

LIGHTNING FASTENER COMPANY, }
LIMITED..... } PLAINTIFF;

AND

COLONIAL FASTENER COMPANY, }
LIMITED, and G. E. PRENTICE } DEFENDANTS.
MANUFACTURING COMPANY }

1935
Apr. 8-11.
—
Aug. 12.
—

*Patent—Infringement—Damages—Burden of proof—Measure of damages
—Sales by infringers—Loss of profits on actual sales—Royalty—Re-
duction in price of patentee—Trade competition—Interest—Costs.*

In an action for infringement of a patented machine it was held that infringement had been proved, and an inquiry as to damages was ordered, the Registrar of this Court being appointed Referee. The product of the patented machine is what is known as *stringers*, and when two opposing stringers are connected by what is called a *slider* and a *bottom stop* they are then ready for application to articles of use and are then called *fasteners*. The plaintiff elected for damages rather than profits.

By his report the Referee, after disallowing certain claims for damages, found substantially (1) that the general principle of basing plaintiff's loss of profits on the loss of the sales of the completed fastener is the proper one, and (2) that for those sales which the plaintiff could not have made in any event, but which were made by defendant, the proper basis of compensation is a fair royalty, and (3) that plaintiff is entitled to a claim for loss due to reduction of prices by defendant.

Both parties appealed.

Held: That in the assessment of damages in patent matters the plaintiff should be compensated for the loss caused him by the infringer's acts; he should be restored by monetary compensation to the position which he would have occupied but for the wrongful acts of the defendant.

2. That defendant's acts being tortious the burden of proof on plaintiff is lightened by the presumption that invasion of a patentee's monopoly will cause him damage.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

3. That in the assessment of damages every article that is manufactured or sold which infringes the rights of the patentee, is a wrong to him, and the patentee is entitled to recover in respect of each one of those wrongs.
4. That where a patentee uses his monopoly by manufacturing the object covered by his patent in order to get the increased profits, his loss, generally speaking, is to be calculated on the basis of the loss of profits to him on the sales of the object made and sold by the defendant, which the patentee would have sold.
5. That in case of sales by the defendant which would not have been made by the plaintiff, the basis for damage is a fair royalty.
6. That the basis for assessing damages in this case should be the profit that the plaintiff would have obtained had it sold the completed fastener, and not the stringer alone, since the stringer is not only an integral part of the article but is the main part, and what the plaintiff lost by means of the defendants' breach of its monopoly is the sale of the article as a whole.
7. That where the infringement is a part only of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that part alone, if the infringing part is clearly separable and does not co-operate with the rest to produce the new effect which is the feature of the patented invention in question.
8. That the plaintiff cannot claim to have suffered a loss of profit on sales it refused to make or for any other reason it would not have made.
9. That since the plaintiff had not a monopoly of the Canadian market, it cannot obtain damages from defendants on the ground that it was forced to reduce the price of its articles to meet price reduction by defendants.
10. That loss by plaintiff due to the establishment of an office in the City of Montreal, Quebec, allegedly to meet free delivery in that city by defendants, is not a natural and direct consequence of defendants' act, and therefore a claim for such loss must be refused.

APPEAL from the Report of the Referee appointed to ascertain the damages recoverable by the plaintiff against the defendants under a judgment obtained by the plaintiff against the defendants in an action for infringement of a patented machine.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C. *for the plaintiff.*

S. A. Hayden, K.C. *for the defendants.*

The facts and questions of law raised are stated in the reasons for judgment of the learned President and in the Report of the Referee.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

THE PRESIDENT now (August 12, 1935) delivered the following judgment:—

This is an appeal from the Report of the Registrar, who was appointed a Referee to ascertain the damages recoverable by the plaintiff against the defendants, under a judgment obtained by the plaintiff against the defendants in an action for infringement of a patented machine. Both parties appeal from the Report of the Referee, the plaintiff claiming that the amount found as damages, some \$50,000, is insufficient, the defendants claiming that the amount is excessive.

The Referee has taken great pains to present all the relevant facts pertaining to the question of damages, and the reasons for the conclusions which he reached are elaborately set forth in his report. It is my purpose therefore to avoid, so far as I can, repetition of what is to be found in the Referee's Report, and I hope I may be able to express my opinion on the several points in dispute in fairly brief terms. I fully described the patented machine, which was infringed by the defendants, in my judgment, which is to be found in the Exchequer Court Reports (1); it will be sufficient for me here to say that the product of the patented machine is what is known as "stringers," and when two opposing stringers are connected by what is called a "slider" and a "bottom stop" they are then ready for application to articles of use and are then called "fasteners," popularly known as "zipper fasteners."

The report sets forth a memorandum filed by plaintiff's counsel which contains the particulars of the damages claimed, \$254,468.50, and the same is stated under nine different heads. In my discussion of the appeal it will be convenient to refer to each of the items of particulars of damages, though not in the precise order in which they are there set forth. The particulars of damages, as incorpor-

(1) (1932) Ex.C.R. 89.

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

ated in the Report of the Referee, are precisely as follows:—

MATHEMATICAL CALCULATION OF PLAINTIFF'S DAMAGE
BASED ON DEFENDANTS' ACTUAL SALES

	Unitary Machines	Divided Machines	Total
	Ex. 5	Ex. 10	
Maclean J. 1. Loss due to sales made by defendant of fasteners made in Canada on machines calculated on the price actually obtained by the plaintiff—			
(Column V.C.)... ..	96,749 06		
Deduct (Ex. 13)... ..	9,145 34		
	87,593 72		
	27,368 24		
Deduct (Ex. 14)... ..	2,754 21		
		24,614 03	112,207 75
2. Loss due to first cut in minimum price calculated on defendant's sales—			
(Column V.D.)... ..	15,161 32	2,991 95	18,153 27
3. Loss due to second cut in minimum price calculated on defendant's sales—			
(Column V.E.)... ..	5,042 44	3,909 23	8,951 67
3a. Loss due to third cut in minimum price calculated on defendant's sales—			
(Column V.F.)... ..		532 34	532 34
4. Loss due to elimination of 5c. flat charge calculated on fasteners over 7½" lengths sold by defendant—			
(Column V.G.)... ..	1,210 50	101 00	1,311 50
5. Loss due to first cut in minimum price calculated on plaintiff's actual sales of fasteners up to 7½"—			
(Column VI.A.)... ..	26,632 55	28,375 61	55,008 16
6. Loss due to second reduction of minimum price calculated on plaintiff's actual sales of fasteners up to 7½"—			
(Column VI.B.)... ..	4,636 54	7,270 83	11,907 37
6a. Loss due to third cut in minimum price calculated on plaintiff's actual sales of fasteners over 7½"—			
(Column VI.C.)... ..		2,204 85	2,204 85
7. Loss due to elimination of 5c. per piece on plaintiff's actual sales of fasteners over 7½"—			
(Column VI.D.)... ..	4,081 95	8,978 00	13,059 95

	Unitary Machines	Divided Machines	Total	1935 LIGHTNING FASTENER CO. LTD. v. COLONIAL FASTENER CO. LTD. ET AL. Maclean J.
	Ex. 5	Ex. 10		
7a. Loss due to cut of $\frac{1}{4}$ c. per inch on plaintiff's actual sales of fasteners over $7\frac{1}{2}$ "— (Column VI.E.)..		5,071 30	5,071 30	
8. Loss due to Montreal Offices— (Column VI.F.)..	18,079 76		18,079 76	
9. Loss due to elimination of delivery charges— (Column VI.G.)..	7,980 58		7,980 58	
Total..	170,419 36	84,049 14	254,468 50	

Before proceeding to a consideration of the question of damages there are two preliminary points which may first be disposed of. There was a period when the plaintiff's patent had become void but it was later restored. During the interval in which the patent was void, it is alleged that the defendant Prentice Manufacturing Company commenced to manufacture the infringing machine, and sell the same in Canada, and it is now claimed that under sec. 47, s.s. 6 of the Patent Act, its right to continue the manufacture and sale of that machine is saved. If the facts now alleged had been established at the trial the attack might have been fatal to the plaintiff. The point however was raised before the Referee for the first time, and the final judgment in this action determined that the plaintiff's patent was valid and that the defendants had infringed the same. That point cannot now, in my opinion, be considered in the assessment of damages.

Another point urged by the defendants is that as the plaintiff's patent is for a machine which automatically makes stringers, it is the machine and not its product that should be considered in arriving at the damages here; that is to say, that the plaintiff's damages are to be measured by the number of machines which the defendants made, used or sold. That would not, I think, be a just way of measuring the damages in this or similar cases. It would require but a few machines to supply the whole Canadian market with stringers, and I cannot accept the proposition that the plaintiff's damages are to be calculated on this basis, but if one were required to do so the result would be much the same because one would have to ascertain the

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 Maclean J.

damages the plaintiff had suffered by reason of the defendants' infringement. The Referee discusses this point at length in his report and I am satisfied with his conclusion.

Turning now to the plaintiff's particulars of damages. I propose first disposing of those items of damages, the amounts of which are to be found in the second column of figures, amounting altogether to some \$84,000. These figures represent losses or damages claimed to have been suffered by the plaintiff because of the use of what the Referee calls a divided machine, and with which, at a period or periods within the material time, the defendants manufactured stringers. The plaintiff claims that any stringers made by this divided machine constituted infringement of the plaintiff's patent and any sales of fasteners produced from stringers made by the divided machine should be considered in reaching the amount of damages to which the plaintiff is entitled. The so-called divided machine is really two machines, used in the production of stringers, one performing a preliminary operation, the second the further and final operation. The plaintiff's patented machine is a single unit and automatically performs all operations necessary in the production of stringers, doing what previously had been done by two or more separate machines or mechanisms. The plaintiff's patented machine of itself turned out a completed stringer in the manner I explained in my judgment. It was for that reason I held there was invention in the plaintiff's patent, and in the end that view was maintained. It is the machine made under this patent that has been held to have been infringed, and not any other machine or machines. On this ground the Referee refused all the items referred to, amounting to about \$84,000, and I see no reason for disturbing that finding.

Then there is a group of claims, six in number, for damages based on the fact that the defendants on three occasions within the material period reduced their selling price of fasteners, below the plaintiff's price, thus causing, it is claimed, damage to the plaintiff. It transpired in point of fact that the plaintiff was the first to cut prices, which reduction the defendants met. The Referee allowed one item only, referable to the second reduction, amounting to \$3,117.86. I think that this item should be disallowed. At the times material here there were very considerable and

legitimate importations of stringers or fasteners, or both, into Canada from abroad, and there was also legitimate competition from within Canada for a time at least, from a concern in Hamilton, Ontario. The plaintiff felt the effect of these importations, which were very substantial, and it appeared before the Tariff Board, urging, on that account I have no doubt, a modification of the tariff upwards on such articles. I do not think that any safe deduction can be made, in this case, from the fact that the defendants at any time sold their product at prices below that of the plaintiff, and which compelled the plaintiff to meet the reduction. It seems to me that to attempt to calculate damages on such grounds, in the circumstances of this case, would carry one into a field that is entirely too speculative. If a patentee has been forced to reduce his price to meet that of an infringer, that would be a ground for damages in many cases, particularly if there were no other competition. But here the plaintiff by no means had a monopoly of the Canadian market for stringers or fasteners. I therefore disallow the item of \$3,117.86 which the Referee allowed. This disposes of items numbered 2, 3, 4, 5, 6 and 7 in the plaintiff's particulars of damages.

Turning now briefly to items numbered 8 and 9. The defendants for a period made free deliveries of stringers, or fasteners, to their customers in Montreal, which, it is said operated as a reduction in the plaintiff's profits, because the plaintiff felt obliged to open an office in Montreal, and make free deliveries therefrom in that market, instead of from St. Catherines as was usual. The Referee disallowed these two items and with his reasons and conclusions I agree, and there is nothing further I could usefully add to the same.

I now turn to the first item in the plaintiff's particulars of damages, the most important and the most difficult of all the matters falling for determination in this inquiry. Under this head the Referee found the damages to be \$47,545.70, and with that finding no one is content. My first impression was that the amount was perhaps excessive, but after a most anxious consideration of the matter I have reached the conclusion that the finding of the Referee is supported by the facts and the law, and I am unable to discover any grounds for disturbing the finding of the Referee. The

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 Maclean J

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.
Maclean J.

Referee has taken great pains to narrate the facts, he sets forth the several contentions of the respective parties relating to this head of damages, he explains the method he applied in fixing the damages under this head, and he discusses the leading authorities applicable to a case of this nature, particularly such cases as *United Horse Shoe Nail Co. v. Stewart* (1); *American Braided Wire Co. v. Thompson* (2); *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (3); *Watson v. Pott* (4); there will be little occasion for me to refer to those authorities at any length.

However, before proceeding to a brief discussion of the Referee's finding under this head, I should like to refer to the case of *United Horse Shoe Nail Co. v. Stewart* (5), which case is in some respects quite similar to the one under discussion. In that case the defendant had sold horse shoe nails imported from Sweden but which were there made on machines that fell within the specification of the plaintiff's patented machine, the invention being for improvements in the manufacture of horse shoe nails. In that case Lord Watson points out the difficulties encountered in estimating the damages done to the trade of a patentee by the illegal sales of an infringer, and I wish particularly to emphasize that he states that the damages must be more or less of an estimate. He said:

The object of inquiry, in a case like the present, is the quantum of injury done to the trade of the patentee by the illegal sales of the infringer. They must always be more or less a matter of estimate, because it is impossible to ascertain with arithmetical precision what, in the ordinary course of business, would have been the amount of the patentee's sales and profits. When the product of patented machinery is a new and special article which cannot be successfully imitated without its use, the process of estimation is comparatively simple; but that is not the case with horse shoe nails. The appellants had many rivals in their trade, and it is conceded that in estimating their damage there must be taken into account all legitimate competition to which they would have been exposed if Kollen's (the Swedish) nails had not been in the market.

There is one undisputed fact in this controversy and that is that the defendants made and sold 742,901 fasteners from stringers made on the infringing machines. The Referee, after carefully weighing the evidence, after considering the

- | | |
|---------------------------------|----------------------------------|
| (1) (1885) 2 R.P.C. 122; (1886) | (3) (1910) 27 R.P.C. 721; (1911) |
| 3 R.P.C. 140; (1888) 5 | 28 R.P.C. 157. |
| R.P.C. 260. | (4) (1913) 30 R.P.C. 285; (1914) |
| (2) (1890) 7 R.P.C. 47 and 152. | 31 R.P.C. 104. |
| (5) (1888) 5 R.P.C. 267. | |

legitimate foreign and domestic competition in fasteners, after considering the fact that for a period the plaintiff would sell its fasteners only to selected concerns in particular trades, and after considering the productive capacity of the plaintiff's plant, found that the plaintiff would have sold sixty per cent of this quantity of fasteners had not the defendants come into the market with their fasteners made on the infringing machine, and he estimated the plaintiff's profit thereon at ten cents per fastener; under this branch of this head of damages he found the plaintiff's damages to be \$44,574.10. Respecting the balance of the sales made by the defendants he found that every sale of fasteners made on the infringing machine was an illegal transaction, and constituted an injury to the plaintiff, and on this ground he found the plaintiff entitled to damages, and he adopted the method of measuring such damages on a royalty basis of one cent per fastener, which would amount to \$2,971.60, and this sum added to the other amount of \$44,574.10 would make a total of \$47,545.70, which amount he allowed under the first head in the plaintiff's particulars of damages.

Now was the Referee in error in his method of estimating the amount of damages arising under the first branch of this head of damages? I think not. It was perfectly proper to estimate in the best way he could the sales the plaintiff would have made but for the defendants' sales, and he estimated the damages arising therefrom in the way I have already explained. This, I think, was the only rule he could adopt. Lord Shaw, in *Watson v. Pott* (1), stated that:

It is probably a mistake in language to treat the methods usually adopted in ascertaining the measure of damages in patent cases as principles. They are the practical working rules which have seemed helpful to judges in arriving at a true estimate of the compensation which ought to be awarded against an infringer to a patentee. In the case of damages in general, there is one principle which does underlie the assessment. It is what may be called that of restoration. The idea is to restore the person who has sustained the injury and loss to the condition in which he would have been had he not sustained it. * * *

The Referee was, I think, justified upon the evidence, in reaching the conclusion he did respecting this portion of the defendants' sales and I do not think his finding should be disturbed. I know of no better way of ascertaining damages, in patent cases, even though it be a rough and

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 Maclean J.

(1) (1914) 31 R.P.C. at page 117.

1935
 LIGHTNING
 FASTENER
 CO. LTD.
 v.
 COLONIAL
 FASTENER
 CO. LTD.
 ET AL.
 Maclean J.

ready method. And in respect of such sales the plaintiff is, I think, entitled to substantial and not nominal damages.

Then as to that quantity of the defendants' sales which the Referee finds the plaintiff would not have made. He was of the opinion that the infringers should pay a royalty of one cent per fastener. That, I apprehend, is based upon the principle that every sale of goods manufactured by the patented machinery must be treated as a damage to the owner of the patent. Lord Watson, in the *United Horse Shoe Nail* case (1), said:

Every sale of goods manufactured, without licence, by patent machinery, is and must be treated as an illegal transaction in a question with the patentee; * * *

Fletcher-Moulton L.J., in the case of *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (2), said:

In the assessment of damages every instrument (meters) that is manufactured or sold, which infringes the right of the patentee, is a wrong to him, and I do not think that there is any rule of law which says that the patentee is not entitled to recover in respect of each one of those wrongs.

In *Watson v. Pott* (3), Lord Shaw said:

If with regard to the general trade which was done, or would have been done by the plaintiff within their ordinary range of trade, damages be assessed, these of course ought to enter the account and to stand. But in addition there remains that class of business which the plaintiffs would not have done; and in such cases it appears to me that the correct and full measure is only reached by adding that a patentee is also entitled, on the principle of price or hire, to a royalty for the unauthorized sale or use of everyone of the infringing machines in a market which the infringer, if left to himself, might not have reached. Otherwise, that property which consists in the monopoly of the patented articles granted to the patentee has been invaded, and indeed abstracted, and the law when appealed to would be standing by and allowing the invader or abstracter to go free. In such cases a royalty is an excellent key to unlock the difficulty, and I am in entire accord with the principle laid down by Lord Moulton in *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (2). Each of the infringements was an actionable wrong, and although it may have been committed in a range of business or of territory which the patentee may not have reached, he is entitled to hire or royalty in respect of each unauthorized use of his property. Otherwise, the remedy might fall unjustly short of the wrong.

It seems to me that these principles apply here, and that is what the Referee has done in connection with this portion, the forty per cent, of the defendants' sales; he has measured the damages for such sales on a royalty basis of one cent per fastener and in the circumstances it seems

(1) (1888) 5 R.P.C. 267.

(2) (1911) 28 R.P.C. 163.

(3) (1914) 31 R.P.C. 104 (H.L.) at p. 120.

that was a very appropriate method of fixing the damages in this connection, and the amount of the royalty is not, I think, excessive.

Although we are not here concerned with the profits made by the Colonial Fastener Company from its sales of fasteners, because the plaintiff did not elect to claim the profits made by the unauthorized use of its machine, still I think it might be mentioned that this defendant's profit on its sales amounted to \$19,820.61 and that was after deducting \$11,354.30 paid as royalty to the Prentice Manufacturing Company, which made the infringing machine. Altogether these two sums would amount to \$31,174.91, and I think the amount of royalty paid should be added to the first-mentioned sum if one were required to ascertain the plaintiff's damages on the basis of the profits made by the infringer or infringers. This is itself quite a substantial sum, and while the plaintiff elected to take damages, I think it not unfair to refer to the profits of the infringers during the period of infringement, because it is of some assistance in the inquiry.

There is just one other point which I should mention, and I should have referred to it earlier. The defendants contend that it is only that portion of the price of the "fastener" represented by the "stringer" that should be considered in arriving at the plaintiff's profits and damages. As the Referee points out, in the case of the fasteners, the "stringer" is not only an integral part of the article but it is the main part of the article, and he proceeds to state that what the plaintiff has lost by reason of the defendants' breach of its monopoly is the sale of the article as a whole, and if the defendants had not made the sales in question the plaintiff would have made them, and therefore the plaintiff's loss is its loss of profit on the sales of the completed fastener. The Referee then refers to some authorities applicable thereto, such as the *Meters Ltd. Case*, the *United Horse Shoe Nail Case (supra)*, and *Talbot v. Watson* (1). The Referee indicates in his report the particular passages in the reports of these cases which are relevant, and I need not mention them. I agree with the conclusion of the Referee on this point and it is not necessary that I should further discuss the same.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 Maclean J.

1935
 LIGHTNING
 FASTENER
 CO. LTD.
 v.
 COLONIAL
 FASTENER
 CO. LTD.
 ET AL.
 Maclean J.

Subject to the one deduction I have made, I affirm the Report of the Referee as to the amount of damages to which the plaintiff is entitled, and there will be judgment for the plaintiff, with interest from the date of the Report of the Referee, in the sum of \$47,574.10.

There remains the matter of costs to dispose of. At first I experienced the same difficulty as did the Referee in respect of the costs of the Reference, but on reflection I think the Referee reached the right conclusion.

In respect of the costs of the appeals from the Report of the Referee I think there should be no order as to costs. The plaintiff substantially holds the award made by the Referee but it has failed to increase the amount, and that was the purpose of its appeal. On the other hand, the defendants have failed practically to reduce the award, which was the purpose of their appeal. In the circumstances I therefore think there should be no order as to costs.

Judgment accordingly.

Following is the Report of Arnold W. Duclos, K.C., Registrar of the Exchequer Court of Canada, the Referee herein:—

On behalf of the plaintiff it is claimed that the following damages should be allowed, and I do not think I can do better than incorporate here the memorandum handed to me by Mr. Biggar, K.C. The terms "Unitary Machines" and "Divided Machines" will require explanation later. The memorandum is as follows:

MATHEMATICAL CALCULATION OF PLAINTIFF'S DAMAGE
 BASED ON DEFENDANTS' ACTUAL SALES

	Unitary Machines	Divided Machines	
	Ex. 5	Ex. 10	Total
1. Loss due to sales made by defendant of fasteners made in Canada on machines calculated on the price actually obtained by the plaintiff—			
(Column V.C.).. ..	96,749 06		
Deduct (Ex. 13).. .	9,145 34		
	27,368 24		
Deduct (Ex. 14).. .	2,754 21		
	87,593 72		
			24,614 03 112,207 75

	Unitary Machines	Divided Machines	Total	1935 LIGHTNING FASTENER Co. LTD. v. COLONIAL FASTENER Co. LTD. ET AL.
	Ex. 5	Ex. 10		
2. Loss due to first cut in minimum price calculated on defendant's sales— (Column V.D.)	15,161 32	2,991 95	18,153 27	
3. Loss due to second cut in minimum price calculated on defendant's sales— (Column V.E.)	5,042 44	3,909 23	8,951 67	
3a. Loss due to third cut in minimum price calculated on defendant's sales— (Column V.F.)		532 34	532 34	
4. Loss due to elimination of 5c. flat charge calculated on fasteners over 7½" lengths sold by defendant— (Column V.G.)	1,210 50	101 00	1,311 50	
5. Loss due to first cut in minimum price calculated on plaintiff's actual sales of fasteners up to 7½"— (Column VI.A.)	26,632 55	28,375 61	55,008 16	
6. Loss due to second reduction of minimum price calculated on plaintiff's actual sales of fasteners up to 7½"— (Column VI.B.)	4,636 54	7,270 83	11,907 37	
6a. Loss due to third cut in minimum price calculated on plaintiff's actual sales of fasteners over 7½"— (Column VI.C.)		2,204 85	2,204 85	
7. Loss due to elimination of 5c. per piece on plaintiff's actual sales of fasteners over 7½"— (Column VI.D.)	4,081 95	8,978 00	13,059 95	
7a. Loss due to cut of ¼c. per inch on plaintiff's actual sales of fasteners over 7½"— (Column VI.E.)		5,071 30	5,071 30	
8. Loss due to Montreal Offices— (Column VI.F.)	18,079 76		18,079 76	
9. Loss due to elimination of delivery charges— (Column VI.G.)	7,980 58		7,980 58	
Total	170,419 36	84,049 14	254,468 50	

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 Maclean J.

The plaintiff claimed that he would have made all the sales the defendants made, and one witness was optimistic enough to say that but for defendants' infringing acts, plaintiff would have manufactured and sold twice the quantity actually manufactured and sold by the plaintiff itself and the defendant, Colonial Fastener Co.

The first item of the above figures in the first column are arrived at by taking all the fasteners manufactured by the Colonial Fastener Co. on the machine which the court has found to be an infringement of the machine covered by the patent in suit and multiplying this figure by the price at which the plaintiff was selling, and deducting therefrom the manufacturing cost and that proportion of the administrative costs by which plaintiff says these costs would have been increased if it had sold the said fasteners as well as what it manufactured. No deduction is made for selling costs, plaintiff claiming that this would not have been increased by the sale of the additional fasteners. I will refer to this later. The number, 742,901 and that they are infringements is admitted by defendants, but it is claimed *inter alia* that deduction should also be made of the selling costs referable to the sale of that many fasteners, and also a proportion of *all* administration costs. The other items speak for themselves and will be discussed later.

The figures in the second column are fasteners made on two machines, not on the automatic machine found to be infringing, but which plaintiff says are infringements of the method claim. These are arrived at in the same way as those in the first columns. These amounts, the plaintiff claims, are the profit they were deprived of by reason of defendant's infringement and unlawful sales.

I understand the figures are admitted to be *mathematically* correct; at all events no application has been made to have same verified by an expert. I am glad that is so, because I doubt whether I would not have seen fit to appoint or recommend the appointment of a chartered accountant to fix the correct amount for profit from the many and complicated exhibits, as I do not presume to be expert in accountancy. Lest I should be wrong in my assumption, I will reserve defendant's right to apply to the court for the appointment of an accountant to fix the proper figure on the basis of my findings of law.

The defendants further contend:

1. That only the fasteners made on the unitary machines were infringements and that they only should be considered in fixing the damages.

2. That in arriving at the profit made by plaintiff on the sales, only the part of the price which was represented by the stringer fastener should be taken into account, and not the completed fastener with top and bottom attachments and the slider because, they say, the patent covers only the machine and the method of making *fastener stringers*, and that moreover the other parts were covered by other patents.

3. That only the machine should be considered and not the product.

4. That the price reductions were not caused by the acts of the defendant but resulted from market conditions, due to foreign invasion. That the defendants followed the plaintiff's reductions and did not initiate them and they should not be called upon to pay damages based upon such price reductions.

5. That in arriving at the loss of profit to the plaintiff due to loss of sales, the administrative costs along with the manufacturing and selling costs, should be deducted from the price received.

6. That the costs of a Montreal office (\$18,079.76) should not be charged to it, as it was not a "direct and natural result" of the infringement. Same reasons as in No. 4 are given, and further that it was good business policy and brought more than the costs, in view of Montreal being the largest clothing centre in Canada.

7. That the elimination of delivery charges stands on somewhat the same footing as the price reduction and should not be charged to it for reasons already given.

8. They also say that during the period material herein the plaintiff did not use a machine as covered by the patent.

9. That the Prentice Company having begun to manufacture while the patent had lapsed and before restoration he could keep on doing so and could therefore not be said to infringe.

I think it would be well, before entering into discussion of each separate item of damage, to state what I consider to be the general principles governing the assessment of damages in patent matters. These are fairly well established, but the difficulty arises in the application of these principles to the several cases. It is settled jurisprudence as stated by Terrell and others that the plaintiff should be compensated for the loss caused him by the infringers' acts, that is, "be restored by monetary compensation to the position which he would have occupied but for the wrongful acts of the defendant." Of course such loss must be the "natural and direct consequence of the defendant's acts."

There is a further general division of this loss to the plaintiff. Thus, where a patentee uses his monopoly by manufacturing the object covered by his patent in order to get the increased profits, his loss, generally speaking, is to be calculated on the basis of what the loss of profits to him on the sales of the object made by the defendant, if made

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

by him, would have been; whereas where the patentee permits others to use his invention in consideration of a royalty, his loss in such a case is the loss of the royalty, that is, the damages should be assessed on the basis of a royalty. Moulton, L.J. 28 R.P.C. 164—1. 40. It is to be noted that the profits allowed are only those on sales of defendants which plaintiff would have made. This aspect of the case will require, and be given, detailed consideration later.

The onus of proof in patent cases seems to be very much the same as in ordinary cases. The plaintiff must establish the damages he claims, but the defendants' acts being tortious this burden is greatly lightened by the readiness of the courts to presume that invasion of patentee's monopoly will cause him damage, and many Judges have expressed the opinion that these damages cannot be mathematically calculated. Courts have awarded substantial sums in damages in such cases. See the remarks of Lord Moulton in the *Meters* case (28 R.P.C. 162—42), and also those of Cozens-Hardy, L.J. in the same case at page 161—10, citing the language of Vice Chancellor Page Wood as reported in the case of *Penn v. Jack*, L.R. 5 Eq. 81, also Lord Shaw in *Watson v. Pott* 31 R.P.C. 118.

Moulton, L.J. (page 163—36) says: "The defendants have set up here—the burden of proof is on them—that there is a secondary rule of law, that where a defendant has sold infringing articles the plaintiff can only recover damages in respect of those which he can show would have been bought from him, if the defendant had not infringed." The examples given by their Lordships are helpful in the present case. At page 164, line 25 His Lordship further says: "In the assessment of damages every instrument that is manufactured or sold, which infringes the rights of the patentee, is a wrong to him, and I do not think that there is any case, nor do I think that there is any rule of law which says that the patentee is not entitled to recover in respect of each one of those wrongs."

As a further preliminary remark, let me say that I consider all the evidence adduced and exhibits filed at the trial herein are before me in so far as the same may be material to the present issue, or be of assistance to me in the determination of the same.

I might say also, as to the evidence in general, that so far as the volume of sales by defendants is concerned there is no dispute, the plaintiff accepting the number given by the defendants. When, however, we reach the realm of the problematic opinion evidence as to what business would have been done or not done, I am faced with the great optimist and pessimist and will, on some points, have to find corroboration or denial in the surrounding circumstances. Mr. Biggar, K.C., tried in argument to weaken the evidence of Beddoe, but I cannot agree with this. Mr. Beddoe and Mr. Kahane, heard for the defendants were the only two outside witnesses on general condition of the market. I believe they were honest and were both most competent to speak on the questions discussed. The other outside witnesses heard in rebuttal were only on some particular point.

With these general, and I think well-established rules of law and jurisprudence, I will now consider the separate items of damage claimed by the plaintiff upon and in view of the evidence of record, and in the light of the jurisprudence applicable to each.

Now as to the first defence raised by the defendant, namely, that fasteners made on what has been referred to as two machines, e.g. not on the machine which the courts have found to be an infringement, are not infringements, and as such cannot be taken into account in assessing the damages. It appears from Mr. Willetts' evidence, which is not contradicted, that over a certain period, to wit, between June 8, 1932, and May 15, 1933, the defendant, Colonial Fastener Co., did not use the automatic or unitary machine, found to be an infringement of plaintiffs patent, to manufacture fasteners, but used the two or divided machines solely during this period, and it is claimed that for this reason alone I should not include fasteners made thereon in arriving at the quantity of infringing articles. He also described the operation of making fasteners on these machines. The plaintiff claims that these fasteners are an infringement of the method claim, as the operation on one or two machines is substantially the same. I cannot agree with the plaintiff on this point. I have re-read the argument before the President, and find no reference to the method claim. The whole argument went to show that the

1935
 LIGHTNING
 FASTENER
 CO. LTD.
 v.
 COLONIAL
 FASTENER
 CO. LTD.
 ET AL.

1935
 LIGHTNING
 FASTENER
 CO. LTD.
 v.
 COLONIAL
 FASTENER
 CO. LTD.
 ET AL.

plaintiff's machine was "an automatic machine for the purpose of producing what is practically a new product," that is (the machine) was quicker, cheaper and operated with unvarying success. It was stressed that the invention in this machine consisted entirely in the combination *in one machine*, operated from a single source of energy and all the parts co-operating with all the other parts to produce a given result. In other words the invention here is in the ingenious combination in *one automatic machine* of old devices to produce a new article. (For full description of the machine, etc., see Reasons for Judgment of the Honourable the President.)

Now from the reasons for judgment aforesaid, pp. 8 *et seq*, it is clear that the reason which led the Court to find invention was because of the unitary principle and *the combination in one machine*—and that though he found the patent valid as a whole, it must be understood that the "method" was one of making fastener stringers on this unitary machine. The learned Judge only found invention in the machine (see p. 9 of Reasons for Judgment). This is made even clearer upon reading the President's remarks regarding infringement by the defendant's machine (pp. 9 and 12).

This judgment was reversed by the Supreme Court of Canada but, as already remarked, was restored by their Lordships of the Privy Council, save as aforesaid.

Their Lordships in their judgment lay great stress on the matter of the invention or patentability being in the "idea of combining in this class of work all the necessary operations *in one machine* . . ." Again they say "So far from the *combination* being obvious . . ." In fact in all but one paragraph their Lordships discuss this question, then at the bottom of page 10 they say, *re claim 19*:

This is a method claim. It is said to be anticipated by Aaronson's patent, but even if the method is limited to fixing members onto stringers the claim is for something which had never been done before, namely, producing stringers fitted with identical members so that a pair of stringers can co-operate to form a complete fastener. Their Lordships think that this is a novel claim with ample subject-matter and is valid and has been infringed.

The respondents laid some stress upon the fact that by their machine the members are fixed lightly to the tape which has subsequently to be further treated in another machine. The fact that their *machine* is not as efficient as that of the appellants will not enable them to escape the charge of infringement.

I think it clear that in the judgment of their Lordships of the Privy Council one must read after the word "infringement" at the end of the first paragraph the following: "by manufacturing the fasteners in question on the patented machine in accordance with the said method." Would not claim 19 be invalid if as broad as plaintiff would make it? In fact the units on the stringers made by the defendants were not exactly like plaintiff's, and it must also be borne in mind as worthy of some consideration that, in an action by plaintiff against these defendants involving a patent on a similar "unit" was dismissed. (See Ex. X.) In any event, I do not think, on the facts, that the operation explained by Willetts, in using the two machines, can be said to be an infringement of claim No. 19. After consideration of the judgments aforesaid, and the evidence of record, I am of the opinion that the fastener stringers made on the two or divided machines, as explained by Willetts, are not infringements of plaintiff's patent, and, therefore, for purposes of fixing damages I disregard the same. This disposes of all items in the second column of plaintiff's claim amounting to \$84,049.14.

We then come to *defence No. 2*, a question of law which might better be disposed of at this point. The defendants claim that that part only of the price of the fastener, represented by the "stringer," should be considered in arriving at the profit and damages. That is to say, in arriving at the loss sustained by the plaintiff by reason of loss of sales, the profit-forming part of the plaintiff's damages should be the profit on the fastener "stringer" alone, and not on the completed fastener, because, they say, the patent covered a machine for making *fastener stringers* only. I cannot agree with this contention of the defendants.

The law on this point will be found in Terrell, 8th edition, pp. 441-2: "Where the infringement is a part only of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that part alone, if the infringing part is clearly separable and does not co-operate with the rest to produce the new effect which is the feature of the patented invention in question. But where it is an integral part of a machine as a whole, damages must be based on the fact that the plaintiff has lost an order for the whole machine, and the profits on the whole machine must be taken into account."

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

In the case of the fasteners, the "stringer" is not only an integral part of the article but it is the main part of the article and thus this case is much stronger on the point than the cases referred to below.

In the present case it seems clear that what the plaintiff has lost by reason of the defendants' breach of its monopoly is the sale of the article as a whole. If the defendants had not made the sales in question the plaintiff would have made them and therefore the plaintiff's loss is its loss of profit on these sales of the completed fastener. This applies only, of course, to those sales which it is proved the plaintiff would have made. This will be discussed later.

I would refer to the remarks of Eve, J. in *Meters Ltd. v. Metropolitan Gas Meters, Ltd.* (1); and also the remarks of Cozens-Hardy, M.R. in the same case on appeal (2); also the remarks of Lord Moulton, p. 162, line 42; also the remarks of Lord Buckley, p. 165, line 36.

In this case the patent covered a particular kind of mechanism to control the opening of a gas valve in a prepayment gas meter, a small part of the meter, yet the damages were based upon the price of the whole meter. See also the remarks of Lord Kinnear in *United Horse Shoe Nail v. Stewart* (3).

The case of *Talbot v. Wilson* (4) has, to my mind, no applicability to this case. There the patented article was a carburetor and control mechanism installed in a motor car, which is not in any way analogous to the present case. It was a mere accessory of the car. It could scarcely be argued that the presence of the patented device sold the car. On this point, therefore, I think that as regards the sales made by the defendants, which have been proved to the satisfaction of the Court the plaintiff would have made, the basis for assessing damages should be the profit that the plaintiff would have obtained had it sold the completed fastener, and not the stringer alone.

By their *third defence*, defendants claim that as the patent in suit is for a machine and a method of making stringer fasteners thereon, that the machine and not the product should be considered in fixing the damages. I do

(1) 27 R.P.C. 730, line 20 *et seq.*

(2) 28 R.P.C. 160, line 47.

(3) 3 R.P.C. 143 at bottom.

(4) 26 R.P.C. 467.

not agree with this view. It is true as was argued (pp. 704-5) that an action by plaintiff against defendants, and based on a patent covering the unit was dismissed, but if defendants made such unit on a machine covered by the present patent then they infringe the same. The only way of arriving at the value of the monopoly to plaintiff or the damage caused it by defendants' acts, is by reference to the market value of the product and the revenue derived from its sale and distribution. Comparatively few machines can furnish the whole Canadian market, and in order to find the value to defendants of the use of such machines, one would naturally find the product thereof and the revenue therefrom to fix a fair royalty. In fact such a contract existed or exists between the two defendants, Ex. 19, whereby *inter alia*, a royalty is fixed based on the gross sales price of the product and a rent for the machine. I find that the only way, or at least the best way, to assess damages in these cases is to find the reasonable loss to plaintiff by the sale of the product or the loss of a fair royalty which defendants should have paid for manufacturing the product in question. I will follow this course in the consideration of this case.

There is another general defence made by the defendant, George E. Prentice Manufacturing Company, numbered 9 above, based upon section 47, ss. 6 of the Patent Act, which had better be discussed here. This defendant claims that he began lawfully to manufacture, use, and sell in Canada the invention covered by the patent in suit during the period when such patent was void, i.e. had lapsed, and before it was restored, and that it could continue to do so as if it had not been restored and revived, and that he has not infringed and cannot be condemned to pay damages. I am not discussing whether the facts alleged are proved or not, though I fancy they are, from the evidence at trial and before me, and a perusal of Ex. Z; I cannot however see how this comes before me on this reference. The judgment of the Privy Council, and the judgment of this Court, which is affirmed, both find that the *defendants* have infringed, and it is not for me to pass upon this question. In any event the question is largely academic, inasmuch as, by the contract, Ex. 19, the George E. Prentice Company has undertaken "to defend at its own expense any suit brought

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

against (Colonial Fastener Co.) for alleged infringement of any other patent because of the sale of fasteners under said Canadian Patent No. 286,528, and will pay any money damage obtained against (Colonial Fastener Co.) in the nature of royalty on the fasteners sold by (Colonial Fastener Co.) and will pay the costs of said suit" . . . So that whether one finds joint and several liability for the damages herein or not, the Prentice Company must eventually pay them, or at least the equivalent of royalty. As a matter of fact the one furnished the gun with which the shooting was done, whilst guaranteeing it was not loaded. *In so far as I can*, I will reserve this question for the decision of the Court.

In any event the infringements by George E. Prentice Co. in this action must be found subsequent to 1930, and therefore must consist in their exporting and renting to Colonial the machines found to be infringements, for use by them here.

Coming now to the discussion of the first item claimed by plaintiff, namely, the sum of \$87,593.72. This, the plaintiff says, is the damage suffered by it by reason of the loss of profit it would have made from the sale of 742,901 fasteners sold by the defendant, Colonial Fastener Co. which would otherwise have been sold by it. This sum is arrived at by taking the price received by plaintiff from time to time for the completed fastener, and deducting therefrom the manufacturing costs and such items of administration costs as would be increased by making these sales. This amount of \$87,593.72 represents a profit of \$·1179 per fastener, which is an average profit, due to the price changing from time to time. From an examination of Exhibit 5 one gets profits varying from \$·099 to 15 cents or an average of over 12 cents per fastener; but this is before deducting items *re* administration shown in Exhibit 13. But there is no allowance made for possible selling costs of this extra quantity.

There is no dispute about the number sold, to wit, 742,901 but the defendant claims:

1. that the profit should be calculated on the sale of the stringer alone;
2. that as the sales by defendant were made to its own customers and to those to whom the plaintiff had refused

to sell; plaintiff suffered no damages, or at most, the damages should be calculated on a basis of royalty.

3. that even if the loss of profit is to be the basis, then in arriving at such profits one should deduct not only the manufacturing costs and part of the administration costs, but all the administration costs and the selling costs.

In the case of *Watson Laidlaw & Co. v. Pott, Cassells and others* (31 R.P.C. 104) before the House of Lords, their Lordships discussed the question very fully referring to the previous leading cases on the same point. I gather from this case that each sale of the infringing article is a separate tort; that the onus is upon the plaintiff; that where the plaintiff elects to take damages these damages are the loss sustained by it by the fact of the infringer selling what it would have sold, i.e. the loss of profit the plaintiff would have made had he sold the articles sold by the infringer. In reference to the sales made by the infringer, which the court concludes the plaintiff would not have made, the basis for damage is a fair royalty. Practically all judges refer to the difficulty facing them in such matters and the impossibility of arriving at the amount with any kind of mathematical accuracy. Lord Shaw says that this is accomplished "to a large extent by the exercise of a sound imagination and the practice of the broad axe." This was cited to me by counsel for the plaintiff as an authority in its favour only. However, I think the meaning of Lord Shaw's words is really another way of saying that accuracy was impossible and that imagination must be exercised for or against the plaintiff. It does not mean that one can be generous, for damages are by way of compensating the plaintiff and not as a penalty or punishment of the defendant.

It might here be mentioned that the defendant, Colonial Fastener Co. has admitted that its profits from the sale of these 742,901 fasteners amounted to \$19,820.61; and in arriving at this amount they have deducted all royalties paid Prentice Co. (\$11,354.30) and all items of general overhead, from the price received, which I think should not be deducted in ascertaining profits in a case like this. Moreover, the price of the stringer only is taken into account and not the whole fastener. I am, however, not interested in the

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 ———

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

exact amount of alleged profits to defendant by reason of its unlawful acts, because I wish to make it clear that I am not using these figures as a basis for fixing the damages. Nevertheless, it may be of assistance in fixing a fair royalty, and is a help in judging the reasonableness of the figures allowed the plaintiff.

The first defence has already been dealt with.

As to the first part of the second defence that plaintiff is not entitled to *anything* as damages unless it proves that if the Colonial Fastener Co. had not made the sales, the plaintiff would have done so. This is unfounded, even as to the sales made by the defendant to the parties to whom the plaintiff had refused to sell. I find that as to such sales the defendants are liable to pay a fair royalty, that is, they must pay the plaintiff what it would have cost them to make these sales lawfully. (See remarks of Moulton, L.J. in the *Meters Case*, 28 R.P.C. 165, lines 14 to 25).

The case of *Pneumatic Tyre Co. v. Puncture Proof etc.* 16 R.P.C. 209 at p. 212 was cited as an authority which should be followed, and which rejected the resort to royalty in a case like the present. I cannot agree; the facts there were different but the law laid down is in line with the cases herein referred to. It may be arguable whether plaintiff can recover anything on sales which it had refused to make, or would not have made, but as to such sales I have had to resort to royalty on the suggestions to that effect found in the *Meters case* (supra).

The Patent Act, Sec. 40, provides means to force the owner of a patent who fails to satisfy the public demand, to grant licences to others to do so, etc., but it does not permit a person to use a monopoly without compensating the owner. On the other hand, I do not think, as contended by plaintiff, that it (plaintiff) could claim to have suffered a loss of profit on sales it refused to make or for any other reason it would not have made. The question then becomes one of law and fact as to whether the plaintiff has discharged the onus on it by law, in view of the evidence that plaintiff would not have made all the sales which were made by defendants, then as to what part or portion thereof is it entitled to claim a loss of profit, what that profit is or should be, and on what part it is entitled to receive a fair royalty, as damages, and lastly what should this royalty be?

On these points the evidence generally is unsatisfactory.

(As to question of onus see *Meters Case*, 27, R.P.C. 731, line 14, where one who had not tendered was refused loss of profit; and see lines 21-23; See also same case, 28 R.P.C. 165, line 15).

If the plaintiff had been the only company that could have lawfully sold in Canada, the general evidence that it had lost the sale of at least 742,901 fasteners by reason of the defendant's infringement, which it could have made, without proving specifically that actual sales made by defendant would have been made by it, would probably have been enough to establish its right to loss of profit on all the sales, at all events, it would constitute a strong prima facie proof. However, the situation here is quite different. We have in the early period importations from the United States and later from Germany and England, etc., and in 1934 we have the Hamilton company, a strong home competitor. In the circumstances the case requires definite and affirmative proof. What proof have we on this point?

The plaintiff's evidence in chief on this was to the effect that it could have manufactured the quantity manufactured by the defendants as well as its own, but does not state it would have made the actual sales made by the defendants. In fact it is stated that it was their policy to make agreements with certain firms by which it would bind itself to furnish fasteners to them alone for use on the particular article put out by them, and over a dozen names were given to whom plaintiff had refused, from time to time, to sell, because of these exclusive contracts. True, it was also stated that under this policy the purchaser of fasteners was induced to push the sales more than if the market was open and thus it would benefit more from such contract, or as much as from selling in the open market. I can understand how, in order to introduce the fastener, such an agreement would be mutually beneficial, but after all the plaintiff's sales are limited by the output of the manufacturer to whom it sells. I fail to see how such contract, could, with advantage, be kept up, especially after importations came in from the United States, Europe and England. I am confirmed in this opinion by the sales manager of the plaintiff, Mr. Kelly, when in Ex. F. he speaks of the value of such arrangement in "pioneering" days

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.
 —

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

(See Ex. F. Pars. 3 and 5). The plaintiff itself claims that the defendant Colonial Fastener Co's entry in the market with the infringing article forced it to give up this policy; but I cannot agree that said defendant was alone responsible for this change, several market conditions have to be considered. It should be noted that late in 1930 this policy was practically abandoned, though kept up in the case of unexpired contracts till 1931.

The witness Willetts at page 534 says that in 1930 all their sales were to parties to whom the plaintiff had refused to sell. This is probably right, because this was at a time when the plaintiff still had the restricted contracts. At page 539 he estimates that 35 per cent of the total sales of 742,901 were to persons to whom the plaintiff refused to sell, or who could not obtain same from plaintiff. Considering that the sales of the defendant, Colonial Fastener Co., are only about 10 per cent of those made by the plaintiff, this may be a fair estimate.

An uninterested witness, Beddoe, said that no more than 15 per cent of the sales made by defendant would have gone to plaintiff and gave reasons for so saying. An examination of Exhibit 18—list of defendant's customers, and Exhibit 22—list of plaintiff's customers, seems to show that many of defendant's customers were also customers of plaintiff. In fact, some were undoubtedly plaintiff's customers and only dealt with defendant, Colonial Fastener Co., at times.

I might here note what I consider is a significant piece of evidence on the defendant's influence on the Canadian market and the existing prices, though I shall have to refer to it again when dealing with the forced reduction in prices by plaintiff. At page 182 of the evidence Mr. Fox gave us the percentage which the production of their No. 5 unit bore to their total production and sale of units. From his statement it appears that the percentage of No. 5 unit to the total production and sale increased from 32 per cent in 1928 to over 87½ per cent in 1933 and that in 1934 it dropped a little below this figure. That is there was steady increase from 1928 to the end of 1933 in the sales of the No. 5 unit, *which was the only one manufactured by the defendant*. I gather from this that the sales by defendant, Colonial Fastener Co., did not influence plaintiff's sales to

the extent to which the plaintiff would have me believe. Plaintiff's evidence on this aspect is general, and given by their own officers, and is flatly contradicted by defendant's officers, but in support of the defendant's contention we have Mr. Beddoe, an independent witness, fully competent to give an opinion on the question. There is no doubt, I think, on the evidence as a whole, that some of the defendant's sales would have been made by the plaintiff, and no doubt some would not, and as to the latter I will apply royalty and not profit as a basis for damages.

On the question of what percentage of 742,901 sales is to be credited to plaintiff I will be forced to follow the suggestion of Lord Shaw and exercise a sound imagination in arriving at this figure. The defendant might have made a clearer and more positive proof of the sales that would not have gone to plaintiff in any event, but as the onus of proving the positive was on the plaintiff and as an adjournment was granted after defendant had closed its evidence, and as the rebuttal does not make the matter much more definite, I find the plaintiff has failed to prove it would have made all the sales. After carefully weighing the evidence as a whole, I find that at least 40 per cent of the defendant's sales would not in any event have been made by the plaintiff, to wit, 297,160 fasteners, and on these I will allow it a royalty as damages. On the amount of this royalty I have not had much help, but in order to save costs I will do the best I can, upon all the evidence before me. There is the royalty paid by Eaton Company to plaintiff and the royalty agreed upon in a similar matter in the United States by Prentice, and that paid by Colonial Fastener Co. to George Prentice Co. as appears from Ex.19, namely, 15 per cent of the gross sales price. From the affidavit of Mr. Willetts, filed 24th September, 1934, the total sum received from the sales of the 742,901 fastener stringers amounted to \$84,913.50, 15 per cent of which represents \$12,737.02 being the total royalty on this number of fasteners, or making a royalty of \$.0171 per fastener, or about $1\frac{3}{4}$ cents. Mr. Prentice at page 712 says that he has granted licences and has been offered licences at the rate of $\frac{2}{3}$ cents per fastener. I have only gone into these figures with a view to fixing a fair sum to be allowed as royalty. These are however not quite compar-

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

able to that which I have to fix, owing to other considerations and concessions in the contracts. Generally speaking royalty is what the market will stand. That is in fixing a royalty, one must find the market price, and deduct the expenses and costs of manufacturing, etc. and find the profit. Then arrive at the proportion of that profit which can properly be said to be due to the invention. A number of factors must be considered, such as the volume of sales, etc. The evidence is slim but I will express an opinion, glad that if wrong, I can be put right, by this Court, or other Courts to which an appeal lies in the premises. I will fix the royalty at 1 cent per fastener, and would therefore assess the damages for the loss of these sales at \$2,971.60.

Now as to the balance of the sales, to wit, 445,741 fasteners, I find the evidence establishes that plaintiff would have made these, or at least have lost the sale of that many by reason of defendant's acts, and it remains to fix the loss of profit that plaintiff has sustained by reason of the loss of these sales.

Early in the inquiry defendant put questions to the plaintiff's witnesses to obtain from them their administration costs. Objection was made by plaintiff and maintained by me. I, perhaps, should have allowed the evidence in to be dealt with by the final judgment. My reasons for so ruling will appear of record, but mainly they were these. What the plaintiff is entitled to get by way of damages is the loss to it. It was established by evidence that their existing establishment could have manufactured and sold as many more as the defendant had manufactured without extra administration costs save such as appear by Ex.13 and have been deducted from the price, to arrive at the profit. Among those not increased were included such items of cost as salary of the managing director, other office salaries, rent, insurance, etc. I think it is evident, without proof, that such extra sales could have been made without any increase in the above, and therefore this proof was immaterial, this increase being approximately only 10 per cent of the plaintiff's sales. I am confirmed in my view then taken by the subsequent evidence and the jurisprudence read, that, in arriving at the profit for the basis of the assessment of damages,

such administration costs should not be deducted. See remarks of Lord Kinnear (3 R.P.C. 141 at p. 144, lines 2 and 3) where he refers only to manufacturing costs, and Moulton, L.J. (28 R.P.C. p. 163, line 44) who refers to manufacturing profit. I assume that the learned judges used the exact words they meant to use, no more and no less.

I find that the plaintiff has followed the right principle in fixing the expenses to be deducted from the price to find the profit of which it has been deprived by the acts of the defendants. However, I think some further amount should have been deducted for the costs of selling this extra number of fasteners, See Ex. 13 and p. 295 of evidence, and as the defendant, Colonial Fastener Co. sold the greatest quantity or proportion of the 742,901 during a period when the prices were low, and consequently the profits were less, for the manufacturing and administration costs did not vary with the price, I think justice will be done if I fix the plaintiff's profit per fastener at 10 cents, and that this is a reasonable figure to accept as the loss of profit to plaintiff on these fasteners, where the profit is to be taken as a basis for the damages, namely, on 445,741 fasteners.

I therefore find that the plaintiff should recover from the defendants, under this head, the sum of \$44,574.10; making a total for the first item of the first column, namely, plaintiff's loss on sales made by defendant, of \$47,545.70.

The next item to be discussed is that referring to the damages claimed by reason of being forced by defendants acts to reduce its prices. The plaintiff says that but for the infringement by defendants and their cutting the prices, it could have maintained its regular price, and that in consequence it is entitled to recover from the defendants the difference between the price it says it could have maintained and the actual price at which it sold, both as regards its sales as well as the sales made by defendants.

For reasons already mentioned as to the non-infringing machines, all items in the second column must be refused.

The following items shown on pages 3 and 4, supra, to wit, those numbered 2, 3, 4, 5, 6, 7 and 9 are susceptible of the same treatment and of being discussed together. How-

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

ever the proof as to the first reduction is on a different footing than that affecting the second and third reductions.

There is no doubt, I think, from the remarks of the judges in the following cases that the plaintiff is entitled in law to be compensated for such losses, but it must be proved that such reductions are the natural and direct result of defendants unlawful acts: *United Horse Shoe Nail v. Stewart*, (1); *American Braided Wire v. Thompson*, (2); *Meters v. Metropolitan Gas*, (3); *Watson v. Pott*, (4).

Then, again, it is possible that in some instances, it may be found that the defendants have contributed to bringing about a condition in the market which compelled plaintiff to reduce prices to meet competition, but were not alone responsible in bringing about such a condition, and in such a case I will be obliged to arrive at some ratio of responsibility between all the contributing causes, as will do justice between all parties.

This is not an easy matter. There is no doubt that the fact of an infringer being in the same market is not a help to plaintiff, notwithstanding the greater salesmanship. However, one must be sure that the condition of the market follows upon the acts of the defendants, always keeping in mind that it is compensation and not punishment that is being meted out.

As to the first reduction in price, covered by items numbered 2 and 5 of list on page 3 hereof. The witnesses called by plaintiff, when first called, claimed that this first cut was forced upon it by reason of the defendant, Colonial Fastener Co. cutting prices; that it followed but did not lead in this price cutting experiment; that although there was a substantial quantity of fasteners imported from abroad, it was not enough to compel it to reduce its prices; that the home competition was the only really serious one. The defendants have filed two exhibits on this point which to me are positive proof that the defendant, Colonial Fastener Co. did not reduce its price before the change made by plaintiff on June 18, 1931, these are Exhibits A and Q. These to me are complete corroboration of the testimony

(1) 3 R.P.C. 140 and 5 R.P.C. 250.

(2) 7 R.P.C. 47 and 152.

(3) 27 R.P.C. 721 and 28 R.P.C. 157.

(4) 30 R.P.C. 285 and 31 R.P.C. 104.

of defendant's witnesses to the effect that the plaintiff initiated the reductions in every case and that they only followed.

The plaintiff then tried to show that the only way it could find out whether defendant was cutting prices or not was from statements made by prospects to the salesmen or from general trade rumours. This, I think, is a very risky foundation for sworn testimony.

I can easily imagine a proposed purchaser wishing to buy as low as possible, saying to a salesman, I can get this from Colonial Fastener Co. for less than your price, without any foundation—only bluff. This is not evidence, and if plaintiff became panicky and lowered its price because of such rumours or statements, it is unfortunate if it were thereby misled, but hardly something for which the defendant can be held responsible. I am satisfied that it was not the direct consequence of any act of the defendants, for I cannot find on the evidence that the defendant, Colonial Fastener Co. initiated this price reduction, nor were their sales sufficient to have forced plaintiff to reduce its price, and therefore I think these two items, \$15,161.32; \$26,632.55, must be refused. The other item (No. 9) for \$7,980.58 in respect to giving free delivery, really part of this reduction, is discussed below. (See argument p. 825). For the same reasons item \$2,991.95 would be refused, even if it is found that fasteners made on the two machines are to be taken into consideration.

There were other fasteners legally on the market besides those of plaintiff and defendants, and one cannot and must not *infer* that the reduction was the natural and direct consequence of defendants acts. Again, I repeat as worthy of consideration on this point also, the fact of large and steady increase in plaintiff's business in No. 5 units, and the small quantity sold by defendants as compared with that of plaintiff. It follows that plaintiff must clearly prove that the reduction was due to defendants acts, which, on the whole evidence, I do not think is proved.

In the case of *United Horse Shoe Nail Co. v. Stewart & Co.* (1) lines 50 to end of page, and p. 269, lines 1 to 9, Lord Macnaghten found there was no right to recover such

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

loss on facts similar to those in this case. See also same case at p. 267, lines 25-35, and the same case in 3 R.P.C. 139 at p. 144, lines 21 and following.

In *American Braided Wire v. Thomson* (1), the head-note reads: "That the facts in this case were entirely different from those in *The United Horse Nail Company v. Stewart* in which case the plaintiffs themselves reduced their prices and were claiming damages in respect of that reduction," and also *idem* p. 160, lines 1 to 7.

Now, coming to the second reduction in prices, namely, those of February, 1934. In reference to these the plaintiff's witnesses, all officers of the company, claimed that the defendant's acts of infringement were the sole cause for their reducing their prices on this date, and that the presence of the foreign importations was a trivial matter and that they could easily have competed with them and maintained their prices. They admit, however, that the volume of sales by the foreign importer were at least equal to the sales made by the defendant, Colonial Fastener Co. The evidence of the defendant, through its officers, corroborated however in substance by two independent witnesses in the same business, is a straight contradiction of plaintiff's evidence and is to the effect that the foreign importations from Czechoslovakia, Germany and England were a serious menace to the local market both on account of the volume of sales and the lower prices at which these countries were able to sell here, that is, they delivered as satisfactory an article here to the customer for a price lower than the plaintiff's price. Of course all persons called maintained that their fasteners were the best on the market, but I have ignored such proof. It was also proved that the plaintiff applied to the Tariff Board for protection against these importers, and letters to the trade by plaintiff (filed) show how keen and dangerous this competition had become.

It was further proved that in the early part of 1934 a very large and strong corporation from the United States, with a subsidiary at Hamilton, The United-Carr Manufacturing Co. established a business there, becoming a powerful competitor of plaintiff's, which has its establishment at St. Catharines, only a few miles away from Hamilton.

Even if the witness Kahane who gave the volume of his sales at about 400,000 in 1932, stating them to be about 10 per cent of the total imports, and if this percentage is not quite accurate, and even if the letters of plaintiff, Exhibits C and D, being trade sales letters exaggerated and magnified difficulties, as probably they did, for purposes for which such letters are written, it is, however, beyond any doubt whatever that the importations into Canada during the period preceding the price reduction were very substantial and menacing. It is immaterial for my purpose whether the volume was two or three million fasteners. It is enough for my purpose if the volume of the importations was enough, and the lower price was such as to suggest to plaintiff the advisability of reducing its prices to meet the said competition.

In face of such evidence I cannot accept the evidence of plaintiff that this and the fact of a new and powerful competition locally was unimportant and had no bearing on its price reduction. Neither can I accept the position put forward by the defendants on this point that the importations were the sole factor to be considered and alone forced plaintiff to make the reductions.

On the 25th April, 1933, the Supreme Court of Canada gave a judgment in this case dismissing plaintiff's action, and no doubt and with good reason defendant, Colonial Fastener Co., became more aggressive and in fact sold practically as much for the period between July, 1933, and March, 1934, as was sold during the balance of four years.

After carefully considering the evidence, I have arrived at the opinion that all these things, to wit, the foreign invasion, the new competitor in the local market and the competition of the said defendant were instrumental in deciding the plaintiff to reduce its prices as aforesaid, and therefore the defendants must be held responsible for part, but which part is a difficult question and one which I have to answer. It is one on which no two persons would likely agree upon separate consideration of the evidence, because after all it is a figure which cannot be arrived at with any degree of mathematical accuracy. It is at best a justifiable guess or opinion based upon the evidence before me.

On the whole, the United Carr Manufacturing Co., being in the same locality as plaintiff and the importations being

1935

LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

lower in price, I have decided to divide the total losses to plaintiff in the ratio of 25 per cent, 37½ per cent, and 37½ per cent, and would charge the defendants with 25 per cent of the losses.

Now the figures involved are those numbered 3, 4, 6 and 7 on pages 3 and 4 hereof, namely, (3) \$5,042.44; (4) \$1,210.50-\$6,252.94, and (6) \$4,636.54; (7) \$4,081.95-\$8,718.49. These must be divided into two; *first*, the losses based on defendants' sales, namely, No. 3 and 4, \$6,252.94; and *second*, those based on plaintiff's own sales, namely, Nos. 6 and 7, \$8,718.49, for the following reason:

In reference to losses from forced reductions based on defendants' sales the 25 per cent thereof to be charged against defendant must be taken on 60 per cent of the said sales, because it is only on 60 per cent of defendants' sales that plaintiff is entitled to get loss of profit; as on 40 per cent it is to be paid a royalty which is not affected by the reduction in prices. Now 60 per cent of \$6,252.94 is \$3,751.76 and 25 per cent of \$3,751.76 is \$937.94 for which defendant is responsible regarding its own sales and 25 per cent of \$8,718.49 is \$2,179.62 *re* plaintiff's sales, making a total of \$3,117.56 which I find plaintiff is entitled to recover from the defendants as damages resulting from the said forced reduction in price.

With reference to fasteners made on the two machines, affected by the second cut, if it is found these are to be considered as infringements, then they must be reduced in the same proportion as figures given for the admitted infringements.

The only losses claimed to have been suffered by reason of the third cut have reference to fasteners made on the "divided machines" and have been found not to be infringements. These are numbers 3(a), 6(a) and 7(a) of the claim, and would fail for reasons aforesaid. If, however, it is found that the fasteners made on the divided machines are to be considered as infringements, then the reasons and remarks above respecting the second cut would apply and only part of these sums should be allowed as stated in reference to the second cut.

Special reference should be made to the claim for loss due to being forced to grant free delivery, item 9 above, because separate argument was made on the point. Plaintiff stated

that defendant, Colonial Fastener Co., had reduced its price by offering to make free delivery. This is not proved; the only free delivery by defendants was in their own city. (Montreal) and this had existed from the beginning. Plaintiff in argument went further claiming that because of defendants' free delivery in Montreal it was forced to give free delivery not only in Montreal, but to other points as well, because of competition between customers.

It was natural and necessary that defendant give free delivery in Montreal, and in this there is no unlawful act of the defendant to injure plaintiff. To find anything unlawful one must go back a step or two to the infringement and say, you infringed and because your infringement was in Montreal, and because you there gave free delivery, therefore we were forced to do so, not only in Montreal but to all our customers, because of the jealousy which would otherwise exist between them. This is too remote to hold defendant responsible in damages, it is not the direct and natural consequence of any unlawful act of defendants. This claim is for \$7,980.58 and was really part of the first reduction of June 18, 1931, as appears from Ex. A. For these reasons as well as those given in respect to the loss generally from the first reduction I find that this sum must be refused.

Now in reference to the claim for \$18,079.76 Ex. 7, the cost of maintaining an office in Montreal during a certain period. The plaintiff says that by reason of defendant, Colonial Fastener Co., selling the infringing fastener in Montreal, and by giving free delivery and by reducing prices and otherwise dislocating the trade, it was forced to establish an office in Montreal. That if the said defendant had not entered the field, it (the plaintiff) could have controlled the market from St. Catharines and, therefore, the claim. In argument counsel claimed that in order to refuse this claim I must find that the witnesses so testifying perjured themselves. I do not think it is necessary to do this to arrive at such conclusion. True, it is a statement made by witness, but based on certain facts which witness believed to be facts. If these alleged facts are disproved, or if it is shown that the plaintiff was wrong in its assumption, then the claim fails without any finding that the witness perjured himself. Moreover, even if plaintiff really

1935
 LIGHTNING
 FASTENER
 Co. LTD.
 v.
 COLONIAL
 FASTENER
 Co. LTD.
 ET AL.

1935.
LIGHTNING
FASTENER
CO. LTD.
v.
COLONIAL
FASTENER
CO. LTD.
ET AL.

believed that the acts of the defendant, Colonial Fastener Co., made it necessary for it to establish an office in Montreal in order to meet its competition, and it is proved that there was other serious competition, it is not necessary to find that the plaintiff's witnesses perjured themselves, to reject the claim. It is only necessary to find that its belief was unfounded. Then, again, there is the question of law, even if what the witness said or presumed were justified. Is such damage or claim the "natural and direct" consequence of the defendant's acts?

First, as to the amount of this claim, it is proved that Logan, referred to in Ex. 7, had always spent most of his time in Montreal, before the office was established and doubtless his expenses before were just as high as after the office was opened, and his salary would exist before. In fact, I am of the opinion, that even if allowable at all, the only items of Ex. 7 which could be allowed would be office rent, \$1,180, and part of the taxes, \$998.50, to wit: Business and water taxes and perhaps the profits tax.

Then as to the second point. It was proved that the only free delivery given by defendants was in Montreal. The price reductions have already been discussed and it is proved by Kahane and Beddoe that there was a very large importation from Europe, selling at lower price, and that it was good business, if not essential, to have an office in Montreal, to meet this competition. I find that this is not the direct and natural consequence of the defendants' acts but that it was really the condition of the market which suggested it.

I would again in this connection refer to what I consider a rather significant piece of evidence given by Mr. Fox at p. 182, which tends to show that the defendants are not responsible for as much interference to plaintiff's business as plaintiff tried to make out. This evidence is to the effect that plaintiff's output of No. 5 units steadily increased from 32.625 per cent of their total output in 1928 to over 87½ per cent in 1933. And it must be noted that defendants only manufactured and sold No. 5 unit.

In view of the fact that Montreal is the largest clothing and manufacturing centre in Canada, that there was a very large importation there, and that it was good business to have the office there in any event, I do not think it can be

justly said that the plaintiff's move was the "natural and direct consequence" of the defendants' acts. I fancy it might very well have been an asset. I would therefore refuse this claim.

In any event this claim overlaps with that for loss due to having to give free delivery, for if this one were allowed then, being in Montreal they would not even of counsel's submission (see p. 828) be forced to give free delivery outside and to that extent this claim would have to be reduced. However, in view of my decision on the claim as a whole this need not be stressed further.

To recapitulate I would respectfully report as follows:

1. I reserve to defendant the right to apply to the Court for the appointment of an accountant to go over plaintiff's books and verify the figures in the exhibits filed.

2. In view of the judgments finding that "defendants" have infringed, etc. I do not see how I could now consider whether Prentice Company has infringed by reason of its coming under section 47, ss. 6, of the Patent Act. However, I reserve this question of law for the decision of the Court.

3. I find that the fasteners manufactured on what has been called the divided or two machines are not infringements and that in consequence the item of \$84,049.14 in the claim as formulated by plaintiff should be dismissed.

4. I find that the general principle followed by plaintiff of basing its loss of profits on the loss of the sale of the completed fastener, is the proper one save as to selling costs.

5. I find plaintiff's claim for loss due to the establishment of a Montreal office should be dismissed.

6. I find under the head, loss of profits, the claim for the sum of \$87,593.72 (1) that 40 per cent of defendants' sales would not have been made by the plaintiff in any event; (2) that the fair profit on the sale of each fastener is 10 cents, and that a fair royalty per fastener is 1 cent, and that in consequence the plaintiff is entitled to recover the sum of \$2,971.60 by way of royalty and \$44,574.10 by way of loss of profits or a total of \$47,545.70.

7. I find that the defendants are not responsible for loss due to the first cut in prices, but that in regard to the second cut they must bear part of such losses, in the proportion fixed above, which amounts to the sum of \$3,117.56.

1935
 LIGHTNING
 FASTENER
 CO. LTD.
 v.
 COLONIAL
 FASTENER
 CO. LTD.
 ET AL.

1935
LIGHTNING
FASTENER
Co. LTD.
v.
COLONIAL
FASTENER
Co. LTD.
ET AL.
—

8. I find that in regard to the third cut, as these fasteners involved were made on non-infringing machines, this amount should be refused; but, if found by the Court to be infringements, then the amount should be reduced as explained regarding the second cut.

9. I therefore humbly recommend that judgment be rendered for the plaintiff either against the two defendants jointly and severally, or against the Colonial Fastener Co. alone in the sum of \$50,663.26, subject to the reserve aforesaid.

As regards *interest*. In view of the fact that damages are assessed up to date, the interest should be calculated only from the date of the report herein. With regard to the *costs* of the reference, in view of the fact that the defendant was successful in having a very large amount deducted from the claim, I was inclined to allow the plaintiff only part of its costs, but the defendants having contested every item, and having made no offer whatever, I feel that it is only just that the plaintiff in the circumstances should have the costs of the reference and I would respectfully so recommend to this Honourable Court.