

equitable servitudes on personalty. One enforced an equitable servitude upon a juke box.⁴⁸ The second allowed a promisor, who had agreed upon the purchase of damaged goods that they should not be sold in their original container, to enforce this agreement against a later purchaser, who took with knowledge of plaintiff's promise and of a similar promise to plaintiff by the person from whom the defendant purchased.⁴⁹ This case, as do most cases where equitable servitudes are enforced, involved elements of unfair competition, tortious interference with contractual and business relations, and, importantly, a consideration of public welfare.⁵⁰

As already mentioned, the practice which Independent sought to protect by injunctive relief was given judicial approval in 1936.⁵¹ Since then, at least one court has found conduct such as defendant's improperly offensive to a magazine distributor's carefully developed merchandising system,⁵² while several defendants have allowed consent decrees to be entered against them.⁵³ It is submitted that in a situation like the present, where there are considerations of public policy favoring the enforcement of the restriction as a proper business practice, as well as considerations favoring the unrestricted mobility of chattels, much good might come from a thorough re-examination of the doctrine of equitable servitudes on chattels. It might provide a practical and proper remedy; it might be more beneficial to the public than an indiscriminate application of UCC 2-403(2); or, in Chafee's terms, the game might be found to be "worth the candle."

JOHN M. CALLAHAN

Trade Regulations—Clayton Act Section 3—Tie-In Sales—Proper Business Reason.—*Dehydrating Process Co. v. A. O. Smith Corp.*¹—A. O. Smith is a national manufacturer of storage equipment. It manufactures a patented glass lined silo and a patented unloading device designed for use with its silo. From 1951 through 1957 it sold its unloaders separately on request. During this period it sold eighty unloaders to thirty-six customers which were used with silos other than those of the defendant's manufacture. It received complaints from eighteen of these customers and six unloaders were returned for refund. In 1958, as a result of the volume of complaints, the defendant adopted a policy of selling its unloaders only for use in simultaneously purchased or previously acquired silos of its own

⁴⁸ *Pratte v. Balatsos*, supra note 44. In a notable comment upon this case, Chafee failed to give it his wholehearted approval. He was skeptical of the wisdom, on grounds of public policy, of tying a juke box to a business. *Id.*

⁴⁹ *Nadell & Co. v. Grasso*, supra note 44.

⁵⁰ See extensive note in 48 *Calif. L. Rev.* 337 (1960). Also noted in 74 *Harv. L. Rev.* 617 (1961). *Albrecht*, 1 *B.C. Ind. and Com. L. Rev.* 215, 216 (1960), suggested:

In view of the interest of the public in permitting the unrestricted transfer of chattels, it would seem better to grant such power (that of enforcing restrictive covenants by injunction) only to the manufacturer.

⁵¹ Supra note 17.

⁵² Supra note 12.

⁵³ Supra note 16.

¹ 292 F.2d 653 (1st Cir. 1961), cert. denied, 82 S. Ct. 368 (1961).

design and manufacture. The plaintiff, a manufacturer of fish products, attempted to purchase four of the defendant's unloaders for use in watertight tanks not made by the defendant which could alternatively be used without the unloaders for storage of liquid products. In accordance with its policy, the defendant refused to sell the unloaders separately. Subsequently, the plaintiff purchased four of the unloaders with silos which could only be used for storage of granular fish meal products. Thereafter the plaintiff suspended its manufacture of fish meal and increased its homogenized liquid fish business. The plaintiff brought suit for treble damages under Section 4 of the Clayton Act² alleging that the sale of the unloaders and silos as a unit was a tie-in sale violative of section 3 of the act³ and damaged the plaintiff.⁴ The District Court granted the defendant's motion for a directed verdict. On appeal, affirmed. HELD: A proper business reason may justify what might otherwise be an unlawful tie-in sale. It was reasonable for the defendant to protect its reputation by conditioning the sale of its unloaders on their use in silos meeting the specifications that experience showed were required. Furthermore the plaintiff did not sustain the burden of proving damages. It failed to show that the defendant's price for the silos was unreasonable or that equivalent silos meeting the defendant's specifications (which the court found to be reasonable) could have been purchased at a lower price.

A tie-in exists whenever the vendor or lessor of a product conditions the sale or lease of such product on the purchase or lease of another product.⁵ The former product is the *tying* product and the latter is called the *tied* product. Such arrangements are proscribed by Section 3 of the Clayton Act whenever the effect thereof "may be to substantially lessen competition or tend to create a monopoly in any line of commerce."⁶ It was this quoted

² 38 Stat. 731 (1914), 15 U.S.C. § 15 (1958).

³ It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods . . . whether patented or unpatented . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

38 Stat. 731 (1914), 15 U.S.C. § 14 (1958). Plaintiff also urged a violation of § 1 of the Sherman Act. "Every contract . . . in restraint of trade or commerce . . . is hereby declared to be illegal. . . ." 26 Stat. 209 (1890), 15 U.S.C. § 1 (1958).

⁴ The plaintiff alleged that (1) the defendant's silos were more expensive than the tanks it initially desired to purchase for use with defendant's unloaders; (2) as a result of having to purchase defendant's silos, an installation delay ensued which would not have occurred had the watertight tanks been used; and (3) as a result of the purchase of defendant's silos, it lost the alternative liquid storage which it would have had if the watertight tanks had been installed.

⁵ Northern Pacific R.R. v. United States, 356 U.S. 1 (1957). For a general discussion of tie-in agreements see Bowman, *Tying Arrangements and the Leverage Problem*, 67 Yale L.J. 19 (1957); Turner, *The Validity of Tying Arrangements under the Antitrust Laws*, 72 Harv. L. Rev. 50 (1958); *Tying Restrictions: Changing Standards of Legality*, 48 Colum. L. Rev. 733; Lockhart & Sacks, *The Relevance of Economic Factors in Determining Whether Exclusive Arrangements Violate Section 3 of the Clayton Act*, 65 Harv. L. Rev. 913 (1952).

⁶ Supra note 3.

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clause that had created some confusion in the past as to what types of tie-in arrangements were illegal under the Clayton Act.

In *International Salt Co. v. United States*,⁷ the rule was stated that where the tying product is patented, such an arrangement will be per se violative of Section 3 of the Clayton Act so long as a "not insubstantial amount of commerce is affected." A patent merely establishes prima facie the dominant position of the vendor in the market for the tying product,⁸ a condition which must be shown to exist in the non-patent cases in order that there be a violation.

The *Times-Picayune* decision⁹ set out the distinction in the tests for determining violations of Section 3 of the Clayton Act and Section 1 of the Sherman Act:

From the tying cases a perceptible pattern of illegality emerges: When the seller enjoys a monopolistic position in the market for the "tying" product, or if a substantial volume of commerce in the "tied" product is restrained, a tying arrangement violates the narrower standards expressed in § 3 of the Clayton Act because from either factor the requisite potential lessening of competition is inferred. And because for even a lawful monopolist it is "unreasonable, *per se*, to foreclose competitors from any substantial market," a tying arrangement is banned by § 1 of the Sherman Act whenever both conditions are met.¹⁰

The *Northern Pacific* case¹¹ made the test less stringent:

While there is some language in the *Times-Picayune* opinion which speaks of "monopoly power" or "dominance" over the tying product as a necessary precondition for application of the rule of *per se* unreasonableness to tying arrangements, we do not construe this general language as requiring anything more than sufficient economic power to impose an appreciable restraint on free competition in the tied product (assuming all the time, of course, that a "not insubstantial" amount of interstate commerce is affected). . . . [T]he vice of tying arrangements lies in the use of economic power in one market to restrict competition on the merits in another, regardless of the source from which the power is derived and whether the power takes the form of monopoly or not.¹²

⁷ *International Salt Co. v. United States*, 332 U.S. 392 (1947).

⁸ A patent . . . although in fact there may be many competing substitutes for the patented article, is at least prima facie evidence of [market] control. *Standard Oil Co. v. United States*, 337 U.S. 293, 307 (1949). *International Business Mach. Corp. v. United States*, 298 U.S. 131 (1936).

⁹ *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1952).

¹⁰ *Id.* at 608.

. . . Of course where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would obviously be insignificant at most.

Northern Pacific R.R. v. United States, 356 U.S. 1, 6 (1958).

¹¹ *Supra* note 10.

¹² 356 U.S. 1, 9 (1958).

*Jerold Electronics Corp. v. United States*¹³ decided in 1960, set out an exception to the per se illegality rule. This exception had been suggested in dicta in earlier cases,¹⁴ but the fact situations in those cases were not such as would fall within this "business justification" exception. Jerold manufactured standard components for community television antenna systems, some of which were patented. Although the systems were sold as units, each had to be custom designed for the particular characteristics of the community in which it would be installed. Jerold was the originator of this new industry and manufactured and installed at least 75% of the systems. The company refused to sell its components separately and adopted a policy of selling only a complete antenna system with a tied-in installation and service agreement.

It thus appeared in that case that the requirements for application of the per se rule of illegality had been met. Jerold had tied non-patented products to patented components and had further tied a service and installation policy to the sale of the antenna system.¹⁵ But the court there found no violation of Section 3 of the Clayton Act during the period for which justification or a proper business reason for the tie-in could be shown. The court emphasized that the manufacture, installation and service of community antenna systems was a new and technical industry with a highly uncertain future and the majority of Jerold's business was devoted to such. Jerold could not reasonably protect its reputation or good will nor could satisfactory performance of a given system be assured unless it could restrict the use of components to those of its own manufacture and could restrict modifications in the systems to those of its own design and installation. Any tie-in of components would be justified as long as the service

¹³ 187 F. Supp. 545 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961) (the appeal only involved the period of time for which the defendant failed to show justification).

¹⁴ Of course a lessor may impose on a lessee reasonable restrictions designed in good faith to minimize maintenance burdens and to assume satisfactory operation.

International Salt Co. v. United States, 332 U.S. 392, 397 (1947).

The Clayton Act names no exception to its prohibition of monopolistic tying clauses. Even if we are free to make an exception to its unambiguous command, [citations] we can perceive no tenable basis for an exception in favor of a condition whose substantial benefit to the lessor is the elimination of business competition and the creation of monopoly, rather than the protection of its good will, and where it does not appear that the latter can not be achieved by methods which do not tend to monopoly and are not otherwise unlawful.

International Business Mach. Corp. v. United States, 298 U.S. 131, 140 (1936); see also *FTC v. Sinclair Ref. Co.*, 261 U.S. 463 (1923).

¹⁵ Note that since Clayton Act § 3 does not include a sale of services, a Sherman Act violation had to be proved. The court did say that the components of the system could not normally be treated as separate products, but this was not crucial to the result.

It is apparent that, as a general rule, a manufacturer cannot be forced to deal in the minimum product that could be sold or is sold. On the other hand, it is equally clear that one cannot circumvent the antitrust laws simply by claiming that he is selling a single product. The facts must be examined to ascertain whether or not there are legitimate reasons for selling normally separated items in a combined form to dispel any inferences that it is really a disguised tie-in.

187 F. Supp. 545, 559 (1960).

contracts were justifiable. But the court took notice of the fact that conditions had changed with time as the industry and Jerold became more firmly established and that Jerold failed to show a "sound business reason" for its restrictive policy in the light of the changed conditions.¹⁶

The establishment of the "sound business reason" exception to the rule of illegality under Section 3 of the Clayton Act in *Jerold* appears to be a return to the "rule of reason" test which was involved in the early cases construing the Sherman Act.¹⁷ This approach has been suggested in articles dealing with Section 3 of the Clayton Act.¹⁸ However, it was rejected by the Supreme Court in the *Standard Stations*¹⁹ case which set out the test of "quantitative substantiality"—Has competition "been foreclosed in a substantial share of the line of commerce affected"?²⁰

In the recent *Tampa Electric*²¹ case, dealing with a requirements contract under Section 3 of the Clayton Act (a closely related problem) the Supreme Court recognized that "*at least in the case of public utilities the assurance of a steady and ample supply of fuel is necessary in the public interest.*"²² Such a consideration of the public interest is in effect a "back door" approach to the "rule of reason" condemned by *Standard Stations*.²³

¹⁶ The defendants have the burden not only of establishing the initial existence of the facts necessary to support their claim but also their continuing existence in view of the fact that it is not disputed that the conditions did change

Id. at 560.

¹⁷ *Standard Oil Co. v. United States*, 221 U.S. 1 (1911), *Chicago Board of Trade v. United States*, 246 U.S. 231, 238 (1918). See also *FTC v. Sinclair Ref. Co.*, 261 U.S. 463 (1923), which seems to suggest a similar approach under the Clayton Act.

¹⁸ If there is some basis for the tying arrangement other than market control or a legal monopoly, the supplier charged with a Section 3 violation should have no difficulty proving that basis. In the absence of such a showing, it would seem appropriate to apply the *International Salt* [per se] test simply upon proof that tying arrangements have been used covering a substantial amount of commerce in the tied product. . . . Absent proof that particular tying arrangements are based on economic advantage to the buyers unrelated to the supplier's market control, it is probable that they are based on market control, and if based on market control, that they will probably substantially lessen competition in the tied product if a substantial amount of commerce is covered. No more is required under the terms and purpose of Section 3. *Lockhart & Sacks*, supra note 5, at 950 (see the economic tests proposed by the authors at 919-31). *Turner*, supra note 5, at 59. The test is "whether competitors in fact have ready access to adequate sources of supply and to a sufficient number of outlets to enable their products to be effectively marketed." Report of the Attorney General's Nat'l Comm. to Study the Antitrust Laws 147 (1955).

¹⁹ *Standard Oil Co. v. United States*, supra note 8.

²⁰ *Id.* at 314.

²¹ *Tampa Elec. Co. v. Nashville Coal Co.*, 365 U.S. 320 (1961).

²² *Id.* at 334. See Note, 2 B.C. Ind. & Com. L. Rev. 442 (1961), and Handler, Recent Antitrust Developments, 71 Yale L.J. 75 (1961).

²³ In reviewing *Tampa Electric*, Handler wrote:

. . . [T]he court went out of its way to make clear that neither absolute quantitative substantiality (*i.e.*, the dollar volume foreclosed), nor the comparative quantitative substantiality of *Standard Stations* (*i.e.*, the market share foreclosed) was to be the controlling doctrine, stating: "To determine substantiality in a given case, it is necessary to weigh the probable effect of the contract on the relevant area of effective competition, taking into account [1] the relative

It thus appears that in the *Jerold* and *Tampa Electric* cases there are the beginnings of erosion of the per se illegality rule. The extension of this erosion can be seen in the principal case. However, this seems consistent with the legislative history of section 3.²⁴

The Court of Appeals for the First Circuit in the *Dehydrating* case, while recognizing the principle that "a proper business reason," if shown to exist, may be justification for an otherwise unlawful tie-in arrangement, based its opinion in part upon another issue. This was a private suit for treble damages under Section 4 of the Clayton Act, and it was incumbent upon the plaintiff to establish damages in order that he might recover. Due to the failure of the plaintiff to sustain the burden of proof, there could be no recovery. As Judge Aldrich stated:

A consumer may well be damaged by antitrust violations requiring him to make a purchase on terms that he does not wish . . . but he has the burden of proving that he was wrongly affected. This the plaintiff has failed to do. It has not shown that the defendant charged an unreasonable price, or that an equivalent product might have been obtained for less. Plaintiff's only damage came from having to meet defendant's specifications with respect to its storage containers. Since this has been demonstrated to be reasonable, plaintiff has suffered no compensable loss.²⁵

The court seemed to suggest that there may well be a difference in required proof between a government suit to enforce Section 3 of the Clayton Act and a private damage action as allowed by section 4.²⁶ Once a violation of section 3 has been shown, the plaintiff cannot merely rely on the inference created that he has been damaged by the unlawful tie-in. He must further prove his "special damages" in order to recover. Whether or not the same result would have been reached in a suit by the government was not decided.

Another question which the court felt it did not need to answer was whether there was a compulsory joining of two "separate" articles which would be a per se violation of the act. This issue was avoided by the following language: "Articles though physically distinct, may be related

strength of the parties, [2] the proportionate volume of commerce in the relevant market area, [3] and the probable immediate and future effects which pre-emption of that share of the market might have on effective competition therein. It follows that a mere showing that the contract itself involves a substantial number of dollars is ordinarily of little consequence." [365 U.S. 320, 329 (1961)]

Handler, *supra* note 22, at 83.

²⁴ In *Tampa Electric*, the Supreme Court returned to an interpretation of Section 3 of the Clayton Act which is faithful both to its legislative history and to the philosophy of antitrust.

Handler, *supra* note 22, at 81. This article contains an excellent review of the legislative history of Section 3 of the Clayton Act.

²⁵ *Supra* note 1, at 657.

²⁶ This is not a government suit testing the broad aspects of defendant's conduct, but a private action in which the plaintiff seeks, and must establish, its damages.

Ibid. See also *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 289 F.2d 86 (9th Cir. 1961).

through circumstances. The sound business interests of the seller or, phrasing it another way, a substantial hardship apart from the loss of the tie-in sale may be such a circumstance."²⁷ It therefore seems that a showing that either the two articles are physically inseparable²⁸ or that a proper business reason exists for the tying will relieve the defendant from liability for the damages or violation of the statute at least for the period of time for which justification may be shown to exist.

Whether the "proper business reason" test is desirable with respect to enforcement of the antitrust laws, depends upon the objectives sought to be accomplished. A strict per se rule limits the amount of evidence necessary to prove violations²⁹ and expedites trials. However, this approach would necessarily require that situations similar to *Jerold* and *Dehydrating* fall within the proscribed area of conduct. It has been suggested that such cases would rarely be found³⁰ and that the overall purpose served by the strict test might outweigh the advantage gained by consideration of business purposes.³¹ The opponents of this point of view feel that the public policy consideration is of greater importance and favor evaluation of the economic factors present in each situation arising under the act.³² It is arguable that this is consistent with the legislative history of section 3. Of course even this approach may take the per se rule as a starting point, but it extends the rule by allowing the defendant to show that no substantial competitive injury will result from the tying arrangement. If the defendant cannot sustain the burden of proof the per se rule will still apply. The extreme position would be that of allowing tie-ins to exist irrespective of any competitive impact provided the defendant could show a "proper business reason" to justify the otherwise unlawful conduct.³³

The argument has been advanced that courts are not capable of dealing with detailed economic investigation and that such procedures are highly time consuming. It seems that this would be no more difficult than the procedures currently followed in licensing and rate making proceedings. The Federal Trade Commission, in policing the antitrust area has required "evidence relating to the competitive effect of the exclusive dealing provisions" in requirements contracts and has little difficulty in handling such problems.³⁴ Why should not the expertise of an administrative agency be beneficial in dealing with the area of tying arrangements?

In both *Jerold* and *Dehydrating*, had the determination of substantiality been made in accordance with the test set out in the *Tampa Electric*

²⁷ Supra note 1, at 655.

²⁸ See Turner, supra note 5.

²⁹ See *Northern Pacific*, supra note 10.

³⁰ Turner, supra note 5, at 64.

³¹ . . . [W]e must ask whether there are other legitimate interests that are served by the practice in question; (2) if so, whether those interests can or cannot be served by less restrictive alternatives and (3) if they cannot, whether the contribution made by the restrictive practice is likely to be outweighed by the harm, over the range of situations in which it may be used.

Turner, supra note 5, at 59.

³² Supra notes 18, 23, 24.

³³ Supra notes 1, 13.

³⁴ *Maico Co.*, 50 F.T.C. 485, 486 (1953).

decision³⁵ and consideration been given to the "probable immediate and future effects which pre-emption of the share of the market" would have on competition, the same results could no doubt have been reached.

MICHAEL S. STERN

Trade Regulations—Trade Names—Nonnecessity of Proving Secondary Meaning.—*Lincoln Restaurant Corp. v. Wolfies Rest. Inc.*¹—Plaintiffs are the proprietors of two well-known restaurants and sandwich shops both called "Wolfies," in Miami Beach, Florida. Plaintiffs spend about \$25,000 annually for advertising, mostly in the Miami area. Defendant,² with knowledge of plaintiff's prior use, opened a restaurant called "Wolfies" in Brooklyn, N.Y. It was conceded that at least 5,000 Brooklynites visit Miami Beach every year. After plaintiff initially objected to defendant's use of the name, defendant added a legend—"not connected with any other establishment"—to its menu.³ Defendant's menu was otherwise similar in color and format to that of plaintiff and featured such items as "Wolfie's Floridian Style French Toast," "Wolfie's Floridian Style Fountain Creations," and "Wolfie's Floridian Style Sundae Delights."⁴ The District Court enjoined defendant's use of the name, the plaintiff's having waived all damages.⁵ The Court of Appeals affirmed. HELD: Defendant's use of the name "Wolfies" for his Brooklyn restaurant, with intent to trade on the reputation of plaintiff's restaurant of the same name in Miami, constitutes unfair competition, even without a finding of secondary meaning.

As originally conceived, unfair competition was a "convenient name for the doctrine that no one should be allowed to sell his goods as those of another."⁶ Most all the definitions of unfair competition found in opinions of the courts were written in terms of "passing off."⁷ "Traditionally, the action of 'passing off' or 'palming off' has required proof that a fraud is being perpetrated, i.e., that the defendant is so foisting his product on the market that there is resulting confusion or likelihood of confusion as to its source in the mind of the buying public."⁸ The critical question was whether the public was moved to buy the article because of its source.

The part played by secondary meaning⁹ in proving public confusion

³⁵ Supra note 23.

¹ 291 F.2d 302 (2d Cir. 1961).

² As brought out at the trial, none of the defendant owners was named Wolf.

³ These words were written in red 1/16 inch letters at the bottom of the center or inside of the menu. The trial court found that the legend did little to remedy the existing similarity.

⁴ The defendants contended that this terminology was suggestive of "flowers" rather than Florida.

⁵ 185 F. Supp. 456 (E.D.N.Y. 1960).

⁶ *Vogue Co. v. Thompson—Hudson Co.*, 300 Fed. 509, 512 (6th Cir. 1924).

⁷ 1 Nims, *Unfair Competition and Trademarks* § 4, at 30 (4th ed. 1947).

⁸ *Speedy Products Inc. v. Dri Mark Products Inc.*, 271 F.2d 646, 648 (2d Cir. 1959).

⁹ *Merriam v. Saalfeld*, 198 Fed. 369, 373 (6th Cir. 1912):

The secondary meaning theory . . . contemplates that a word or phrase origi-