[HOUSE OF LORDS.]

THE UNITED HORSE-SHOE AND NAIL COMPANY, LIMITED . . . . . } APPELLANTS;

AND

JOHN STEWART & CO. . . . . RESPONDENTS.

H. L. (Sc.)
1888
March 12.

Patent—Infringement admitted—Action for Damages, Quantum of.

In an action by the pursuers, who were assignees of a patent for the manufacture of horse-shoe nails, for damages caused by the infringement of the patent it appeared that the pursuers did not grant licences, but themselves manufactured and sold the nails made by their patented machinery, and it was admitted that a number of boxes of nails manufactured in such a manner as to infringe the patent had been sold by the defenders:—

Held (reversing the decision of the Court of Session), that to the extent by which their trade was injured by the defenders' sales the pursuers were entitled to substantial damages; that the measure of damage was the amount of profit which they would have made if they had themselves effected such sales, deducting a fair percentage in respect of sales due to the particular exertions of the defenders, and that the mere possibility that the defenders might have manufactured and sold an equal quantity of similar nails without infringing the patent was no ground for reducing the damages to a nominal sum:—

Held further, that the fact that the pursuers had in consequence of the unlawful competition of the defenders reduced the price of nails which they had themselves sold did not entitle them to recover additional damages in respect of the reduction in the profits of such sales.

APPEAL from the First Division of the Court of Session, Scotland (1).

This was an action brought by the appellants, the United Horse-Shoe and Nail Company, Limited, against the respondents, John Stewart & Co., extensive hardware merchants in Glasgow, for damages in respect of infringement of inventions described in certain patent rights. These patent rights related to inventions in machinery for the manufacture of horse-shoe nails. The nails made by the appellants' patent machinery are known as "Globe" nails. The appellants did not grant licences, and they manufactured and sold the nails themselves. The respondents

(1) 14 Court Sess. Cas. 4th Series, 266.

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

were the agents of manufacturers of nails known as the "Shoe" nails. The works of the appellants and of the respondents' principals were both situated in Sweden. The "Globe" nail was introduced into Scotland in 1879 by Messrs. Donald & Son, the appellants' agents. The "Shoe" nail was introduced into Scotland in March, 1883. To meet the competition the appellants had to reduce the price of "Globe" nails, and they subsequently received information that the nails sold by the respondents were made by Messrs. Kollen at their works in Sweden by means of machinery which the appellants believed were substantially a copy of the machines covered by their patents. They therefore on the 19th of January, 1884, brought an action against the respondents for infringements of their patent rights, and after a proof the Lord Ordinary (Lord Kinnear), who tried the case with the assistance of an assessor under 46 & 47 Vict. c. 57, s. 28, on the 20th of March, 1885, pronounced an interdict prohibiting the respondents during the continuance of the letter patent dated the 15th of August, 1872, patent No. 2432, and of the 14th of October, 1878, patent No. 4078, from importing into the United Kingdom or manufacturing or selling any horse-shoe nails made in accordance with the specifications of those letters patent. The respondents acquiesced in this judgment, and it became res judicata. In the course of the interdict proceedings the appellants reserved their claim for damages: and the respondents undertook to keep an account of all nails sold by them in alleged contravention of the appellants' patents. After the date of the interdict they ceased selling the nails complained of.

The present action was commenced on the 5th of May, 1885, and the appellants claimed for damages, (1) on the assumption that if the respondents had not interfered with their trade, they themselves would have sold during the period of interference an additional quantity of nails equal to the quantity sold by the respondents: (2) by the reduction of their prices which they alleged was necessary, and the direct result of the unlawful acts of the respondents: and (3), for loss sustained by the large extent to which their trade connection had been interfered with and spoiled. They averred that such nails as they sold could only be made by the use of their patents, and that had not the respon-

dents infringed they would have had the market to themselves. In order to limit the scope of the inquiry, the parties agreed before the proof was led to sign a joint minute of admissions. By this minute the respondents admitted that they sold 5752 boxes of nails made in contravention of claim 6 of patent No. 4078, and of claim 2 of patent 2432; but of these 5752 boxes 1390 boxes were made without the use of the mechanism called the interceptor described in claim 2 of patent 2432. The cost of producing the nails—taking the month of February, 1885—was equal to 6*s.* ¼*d.* per box of 25 lbs., and the profit which the appellants alleged they would have made on the 5752 boxes sold by the respondents at the prices then current was 2*s.* 1⅓*d.* per box.

The following table shews the fluctuations of discount the appellants alleged they were compelled to allow their sole agents in Scotland, Messrs. Donald & Son, from time to time, with the relative fluctuations of discount in the invoices of nails sent to the respondents by their Swedish correspondents:—

Respondents' Invoices.		*Messrs. Donald & Son.*	
Feb. 1883,	41½ per cent.	Mar. 1883,	42½ per cent.
June,	50½ „	June,	60 „
Oct.,	55 „	August,	55 „
Jan. 1884,	55 „	Oct.,	57½ „
July,	57½ „	Jan. 1884,	57½ „
Dec.,	57½ „	Feb. to April,	60 „
Jan. 1885,	57½ „	May,	55 „
Feb.,	57½ „	Dec.,	55 „

The following are the quantity of "Globe" nails sold by Messrs. Donald & Son down to the time of the interdict:—

1879	3,120 boxes.
1880	7,819 „
1881	9,270 „
1882	15,225 „
1883	14,357 „
1884	11,349 „
1885, first 3 months	1,800 „

After the interdict the number of boxes of nails sold from the 30th of March, 1885, to September, 1885, was 8583 boxes.

H. L. (Sc.)
1888
UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

On the 11th of March, 1886, the Lord Ordinary (Lord Kinnear), having heard the proof, without a jury, gave judgment against the respondents for damages, £530. He held (1) that the appellants' loss was the amount of profit which they would have gained from the sale of nails sold by the respondents if the respondents had not interfered so as to prevent the appellants from effecting those sales themselves. This profit he held to be the difference between the cost of manufacture and the prices at which the appellants were at the time selling to their own agents. And that on 5752 sold by the respondents, up to the interdict of the 20th of March, 1885, the profit would have amounted to £611, and his Lordship struck off 700 boxes which had been imported prior to the 27th of June, 1883, when the appellant company acquired right to the patents from two old companies, which brought the amount down to £530.

The appellants reclaimed, and the respondents took advantage of that reclaiming note, to ask the Inner House to find that the appellants were entitled to nominal damages only. They averred that in the interdict proceedings the appellants founded on five patents. With regard to three of them, Nos. 1, 2, and 5, the appellants failed. That the letters patent No. 2432 of 1872 concluded with two claims, but interdict was granted in respect of the second only. That the letters patent No. 4078 of 1878 concludes with six claims, but interdict was granted in respect of the infringement of one of the six, and that the least important claim.

On the 17th of December, 1886, the First Division of the Court of Session recalled the Lord Ordinary's interlocutor. Lord Adam, with whom the other judge concurred, was of opinion that it was not proved that either the patent 4078 or 2432 was of any value (2). He thought that the respondents could and would equally have competed with the appellants without using the patents at all, and that all the appellants were entitled to was nominal damages, or at most a sum to cover the possible profit which the respondents had made by their admitted use of the appellants' patents, which he suggests should be £50. Accord-

(1) 14 Court Sess. Cas., 4th Series, at pp. 270, 271.

(2) 14 Court Sess. Cas., 4th Series, 275 *et seq.*

ingly judgment was given against the respondents for £50; and in respect of a tender of £251 their Lordships found the respondents entitled to expenses since the date of that tender.

On appeal,

1887. Dec. 13, 15. *Rigby*, Q.C., and *Guthrie Smith*, (of the Scotch Bar,) for the appellants:—

The Court of Session were wrong in holding that the measure of the appellants' damage was the profit made by the respondents. The infringer of a patent may sell the product of his infringement at a reduced price so as to make no profit and yet damage the patentee's sale. The respondents allege that they only infringed an unimportant part of the appellants' invention, and that they might have manufactured these nails in another manner without doing the patentee any legal wrong, but the evidence adduced in support of this proposition was wholly irrelevant. It is competent to the House to review the facts, and also to assess the damages which ought to be given, and say that on the whole evidence the appellants are not only entitled to what the Lord Ordinary gave them, but over and above so much more per box of nails sold. The evidence proved that prior to 1883 the sale of the appellants' nails steadily increased in the Scotch market. It is not proposed to exclude the consideration of a competition by a supposed lawful sale of a similar article, but any such competition must be proved. Here the respondents admit that every box of nails they put on the market was an infringement. Of course the appellants must shew that if there had been no infringement they would have got the sale of those boxes, but reasonable probability is enough to shew that. At the time the respondents began to sell their nails there were twenty different kind of nails on the market competing with it; but although they were subject to all these competitors in 1879, their sales were on an average 250 boxes a month. In 1880 their sales were 651 a month; in 1881, 772; 1882, 1268. Then came the period of competition with the respondents, and the appellants' sales in 1883 fell to 1196 boxes; in 1884 to 945; and for the first three months of 1885 they only sold an average of 600 boxes a month. If this great reduction to less than half had been the

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

result of anything else but the respondents' illegal interference no revival would have occurred after the interdict and consequent cessation of the respondents' sales, but in fact from that moment the appellants' sales were more than doubled. During the period of the competition a steady demand for these nails increased, this is shewn by the appellants' average of sales being 1099 a month and the respondents' 233, or a total of 1332. It follows that in all reasonable probability the appellants would have effected all these sales if the respondents had not effected them, and consequently obtained the profit thereon. The profits on 5725 boxes would have been £611 3*s*. But there also ought to be added to that, the loss caused by the reduction in price, or as regards the appellants the increased discount they had to allow. That argument applied to the 27,506 boxes sold to their agent by the appellants between 1883 and 1885, for if there had been no illegal competition they would have continued to sell at the old discount. There was also the loss of getting up the price again after the interdict. In *Yale Lock Company* v. *Sargent*, 1885 (1), it was held that "As the plaintiff, at the time of the infringement, availed himself of his exclusive right by keeping his patent a monopoly, and granting no licences, the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred, is to be measured, so far as his own sales of locks are concerned, by the difference between the money he would have realised from such sales if the infringement had not interfered with such monopoly, and the money he did realise from such sales. If such difference can be ascertained by proper and satisfactory evidence it is a proper measure of damages." In conformity with this principle the Court there decided that loss on the sales by the reduction of price should be allowed to the plaintiff as damages in a suit in equity for infringement, although the defendant made no profit.

[They also cited Wood, V.C., in *Davenport* v. *Rylands* (2), *Penn* v. *Jack* (3), *Betts* v. *De Vitre* (4), and *Neilson* v. *Betts* (5).]

(1) 10 Davis Sup. C. R. (U.S.) at pp. 536, 552.
(2) Law Rep. 1 Eq. at p. 308.
(3) Law Rep. 5 Eq. at p. 84.
(4) 34 L. J. (Ch.) 289.
(5) Law Rep. 5 H. L. 1.

Finlay, Q.C. (with him *Bigham*, Q.C., and *Ure* (of the Scotch Bar), for the respondents :—

The nature of the two letters patent infringed is such that it is clear no damages resulted to the appellant from the infringement. The sixth claim of patent 4078 is alone alleged to have been infringed. The object of that invention is to save waste in the punching of the nails, and that was only a small portion of the invention. Then the second claim of patent 2432 relates to a piece of machinery called an interceptor attached to the finishing machine, that never came into play unless the machine becomes clogged, but so easily is it dispensed with that a very large number of boxes of nails out of the 5752 sold by the respondents were made without it. Suppose that there are ten claims in a patent, and the tenth claim is for avoiding waste, and an infringer infringes that one claim for avoiding waste, and that only, and assume he is able to shew that the invention for avoiding waste is useless, can it be said that the patentee is to have the same amount of damages for the infringement of that part as if the whole patent had been infringed. *Seymour* v. *McCormick* (1), *Mowry* v. *Whitney* (2), and *Suffolk Company* v. *Hayden* (3), shew that the small value of the part infringed is of importance in a question of damages.

[LORD HALSBURY, L.C. :—You cannot in the face of the respondents' admissions do otherwise than assume the utility of the part of the letters patent used by them. The rule of law may be a hard one, but if you have infringed the appellants' patent, the materiality of the patent, although it is of the most trifling kind, does not come in question.]

Apart from that the appellants' own evidence proves that they would not have sold the 5752 boxes of nails sold by the respondents; and that the respondents' competition did not cause the fluctuation or lowering of their prices. Certainly the amount awarded by the Lord Ordinary was ample.

Guthrie Smith, in reply.

(1) U. S. R. 16 Howard, at p. 490. (2) U. S. R. 14 Wallace, 620.
(3) U. S. R. 3 Wallace, 315.

H. L. (Sc.) 1888 UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

LORD HALSBURY, L.C.:—

My Lords, no question arises in this case as to the title of the pursuers to recover against the defenders a judgment for such an amount of damages as the pursuers can establish to have been sustained by the infringement of the patent right whereof the pursuers are possessed.

I am unable to follow the object of the minute and very careful examination which has been made by some of the learned judges below as to the particulars of the patent or patents that have been infringed.

The actual infringement complained of consists of the sale of cases of nails produced by patent machines which are admitted to be infringements of the pursuers' patents. Every nail thus produced was an infringement of the pursuers' patent, the sale of which could have been interdicted, and would give a right of action against all concerned in its production and sale.

The question appears to me to arise solely on the assessment of damages. But I think the admissions in this case render unnecessary, and indeed irrelevant, an examination into the various parts of the patents.

The cases of nails tales quales were infringements, and in so far as these nails, such as they were, interfered with the sale of the pursuers' own goods, they were properly the measure of the damages which the pursuers were entitled to obtain. I say so far as they interfered with the sale of the pursuers' own goods, and while I agree with the Lord Ordinary that the pursuers can only recover compensation for the actual loss which they have sustained, the estimate of the particular sum which is to be arrived at when assessing compensation for the injury is purely a matter for a jury, and can rarely be made the subject of exact arithmetical calculation.

I am satisfied, however, that the boxes and cases of nails sold by the defenders did, in fact, interfere with the pursuers' sale. I am unable to agree with Lord Adam that there is nothing in the proof to shew or make it probable that the pursuers would have made these sales. I do not say *all* these sales. I think there is considerable evidence to shew that purchasers generally would have sought that particular nail, and I do infer that the pursuers,

but for the intervention of the defenders, would have effected a large part of these sales. And I certainly find from the evidence that among the competing nails in the market they were not all equally sought after, but that the pursuers' nails had a higher reputation. I think it is nothing to the purpose to shew, if it is shewn, that the defenders might have made nails equally good and equally cheap without infringing the pursuers' patent at all. I will assume that to be proved, but if one assumes that the nails which were, in fact, made by the pirated machines injured the pursuers' sales, what does it matter if it is ever so much established that the loss which the pursuers have sustained by the unlawful act of the defenders might also have been sustained by them under such circumstances as would give the pursuers no right of action?

Your Lordships have to deal with the facts as they exist, and those facts, as I say, are that the defenders have in derogation of the pursuers' rights sold cases of nails which they had no right to sell, and for which to the extent to which they have interfered with the sale of the pursuers' patented nails the pursuers are entitled to damages.

The difficulty I have had in the conclusion at which one should arrive in this case consists in this: that while the only ground upon which I can suppose the judgment appealed against could be supported would be that there was a bare infringement of right without any proof of damages, the judgment for £50 appears to me not to be reconcilable with the idea of nominal damages. And the judgment of the Lord Ordinary, with which I concur, that the pursuers were entitled to recover substantial damages hardly appears to me adequately to represent the amount of damages which the learned judge held to be proved. In short, the judgment of nominal damages results in a judgment for damages that are not nominal, and the judgment for substantial damages results in a judgment for damages which are hardly substantial. But I so far agree with the Lord Ordinary that, in arriving at the exact figure, it is extremely difficult without further materials to arrive with any confidence at a different sum to that which the Lord Ordinary has assessed. I have come to the conclusion, therefore, that I must treat the question as treated

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

Lord Halsbury, L.C.

by the learned judges below as being a question between substantial and nominal damages, and if the former then we must restore the judgment of the Lord Ordinary, even as to amount, though with some hesitation for the reason I have indicated as to whether the precise amount arrived at is that which a very minute examination of the evidence would altogether justify.

I therefore move your Lordships that the interlocutor appealed from be reversed and that the judgment of the Lord Ordinary be restored; but inasmuch as the litigation has resulted in a restoration of the judgment arrived at by the Lord Ordinary, and as the appellants were those who first appealed against that judgment, I think there should be no costs beyond the costs originally incurred, that is to say, that the appellants should have the costs of the proceedings before the Lord Ordinary, but not further.

LORD WATSON:—

My Lords, the appellant company sell through their agents, John Donald & Son, of Glasgow, horse-shoe nails made at their works in Sweden; and for the purposes of their manufacture they retain the exclusive use of two patents for improved machinery, to which they have acquired right by assignment. Messrs. Kollen, who are also nail manufacturers in Sweden, between February, 1883, and March, 1885, supplied to the respondents 6215 boxes, each containing 25 lbs. weight of horse-shoe nails produced by machinery which violated the appellants' patent rights; and of these 5752 boxes were sold by the respondents before the 20th of March, 1885. On that date the appellants obtained a decree interdicting the respondents from selling or using any horse-shoe nails made in accordance with the patents. The respondents thereupon ceased to sell the nails in question.

The present action was brought by the appellants for damages in respect of injury to their trade occasioned by the competition which they encountered in the Scotch market from the nails illegally sold by the respondents. They allege that their average sales were thereby diminished, at least to the extent of the 5752 boxes actually sold by the respondents; that they were compelled to dispose of their own nails at lower prices than they would otherwise have obtained, and that notwithstanding the

withdrawal of the interdicted nails from the market, their trade will not recover its former position, either as regards extent of sales or prices for a considerable time. The respondents do not impeach the decree of interdict, which is now res judicata; but they maintain that this is a case of damnum sine injuria, and that the appellants can only recover nominal damages.

The Lord Ordinary (Kinnear), after a proof had been taken before him, assessed damages at £530. The appellants being dissatisfied with the sum awarded them, presented a reclaiming note, of which the respondents likewise availed themselves; the result being that the judges of the First Division unanimously altered the Lord Ordinary's interlocutor, and reduced the damages to £50.

It is hardly disputed that as a matter of fact the sale of the respondents' nails which were known as the "Shoe" brand, did interfere with the appellants' sale of their "Globe" nails, manufactured by their patent machinery. The goods were of much the same quality; and the respondents' own witnesses state that they were in the habit of purchasing whichever of the two nails was at the time the lowest priced. The evidence of Mr. Lamb, the respondents' traveller, shews that their goods were in constant and direct competition with those of the appellants. On one occasion he had to discontinue his attempts to sell his "Shoe" brand, in consequence of a recent reduction in the price of the "Globe" nails; and he accordingly communicated with the respondents, and "got a reply to sell at the same prices as the "'Globe.'" It is also established that the appellants' sales, which in 1882 had reached an average of 1268 boxes per month, were reduced during their two years of competition with the "Shoe" nails to a monthly average little exceeding 1000 boxes, which were disposed of at lower prices than they had previously been able to obtain. These are facts which primâ facie entitle the appellants to substantial and not merely to nominal damages. The grounds upon which the learned judges of the First Division have held that only nominal damages are due, appear to be these: that the Messrs. Kollen, in the manufacture of the "Shoe" brand nails, used a very inconsiderable part of the appellants' patents, and that if they had not infringed at all they would still have

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

Lord Watson.

produced nails of the same class, which would have competed as successfully with the appellants' goods as the nails which they illegally sold.

Lord Adam, who delivered the leading judgment, said: "On the whole matter I have come to the conclusion that if the patent is used exactly as described in the letters patent, no saving is effected, but the reverse, and that, in any view, the saving is so immaterial that I have no doubt the defenders, without its use, would still have manufactured their nails, and competed with the pursuers, just as they are doing now." The Lord President and Lord Mure concurred in the views expressed by Lord Adam. Lord Shand was of opinion that it had not been shewn that the adoption of parts of the respondents' patents was of material advantage to the appellants; and that had the interdict been granted at the date when that process was brought into Court, and the invasion of the patents then discontinued, the respondents would have been in the market "as competitors, all the same, with nails in all respects the same, but manufactured without the use of the parts of the patents already noticed."

Towards the close of his judgment Lord Adam expresses the opinion that the appellants were entitled to the profits derived from the illegal use of their patents; and cites a decision of the Supreme Court of the United States, *Mowry* v. *Whitney* (1), to the effect that the measure of profits recoverable is the saving in the cost of manufacture effected by such use; and it is on that footing, apparently, that his Lordship arrived at the estimate of £50. Lord Shand adopts the same principle, which is manifestly erroneous. It was held by this House in *Neilson* v. *Betts* (2) that a patentee cannot claim both profits and damages, but must choose between them; and the appellants have made their election by raising the present action.

When a patentee elects to claim the profits made by the unauthorized use of his machinery, it becomes material to ascertain how much of his invention was actually appropriated, in order to determine what proportion of the net profits realized by the infringer was attributable to its use. It would be unreasonable to give the patentee profits which were not earned by the

(1) U. S. R. 14 Wallace, 620. (2) Law Rep. 5 H. L. 1.

use of his invention. But the case is altogether different when the patentee of machinery, who does not grant licences, claims damages from an infringing manufacturer who competes with him by selling the same class of goods in the same market. In that case the profit made by the infringer is a matter of no consequence. However large his gains, he is only liable in nominal damages so long as his illegal sales do not injure the trade of the patentee; and however great his loss, he cannot escape from liability to make full compensation for the injury which his competition may have occasioned. 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; and its inherent illegality is not affected by the circumstance that the infringement consisted in using a small, and, it may be, the least useful part of the invention. When it had been conclusively found that they infringed, it was no longer open to the respondents to impeach the utility of those parts of the appellants' patents which were copied in the Messrs. Kollen's machines. If these parts are not commercially useful; if, as Lord Adam holds, they effect no saving in the manufacture of nails, but the reverse, it would necessarily follow, either that the patent was wholly void, or that there was no substantial infringement which could entitle the patentees to an interdict.

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. That must always be more or less 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 patentees' 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 nails had not been in the market. I am clearly of opinion that the respondents are not entitled to assail these patents, and cannot be heard to say that

H. L. (Sc.) 1888 UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART. Lord Watson.

the invention, so far as appropriated by the Kollens, was of no advantage to their manufacture. But I am unable to go the full length contended for by the appellants, and to treat the case on the footing of leaving altogether out of view the fact that, if the respondents had not sold the "Shoe" brand, they would have been in the market, as they had been previously, selling other nails. That fact appears to me to be beyond dispute, and I think that to ignore it would be tantamount to giving the appellants not compensation merely, but profits which they would never have earned if the respondents had not infringed.

Assuming that the respondents might possibly have produced nails of similar quality with the "Globe" brand, by means of machinery which did not infringe these patents, I do not think it is proved, or ought to be presumed in favour of infringers, that they would certainly have done so; and I have come to the conclusion that the sum of £530, fixed by the Lord Ordinary, fairly represents the damage sustained by the appellants. I should have been inclined to assess damages at a higher figure, had it not been for these considerations. The appellants' sales had, in the year 1882, risen to 1268 boxes per month; and yet the combined sales of both parties in 1883 and 1884, according to the most favourable estimate, did not exceed 1310 boxes monthly, notwithstanding the way in which these sales were pressed in the market, and the frequent reductions made in price. That circumstance, of itself, indicates the presence of other formidable competitors in the Scotch market, and leads me to infer that, even in the absence of competition by the respondents, the appellants' sales would not have exceeded the limit they had attained in 1882, and that their average could not have been maintained without a reduction of price. Again, it appears to me that the appellants have failed to establish that, after the respondents' illegal competition ceased, they continued to suffer from its effects. On the contrary, I think it is probable, if not proved, that after the date of the interdict they derived pecuniary benefit from the respondents' outlay and exertions in pushing the sale of their "Shoe" brand nails.

I am, accordingly, of opinion that the interlocutor of the First Division ought to be reversed, and that of the Lord Ordinary

restored; and I agree that neither party ought to have costs after the date of the Lord Ordinary's judgment.

LORD MACNAGHTEN:—

My Lords, the appellants' claim for damages comes under two heads—loss of sales and fall in prices.

The Lord Ordinary assessed the damages at £530. He arrived at that figure in this way. The total number of boxes sold by the respondents during the period of interference was 5752. From that number he struck off 700 as having been imported before the 27th of June, 1883, the date on which the appellants acquired title to their patents, and he calculated that the appellants would have realized the sum of £530 as the amount of profit on the sale of the remaining 5052 boxes, if they had sold those boxes themselves. There were two other elements which the Lord Ordinary took into consideration. On the one hand it was not certain that the appellants would have made the whole of those sales themselves. On the other the competition of the respondents might to some extent have lowered the selling price of the nails in the market. But in the result those considerations were allowed to balance each other.

On a reclaiming note the judges of the First Division reduced the damages to £50. They entered into an elaborate inquiry as to the utility of those parts of the patents which the respondents were found to have infringed. They pronounced those parts to be only subsidiary and unimportant, and so they came to the conclusion that if the interdict had been granted at an earlier date, or if the respondents had been better advised they might have been in the market with nails in all respects the same, but manufactured without the use of those parts of the patents which they had no right to use. On this ground they held the first branch of the appellants' claim untenable.

As regards the claim in respect of reduction of price, the learned judges did not reject it as being too remote, but they thought that it had not been proved that the competition of the respondents was really the cause of bringing down the price. They considered the reduction attributable in a great measure to the competition of other nail manufacturers. In the result they seem to

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

Lord Macnaghten.

have been of opinion that the appellants were only entitled to nominal damages, which, somewhat singularly, they assessed at the sum of £50, as being the measure of the advantage which the respondents gained by the infringement.

I am unable to agree with this view. The decision in the patent action and the minute of admission in the present case establish beyond question that in selling the "Shoe" brand nails, the respondents infringed the appellants' rights. The sale of each and all of those nails was unlawful. It appears to be beside the mark to say that the respondents might have arrived at the same result by lawful means, and that, without infringing the appellants' rights, they might have produced a nail which would have proved an equally dangerous rival of the "Globe" nail.

The sole question is, what was the loss sustained by the appellants by reason of the unlawful sale of the respondents' nails? The loss must be the natural and direct consequence of the respondents' acts. In the first place, I think the claim for loss of profit, by reason of the reduction of price, must be rejected. I do not think that was the natural or direct result of the respondents' acts. The appellants seem to have had no difficulty in ascertaining where the competing nails were made, and in coming to the conclusion that they were produced by machinery which infringed their patent rights. The appellants must be taken to have believed in their case. If they believed that the respondents were infringing their rights, and relied on obtaining redress in due course of law, it appears to me that it was not a reasonable course on their part to reduce the price so as to injure their own trade. On establishing their rights they would be entitled either to the profits which the respondents had made, or to the damages which they could prove they had sustained. In lowering their prices they seem to me to have been prompted by a desire to provide for the contingency of their failing in their action, and by an anxiety to drive their rivals from the field, whether they were right or wrong.

There remains the other head of damage: loss of sales by reason of the competition of the respondents.

I think the appellants are entitled to take into account the

total quantity of nails sold by the respondents and that they are not limited, as the Lord Ordinary held they were, to the period commencing on the 27th of June, 1883. Although that was the date on which the appellants acquired their title to the patents, they succeeded to the rights and to the property of their predecessors in title.

Then comes the question, to what extent did the wrongful acts of the respondents operate to prevent sales by the appellants? I think it would be going too far to say that if the respondents had not been in the field the appellants would have sold an additional quantity, equal to the amount sold by the respondents. But, considering that the respondents seem to have worked the ground occupied by the appellants, and having regard to the progressive increase in sales during the previous years, and to the fact that the sales of the appellants and of the respondents, taken together, did not largely exceed the appellants' sales in 1882, I think it is a fair inference that if the appellants had been left undisturbed the natural increase of their business would have come near the aggregate of the quantity sold by the appellants and respondents together.

If it were assumed that but for the interference of the respondents the appellants would have sold 5752 boxes, in addition to what they actually sold, their loss, taking the actual prices, would be £611. I think it would be reasonable to strike off from that amount a moderate percentage, as representing sales due to increased activity produced by the rivalry of two competitors. This would reduce the damages very much to the amount found by the Lord Ordinary, though he has arrived at the result in a somewhat different way.

The amount of damages is not a matter of exact calculation, and your Lordships have not got before you all the materials which would be required to arrive at the most accurate estimate that could be formed, nor indeed all the materials that were before the Lord Ordinary. But it appears to me that substantial justice will be done if your Lordships confirm the amount that the Lord Ordinary has awarded. It would be lamentable to condemn the parties to further litigation.

As regards costs, it seems to me that the respondents ought to

H. L. (Sc.) 1888

UNITED HORSE-SHOE AND NAIL COMPANY v. STEWART.

pay the costs of the trial before the Lord Ordinary, but that there ought to be no costs of the subsequent proceedings.

The interlocutor appealed from reversed, and the judgment of the Lord Ordinary restored: respondents to pay the costs of the trial before the Lord Ordinary; but neither party to have their costs in the subsequent proceedings.

Lords' Journals, 26 March, 1888.

Agents for the appellants: *Slade & Munk, for Gill & Pringle, W.S., Edinburgh.*

Agent for respondents: *W. A. Loch, for Maconochie & Hare, W.S., Edinburgh.*

[IN THE HOUSE OF LORDS.]

H. L. (Sc.) 1888 *April* 26.

RUSSELL . . . . . APPELLANT;

AND

TOWN AND COUNTY BANK, LIMITED . RESPONDENTS.

Revenue—Income Tax—Deductions from Profits—Part of Bank Premises used as Dwelling-house by Manager—5 & 6 Vict. c. 35, s. 100, Sched. D., rules 1 of Cases I. and II.

By 5 & 6 Vict. c. 35, s. 100, first rule, first case, the duties under schedule D in respect of any trade are to be charged on a sum not less than the full amount of the balance of the profits of the trade "without other deduction than is hereinafter allowed;" and by the first rule applicable to the first and second cases in reference to such duties, no deduction shall be allowed for "any disbursements or expenses whatever, not being money wholly and exclusively laid out or expended for the purposes of such trade," &c., "nor for the rent or value of any dwelling-house, &c., except such part thereof as may be used for the purposes of such trade or concern not exceeding the proportion of the said rent or value hereinafter mentioned."

The respondents, a banking company, carried on their business in buildings which contained accommodation occupied as a dwelling-house by the manager or resident agent:—

Held, affirming the judgment of the Court of Session as the Court of Exchequer, Scotland (14 Court Sess. Cas., 4th Series, 528), that the respondents were entitled to deduct from their profits before returning them for assessment under Schedule D the annual value of the whole bank premises, including the part occupied by the manager.

APPEAL from the First Division of the Court of Session as the Court of Exchequer, Scotland (1). The question arose upon a

(1) 14 Court Sess. Cas. 4th Series, 528.