with any other property. Under sec. 62 of the *Patents Act* 1903, the patent confers on the patentee the sole privilege by himself, his agents and licensees, "to make, use, exercise, and vend the invention"; and it is said that there was no licence for Menck to vend, after Reymont sold to Menck, allowing him dealer's discounts; for Menck was no longer an authorized dealer. It has not been disputed in argument, and I shall assume, that the meaning of the dealers' agreement signed by Reymont is as alleged by the plaintiffs—that the connecting cord of the licence to vend given by the plaintiff was meant to be severed by such a sale as that to Menck. The defendant's name was removed from the list on 28th July 1906; and after that date he sold to Thomson, and generally dealt in goods manufactured by the plaintiffs. I confess that I have been much puzzled by the expressions of certain Judges on this subject in the recent cases to which we have been referred. It cannot be said they are all mere *obiter dicta*. But they have been so fully criticized by the Chief Justice in his judgment that I do not see any good to be done by my again discussing them. I hope that before long these cases will be reviewed in some Court of final appeal. In the meantime, they are not of such authority as that this Court ought to follow them; especially as they violate the fundamental principle of property, as recognized hitherto in British law, that the full property in a chattel involves the right to use, the right to destroy, the right to sell. I cannot find that this aspect has been sufficiently urged before the Judges in the cases mentioned. The condition in

restraint of sale seems to me to be repugnant to the absolute property in the chattel. The words of sec. 62, and of the grants of patents, in England as well as here, seem to be loose and ill-chosen, and, apparently, have to be interpreted by reference to the *Statute of Monopolies*, and decisions thereunder. But, having regard to the purpose of the grant, as stated in the section—"so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention"—it may be found that what the patentee gets for himself, his licensees &c., is the sole right "to make, use, exercise, and vend the invention" (including the patented article), but subject to the usual results of "vending," namely, that the vendee, and all subsequent purchasers have a right (unless they contract to the contrary) to use and to sell as they think fit. This view is, to say the least, consistent with the cases of *Betts v. Willmott* (1): *Dunlop Pneumatic Tyre Co. Ltd. v. Hubbard Patents and Tyre Syndicate Ltd.* (2). Another way of putting the same position would be that when a man sells an article covered by his patent there arises an irrebuttable presumption to the effect that the vendee, and all subsequent vendees, take with the article a licence to use, to destroy, or to the sell it, as they see fit—but subject to the operation of any contract as between parties thereto. If the contrary view is to be accepted, an extraordinary anomaly will find its place in our legal system, without express words pointing to such a result; and the power of those who hold monopolies to exploit the public for excessive profit will be indefinitely increased.

I concur also in the view that the defendant, by signing the document which is called "retail dealers' agreement," made a contract with the plaintiffs. Whatever evidence may have been lacking in the case of the *National Phonograph Co. Ltd. v. Edison-Bell Consolidated Phonograph Co. Ltd.* (3), in this case the opening clauses of the jobbers' agreement and of the retail dealers' agreement sufficiently indicate, I think, that the jobbers had authority from the plaintiff company to contract on their behalf. Then there is a consideration for the defendant's promise to the

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(1) L.R. 6 Ch., 239, at p. 245.

(2) 19 Rep. P.C., 546.

(3) (1908) 1 Ch., 335.

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plaintiffs in this agreement. It purports to be "in consideration of the sale of Edison phonographs . . . to me at current retail dealers' net prices or discounts by . . . a jobber." The consideration moving from the plaintiffs, for the promise to the plaintiffs, is the sale to the defendant at certain prices and discounts—a sale which could not take place except with the plaintiffs' permission. The same transaction was, in fact, the basis of two contracts—one with the jobber for the chattels, and the other with the plaintiffs, to adhere to certain conditions in consideration of the sale which the plaintiffs allowed.

But was there any breach of this contract on the part of the defendant? Perhaps this part of the case has not attracted as much attention as it is entitled to, because of the difficulty and the far-reaching importance of the first question, the question as to infringement of patent. The defendant promised as follows:—"In the event of my name being removed from the dealers' list, I will in no way handle, sell, or deal in, or use . . . Edison phonographs . . . unless authorized to do so in writing by the National Phonograph Co. of Australia Ltd." It is not disputed that the defendant's name was in fact removed from the dealers' list on 28th January 1906; or that the defendant sold Edison phonographs &c. afterwards. If the facts stopped here, there would obviously be nothing wanting to make up a complete breach of the contract. But the defendant alleged in par. 9 of his defence that if there was a removal "such removal was wrongful and unjustifiable and in breach of the said alleged contract." Issue is joined on this averment by the plaintiffs in their reply. The Judge who tried the action has not expressed any finding on this issue; and by the terms of his order, we are confined to the pleadings and the findings. We have to say, "what judgment should be entered herein upon the pleadings and the aforesaid determination of issues of fact." As the defendant alleges something "wrongful and unjustifiable and in breach of the contract" in the removal, and has not established his allegation to the satisfaction of the learned Judge, I think that we ought to decide this question on this reference accordingly, and ought to hold that there was a breach of contract.

But apart from this strict, technical, position, I ought to say—

in order to prevent apprehension—that I am by no means satisfied H. C. OF A.

- (a) that the plaintiffs agreed to keep the defendant on their list until an actual violation of the conditions on his part—

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- (b) that (if there was such an agreement) the fact that the plaintiffs removed the defendant from their list, under the belief that he had violated the conditions when he had not violated them, would be any defence to the action

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OR

- (c) that there was not in fact a violation of the conditions on the part of the defendant.

As for (a), it is noticeable, throughout the whole “retail dealers’ agreement,” that it imposes obligations on the dealer, not on the patentee. All that the patentee does is to allow the sale, and to accept the defendant as a dealer. What is to happen afterwards is left to the dealer’s luck, and to the self-interest of the patentee. A dealer is usually only too glad to get his name on the dealers’ list, and take his chance of being kept there. Condition 9 merely warns him that if he violate any of the conditions he may be at once withdrawn from the dealers’ list, and may *also* be proceeded against for breach of the agreement. It is a threat, and not a promise, on the part of the plaintiffs. Where is there found any *necessary* implication that the name will not be removed from the dealers’ list for some reason of business, as the dealer was removed in the case of *National Phonograph Co. Ltd. v. Edison-Bell Consolidated Phonograph Co. Ltd.* (1)? As for (b), it is not every breach of contract by a party that entitles the other party to treat it as at an end. There is nothing to show that the plaintiffs ever repudiated the contract, or that the defendant ever accepted the repudiation, as in *General Billposting Co. Ltd. v. Atkinson* (2). Nothing was further from the mind of the plaintiffs than to refuse to carry out the contract any further. The plaintiffs thought that the defendant was in fact cutting prices, but the Judge has found that he was not. I cannot see why, from the nature of this case, a removal of the defendant from the list,

(1) (1908) 1 Ch., 335.

(2) (1908) 1 Ch., 537.

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under a mistaken belief that he was cutting prices, justifies the defendant in selling after he has been in fact removed from the list (see *Mersey Steel and Iron Co. v. Naylor, Benzon & Co.* (1)).

As for (c), I am of opinion that in the transaction with Beckett, which took place before the removal of the defendant's name from the list, the defendant had violated condition 4. He accepted from Beckett a Gem phonograph and 21 records in exchange for a Standard phonograph—all Edison articles. This comes, in my opinion, within the prohibition at the end of condition 4—"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." It is said that this prohibition does not apply to transactions of dealers with dealers; but why not? There is certainly nothing expressly limiting the prohibitions to transactions of dealers with the public; and the object of the agreement, the establishment of prices, the prevention of cutting prices, could obviously be frustrated by such exchanges between dealers as well as by exchanges between dealers and the public. Looking closely at the conditions, we find that conditions 2-5, and 7-8 give general rules, applicable to all transactions with everyone; and condition 6 merely makes a special concession to dealers in case of emergency, when they find themselves out of stock of an article. Condition 2 forbids dealers to sell Edison articles at less than current list prices &c.; condition 3 forbids people (certainly including dealers) to dispose of Edison articles by lottery, by premiums &c.; condition 4 forbids exchanges, that is to say, (a) giving Edison articles in whole or part payment for privileges or for goods of some other make or nature &c.; or (b) accepting goods of other make or nature in whole or part payment of Edison articles; condition 5 forbids selling Edison articles as second-hand if "shopworn" or damaged. Then comes condition 6, which is a mere exception for emergency: "Exchange between dealers. Authorized dealers, in case of emergency, will be allowed to borrow from any other authorized dealer, provided the goods so borrowed are actually replaced with goods of the same style and make. In case a sale takes

(1) 9 App. Cas., 434.

place between two retail dealers, it must be at the full list price, and no discounts whatever can be allowed." This condition is obviously, to my mind, an exception in favour of dealers, all the other conditions being applicable generally to dealers as well as to the public.

But it is also urged that the exchange in Blackett's case does not come within the prohibition of condition 4, inasmuch as all the articles on both sides of the transaction of exchange were Edison articles. Here, again, business considerations would clearly lead to the conclusion that the object of the conditions would not be achieved unless the prohibition extends to exchanges of Edison articles for Edison articles (acceptance of Edison records or blanks for Edison phonographs, records or blanks). Yet, if such exchanges are clearly excepted from the prohibition, we must give effect to the exception. But looking at the retail dealers' agreement, we find that Edison phonographs are divided into three "types," and each type has several kinds ("Gem," "Standard," "Home," &c). Condition 2, as to including in the sale of Edison phonographs any extra articles "not listed to go with the same as a regular outfit," must surely refer to Edison articles as well as to articles of other manufacturers. Condition 3 *may* (to say the least) refer also to Edison articles, under the words "other goods." Condition 4 is as follows:—"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 words "This does not prohibit the acceptance of a talking machine *at full list price* . . . in exchange for an Edison phonograph sold at full retail list price," show, to my mind, that

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exchanges of Edison articles are contemplated by the condition ; for what list is referred to except the Edison list ? Compare condition 3, where "current prices" is the phrase applied to "other goods," and "current list prices" is the phrase applied to Edison goods. Then the prohibition is of "the acceptance of records or blanks *of any kind at any price*"; and I do not see any sufficient reason for reading or implying the words "except Edison's." It is true that the early part of the condition refers to exchanges "for goods of some other make or nature"; but "nature" may possibly refer to "type," and "make" may refer to the "Gem" make as distinguished from the "Standard" make, &c. In condition 6 the phrase "the same style and make" are possibly used, as to Edison articles, to express the same thing as "make and nature" in condition 4; and the word "style" in condition 1 probably means the same thing as "nature" or "type" elsewhere. But whether the words "other make or nature," used in the early part of condition 4, are to be applied to Edison goods or not, I am of opinion that the language of the latter part of the condition clearly includes the case of exchanges which are confined to Edison goods.

The objection taken that the contract alleged would be void as being in undue restraint of trade was not strenuously pressed for the defendant. But the defendant is entitled to our judgment on the objection; and my opinion is that it should be overruled. The "retail dealers' agreement" is headed "agreement for Commonwealth of Australia"; the phonographs are said to be sold and delivered at Sydney; and, unless there are clear words to the contrary, I think that the agreement should be taken as restricted to the life of the patent, and to the bounds of the Commonwealth.

I ought to add that the plaintiffs have, for some reason, declined to press any case against the defendant on the ground of unlawfully interfering with contracts made between the plaintiffs and persons having contracts with the plaintiffs; and it thus becomes unnecessary for us to consider the point on which the Court of Appeal based its judgment in *National Phonograph Co. Ltd. v. Edison-Bell Consolidated Phonograph Co. Ltd.* (1).

As will have been gathered from my remarks, my opinion is that the plaintiffs are not entitled to succeed on the ground of infringement (paragraph 3), but are entitled to succeed on the ground of breach of contract (paragraphs 6, 7, 8).

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Judgment for the defendant with costs of the reference to the Full Court and such other costs as the Judge of first instance may direct.

ISAACS J. refused an application for costs on the higher scale, and awarded the defendant all the costs of the action other than those provided for by the Full Court.

Nov. 10.

Solicitors, for the plaintiffs, *Lynch & McDonald* for *Piggott & Stinson*, Sydney.
Solicitor, for the defendant, *M. C. Larkin*.

B. L.

Foll London Bank of Australia Ltd v Kendall (1920) 28 CLR 401	Cons State Rail Authority of NSW v Earthline Constructions (1999) 73 ALJR 306	Foll State Rail Authority of NSW v Earthline Constructions (1999) 160 ALR 588	Appl Pledge v RTA (2004) 78 ALJR 572
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[HIGH COURT OF AUSTRALIA.]

DEARMAN APPELLANT ;
RESPONDENT,

AND

DEARMAN RESPONDENT.
PETITIONER,

ON APPEAL FROM THE SUPREME COURT OF
NEW SOUTH WALES.

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Dec. 10, 11, 14.
—

Appeal from Judge without jury—Appeal on question of fact.

Although on an appeal from a Judge of first instance sitting without a jury, it is the duty of the Court of Appeal to reconsider the evidence and give its judgment according to its own opinion, yet where the evidence has been given

Griffith C.J.,
Barton,
Isaacs and
Higgins JJ.