

<p style="text-align: center;">ELECTRIC CHAIN COMPANY OF } CANADA LIMITED (DEFENDANT).. }</p>	}	APPELLANT;
AND		
<p style="text-align: center;">ART METAL WORKS INC. AND } DOMINION ART METAL WORKS, } LIMITED (PLAINTIFFS). }</p>	}	RESPONDENTS.

1933

*June 8, 9.
*June 28.

ON APPEAL FROM THE EXCHEQUER COURT OF CANADA

Patent—Action for infringement—Parties—Right of action—Right to damages—Measure of damages.

A. Co., a foreign corporation, owner of a patent, sued defendant in the Exchequer Court of Canada for infringement of it. Defendant admitted infringement, but denied that plaintiff had suffered damages. On May 31, 1932, judgment was given for plaintiff upon the pleadings, a reference being directed as to damages. The referee found special damages of \$10,013.17, and general damages of \$1,000. The patented articles were manufactured and sold in Canada by D. A. Co., practically all the shares of which were owned by A. Co., whose profits from D. A. Co.'s operations were only through dividends on said shares. The special damages found were based on the profit which would have been made by D. A. Co. on articles sold by defendant which the referee found would otherwise have been sold by D. A. Co. Subsequent to the referee's report, A. Co. obtained an order adding D. A. Co. as a co-plaintiff, and the Exchequer Court gave judgment to plaintiffs for \$8,663.14 (reducing the special damages found by the referee but otherwise confirming his report). The defendant appealed.

Held (1) D. A. Co. was, upon the facts in evidence, only allowed by A. Co. to make and sell the subject of the invention. A. Co. only, and not D. A. Co., had a cause of action within the pleadings against defendant. D. A. Co., not being the "patentee" or the "legal representative" of the patentee, had no right, at any rate after the judgment of May 31, 1932, to be a party to the action. (*Patent Act*, R.S.C., 1927, c. 150, ss. 2 (e), 2 (c), 30, 32, considered; *Hussey v. Whitely*, 2 Fish. Pat. Cas. 120, *Heap v. Hartley*, 42 Ch. D. 461, cited).

*PRESENT:—Rinfret, Smith, Cannon, Crocket and Hughes JJ.

1933
 {
 ELECTRIC
 CHAIN CO.
 OF CANADA
 LTD.
 v.
 ART METAL
 WORKS INC.

- (2) A. Co. was not entitled to damages on the basis adopted below. There was no evidence to shew that the dividends on the stock of D. A. Co. were in fact affected by the infringement or that the value of the shares of D. A. Co., owned by A. Co., were injuriously affected in any way by the infringement. But A. Co. was entitled to substantial damages for infringement, which this Court fixed at \$750. (*Rainham Chemical Works Ltd. v. Belvedere Fish Guano Co. Ltd.*, [1921] 2 A.C. 465, at 475; *Collette v. Lasnier*, 13 Can. S.C.R. 563; *Meters Ltd. v. Metropolitan Gas Meters Ltd.*, 28 R.P.C. 157, at 163, 164; *Watson, Laidlaw & Co. Ltd. v. Pott, Cassels & Williamson, S.C.*, (1913-1914) 18, at 31, 32; cited).

APPEAL by the defendant from the judgment of Maclean J., President of the Exchequer Court of Canada, confirming, subject to a certain reduction in the amount of special damages found, the report of the Registrar of that court upon a reference to him as to the amount of damages recoverable from the defendant for infringement of the patent in question, and adjudging that the plaintiffs recover from the defendant the sum of \$8,663.14, with interest from the date of the judgment.

The material facts of the case and the questions in issue are sufficiently stated in the judgment now reported.

R. C. H. Cassels K.C. for the appellant.

O. M. Biggar K.C., *R. S. Smart K.C.* and *M. B. Gordon* for the respondents.

The judgment of the court was delivered by

HUGHES, J.—This action was brought in the Exchequer Court of Canada by Art Metal Works Incorporated, a New Jersey corporation, against the appellant for infringement of letters patent No. 288148 and for an injunction and other relief. The prayer when the statement of claim was filed on the 24th day of September, 1931, read in part as follows:

The plaintiff therefore claims:

(c) \$1,000 damages or alternatively an account of profits as the plaintiff may elect.

On the 23rd day of November, 1931, the appellant delivered its statement of defence consisting of four paragraphs, denying that the plaintiff was the owner of the patent, denying the infringement and impeaching the patent.

On the 30th day of May, 1932, the appellant served a notice of motion for an order amending its statement of defence by striking out the whole four paragraphs above

mentioned and substituting therefor the following single paragraph:

The defendant admits the truth of the facts set forth in the plaintiff's statement of claim herein, but denies that the plaintiff has suffered any damages or that the defendant has made any profits from the alleged infringement.

On Tuesday, the 31st day of May, 1932, an order was made in the Exchequer Court of Canada as follows:

UPON the application of the defendant for an order permitting it to amend its statement of defence in this action by substituting for paragraphs 1 to 4 thereof the following paragraph, namely,

"The defendant admits the truth of the facts set forth in the plaintiff's statement of claim herein but denies that the plaintiff has suffered any damages or that the defendant has made any profits from the alleged infringement," upon reading the affidavit of Birger Elias Ekblad filed and the pleadings herein, and upon hearing what was alleged by counsel for both parties, This Court was pleased to order that the statement of defence be amended as prayed, counsel for defendant consenting that judgment be rendered upon the pleadings as amended, and upon reading the pleadings as so amended;

THIS COURT DOTH ORDER AND ADJUDGE that as between the plaintiff and the defendant the Letters Patent of the plaintiff, No. 288,148 bearing date the 26th day of March, 1929, for Improvements in Cigar Lighters, are valid, and infringed by the defendant.

AND THIS COURT DOTH FURTHER ORDER AND ADJUDGE that the defendant, its officers, servants, workmen and agents be and they are restrained from infringing said Letters Patent owned by the plaintiff and No. 288,148, and from making, constructing, using and vending to others to be used in the Dominion of Canada the said invention as described in the specification attached to the said Letters Patent during the continuance of the said Letters Patent:

AND THIS COURT DOTH FURTHER ORDER AND ADJUDGE that the defendant do forthwith deliver up to the plaintiff all products or articles in the possession or control of the defendant which infringe the said Letters Patent;

AND THIS COURT DOTH FURTHER ORDER AND ADJUDGE that the defendant do pay to the plaintiff such damages as it may have suffered or be entitled to by reason of the infringements complained of, and doth direct that there be a reference to the Registrar of this Court to enquire into and report as to the amount of such damages, if any;

AND THIS COURT DOTH FURTHER ORDER AND ADJUDGE that the defendant do pay to the plaintiff its costs of this action forthwith after taxation thereof, and that the costs of the reference, if any, be reserved.

By the Court,
(Sgd.) "ARNOLD W. DUCLOS,"

Registrar.

The parties duly appeared before the Registrar and on the 15th day of August, 1932, the Registrar issued his report in which he found special damages of \$10,013.17 and general damages of \$1,000, making a total sum of \$11,013.17.

1933

ELECTRIC
CHAIN CO.
OF CANADA
LTD.

v.

ART METAL
WORKS INC.

Hughes J.

1933
ELECTRIC
CHAIN CO.
OF CANADA
LTD.
v.
ART METAL
WORKS INC.
Hughes J.

On the 18th day of November, 1932, the learned President of the Exchequer Court of Canada heard a motion to confirm the report of the Registrar and also a motion of the appellant to vary or set aside the report. On this motion, the learned President gave leave to the New Jersey corporation to amend its statement of claim so as not to restrict its claim for damages to \$1,000. The learned President also gave leave to the New Jersey corporation to move to add a Canadian corporation known as Dominion Art Metal Works Limited as a party plaintiff, it appearing according to counsel for the appellant, that the evidence before the Registrar was to the effect that the New Jersey corporation did not carry on business in Canada and that it was the Canadian company, if any, that had suffered damage by the infringement.

The New Jersey corporation thereupon applied for, and on the 16th day of December, 1932, obtained, an order for the joinder of the Canadian company as a co-plaintiff.

On the 6th day of February, 1933, the learned President gave judgment in favour of the respondents, reciting the two amendments above mentioned and reducing the damages to \$8,663.14 plus interest and costs.

It was argued before us by the appellant that the Exchequer Court of Canada should not have permitted an increase in the amount of the claim for damages of the New Jersey corporation, and should not have permitted the joinder of another plaintiff in view of the fact, as the appellant's counsel alleged, that the judgment of the 31st day of May, 1932, was tantamount to a consent judgment.

On the other hand, counsel for the respondents contended that the two orders permitting the amendments, respectively above mentioned, were interlocutory orders of the Exchequer Court of Canada and that no appeal lay to the Supreme Court of Canada; that, even if they were final orders, they could not then be appealed as the thirty days referred to in section 82 of the *Exchequer Court Act* had long since expired, and lastly, that the appellant had appealed only against the final judgment of the 6th day of February, 1933.

It is not necessary to consider all of these arguments, and they are recited merely in order that the history of the proceedings may be clear.

The statement of claim alleges, the judgment of the 31st day of May, 1932, recites, and the evidence before the Registrar shows that the New Jersey corporation was the owner of the patent in question.

Section 2 (e) of the *Patent Act*, R.S.C. 1927, Chapter 150, is as follows:

2. (e) "patentee" means the person for the time being entitled to the benefit of a patent.

Section 32 of the *Patent Act* is as follows:

32. Every person who, without the consent in writing of the patentee, makes, constructs or puts in practice any invention for which a patent has been obtained under this Act or any previous Act, or who procures such invention from any person not authorized by the patentee or his legal representatives to make or use it, and who uses it, shall be liable to the patentee or his legal representatives in an action of damages for so doing; and the judgment shall be enforced, and the damages and costs that are adjudged shall be recoverable, in like manner as in other cases in the court in which the action is brought. 1923, c. 23, s. 32.

Section 2 (c) of the *Patent Act* is as follows:

"Legal representatives" includes heirs, executors, administrators, guardians, curators, tutors, assigns or other legal representatives;

Section 30, subsection 1, of the *Patent Act* is as follows:

Every patent issued for an invention shall be assignable in law, either as to the whole interest or as to any part thereof, by any instrument in writing.

It was not suggested that the patent had been assigned either as to the whole interest or any part thereof to the Canadian corporation.

Subsection 2 of section 30 reads:

2. Such assignment, and every grant and conveyance of any exclusive right to make and use and to grant to others the right to make and use the invention patented, within and throughout Canada or any part thereof, shall be registered in the Patent Office in the manner from time to time prescribed by the Commissioner for such registration.

Subsection 3 provides that every assignment shall be null and void against any subsequent assignee unless duly registered.

The section does not say that every grant and conveyance of any exclusive right to make and use and to grant to others the right to make and use the invention patented within and throughout Canada or any part thereof must be in writing and the statute is silent as to the effect of non-registration. *Dalgleish v. Conboy* (1).

On the relationship existing between the New Jersey corporation and the Canadian corporation, the following

1933
ELECTRIC
CHAIN CO.
OF CANADA
LTD.
v.
ART METAL
WORKS INC.
Hughes J.

1933

ELECTRIC
CHAIN CO.
OF CANADA
LTD.

v.
ART METAL
WORKS INC.

Hughes J.
—

questions and answers in the cross-examination of Alexander Harris, secretary-treasurer of the New Jersey corporation, are relevant:

Q. Have you any agreement between the Art Metal Works Incorporated and the Dominion Art Metal Works Limited which gives them the right to manufacture under the patent of Art Metal Works Incorporated?—A. I do not believe any specific agreement exists in view of the fact that the Canadian company is wholly owned by the United States company.

Q. Just an implied agreement?—A. Yes, I think so.

Q. I suppose the Dominion Art Metal Works Limited does not pay any royalty to Art Metal Works Incorporated?—A. No, sir, it does not.

Q. The profit of Art Metal Works Incorporated is through dividends on shares of Dominion Art Metal Works Limited?—A. Yes.

This is not evidence of a “grant and conveyance of any exclusive right to make and use and to grant to others the right to make and use the invention patented within and throughout Canada or any part thereof.”

It is rather evidence of a licence.

In *Hussey v. Whitely* (1), referred to in *Dalgleish v. Conboy, supra*, at page 261, the complainant had by a written instrument granted the exclusive right to make and sell the subject of his invention, during the continuance of his patent, in twenty-three counties of Ohio, including that in which the defendants' factory was carried on, but the patentee expressly reserved to himself the right of sending machines of his own manufacture into the territory embraced in the contract. This was held to be a mere licence.

In *Heap v. Hartley* (2), the court considered the words which in section 2 (e) of our Act constitute the definition of a patentee, namely, “the person for the time being entitled to the benefit of a patent,” 46-47 Victoria, chap. 57, sec. 46. In that case a patentee of machinery, by deed, granted to the plaintiff the full and exclusive licence to use and exercise the patented invention within a specified district for a limited period, and covenanted during that period not to sell or to grant any licence to exercise or use the invention to any other person in the same district; and in case the patent should be infringed, he covenanted to take all necessary proceedings for defending the same, and that in default of his so doing, it should be lawful for the plaintiff to take such proceedings in his (the patentee's) name.

(1) (1860) 2 Fish. Pat. Cas. 120.

(2) (1839) 42 Ch. D. 461.

The defendants had bought two of the patented machines from some person other than the plaintiff and were using them within the district.

An action was brought by the plaintiff in his own name and without joining the patentee against the defendants and was dismissed.

Counsel for the appellant unsuccessfully contended, page 465, that since a patentee was according to section 46 of the Patents Act, 46-47 Victoria, chapter 57, "the person for the time being entitled to the benefit of a patent," an exclusive licensee for a particular district was *quâ* that district, and during the term of the licence, in the position of a person to whom the patentee had given his monopoly and all his beneficial rights, that he was practically an assignee *pro tanto* of the patent, and was entitled to maintain an action for infringement of his rights within the district in his own name, and without joining the patentee.

The distinctions between a grant of an interest and a licence are discussed fully in the judgments of Cotton L.J., and Fry L.J. The latter said at page 470:

The plaintiff in this case sues under an exclusive licence to use a certain invention for a certain time, and within a limited district. He sues a person who he says is using that patented invention within the district, and without his licence. * * * He says: "* * * as exclusive licensee, I am in the position of an assign of the letters patent for that district and for that term, and as an assign of letters patent, I have a right to restrain any person who is infringing within the district." That argument appears to be based on an entire error with regard to the nature of a licence. An exclusive licence is only a licence in one sense; that is to say, the true nature of an exclusive licence is this. It is a leave to do a thing, and a contract not to give leave to anybody else to do the same thing. But it confers like any other licence, no interest or property in the thing. A licence may be, and often is, coupled with a grant, and that grant conveys an interest in property, but the licence pure and simple, and by itself, never conveys an interest in property. It only enables a person to do lawfully what he could not otherwise do, except unlawfully. I think, therefore, that an exclusive licensee has no title whatever to sue.

It appears, therefore, that only the New Jersey corporation had a cause of action within the pleadings against the appellant; and that the Canadian corporation, Dominion Art Metal Works, had no cause of action within the pleadings against the appellant.

It must follow that the Canadian corporation, not being the patentee or the legal representative of the patentee, had no right, at any rate after the judgment of the 31st day of May, 1932, to be a party to the action in the Exchequer Court of Canada at all.

1933

ELECTRIC
CHAIN CO.
OF CANADA
LTD.

v.

ART METAL
WORKS INC.

Hughes J.

1933
 ELECTRIC
 CHAIN CO.
 OF CANADA
 LTD.
 v.
 ART METAL
 WORKS INC.
 Hughes J.

It was not contended before us by the respondents that it was not open to the appellant after the judgment of the 31st day of May, 1932, to deny the right of the New Jersey corporation to the damages sustained either by it or by the Canadian company. This point was mentioned in the report of the Registrar, but possibly was abandoned when on the 16th day of December, 1932, the New Jersey corporation secured from the Exchequer Court of Canada an order adding the Canadian corporation as a party plaintiff.

The learned President in his preliminary reasons for judgment dated November 18, 1932, made the following among other findings:

The Canadian business of the plaintiff is carried on by a Canadian corporation, known as The Dominion Art Metal Works Ltd., with headquarters at Toronto, and this company manufactures and sells in Canada the lighter which is the subject matter of the plaintiff's patent. No formal licence apparently issued from the plaintiff to the Canadian company, but the latter was impliedly licensed to manufacture and sell in Canada, the invention covered by the plaintiff's patent. The plaintiff company own all the shares in the Canadian company, and the officers of both companies appear to be the same. No royalty was paid by the Canadian company to the plaintiff company for the use of the plaintiff's invention, and the only profit accruing to the plaintiff from the Canadian company was in the way of dividends upon the shares it held in that company. At the time material here the major portion of the business of the Canadian company consisted in the manufacture and sale of lighters.

The registrar has reported, awarding damages to the plaintiff in the sum of \$11,013.17. This amount was ascertained by taking the number of lighters admittedly sold by the defendant, viz., 5,553, and multiplying that by the profit which the Canadian company ordinarily made on each lighter sold by it in Canada, viz., \$1.84, which would amount to \$10,217.32; the Registrar allowed an additional sum of \$1,000 in the nature of general damages for injury to the business, apparently, of the Canadian company.

* * * I do not think any injustice will be done the defendant if I allow the plaintiff to amend its statement of claim in such a way as will not restrict its claim for damages to \$1,000, and this I do. * * *

The most serious point raised by the defendant's counsel was that the plaintiff could not recover damages, other than nominal damages, because it was the Canadian company that suffered damage, if any damage was caused by the defendant's infringement. And this point was raised by defendant's counsel before the Registrar. All the evidence given before the Registrar was apparently directed towards showing loss of profits or damages suffered by the Canadian company. Now it would seem to me to be unfortunate, there being some damages in the offing for some one, if the issue as to the amount of damages and to whom they should go, could not be concluded in this proceeding and without further litigation, particularly as infringement has been admitted. It seems to me therefore that the question as to whether or not the Canadian company should be added as a party to the cause should be determined before I proceed further.

On the 6th day of February, 1933, the learned President in his reasons for final judgment referred to the assessment of damages by the learned Registrar as follows:

The Registrar assessed the damages under two heads. First, he allowed \$10,217.52, that amount being reached by multiplying the number of lighters sold by the defendant by \$1.84, the amount of profit the Canadian company claimed to make on each lighter which it manufactured and sold, but from this amount he made a deduction of 2 per cent, representing sales from the defendant made but which the plaintiff might not have made; and he allowed \$1,000 in addition to cover damages generally for loss of profits, and for disruption of business, suffered by the plaintiffs, owing to the sale of the infringing article.

Counsel for respondent contended at bar that the New Jersey corporation owned all the shares or nearly all the shares of the Canadian corporation, and that it was therefore entitled to the damages which were awarded by the learned President as owner of all, or nearly all, the shares of the Canadian corporation, and therefore as recipient of all, or nearly all, the dividends paid by the Canadian corporation.

Counsel for the respondent also contended that the case came within the decision of this Court in *Palmolive Manufacturing Co. (Ontario) Ltd. v. The King* (1).

There was, however, no evidence adduced before the learned Registrar to shew that the dividends on the stock of the Canadian company, if they went to the New Jersey corporation, were in fact affected by the infringement or that the value of the shares of the Canadian corporation, owned by the New Jersey corporation, were injuriously affected in any way by the infringement.

Counsel for the respondent also contended that the New Jersey corporation owned all the assets of the Canadian corporation and that through this connection the former was entitled to the damages awarded by the learned President. This contention, however, cannot be well founded in the light of the evidence of Alexander Harris above set out.

As Lord Buckmaster said in *Rainham Chemical Works Ltd. v. Belvedere Fish Guano Co. Ltd.* (2):

It not infrequently happens in the course of legal proceedings that parties who find they have a limited company as debtor with all its paid-up capital issued in the form of fully-paid shares and no free capital for working suggest that the company is nothing but an alter ego for the people by whose hand it has been incorporated, and by whose action it is controlled. But in truth the Companies Acts expressly contemplate

1933
ELECTRIC
CHAIN CO.
OF CANADA
LTD.
v.
ART METAL
WORKS INC.
Hughes J.

(1) [1933] Can. S.C.R. 131.

(2) [1921] 2 A.C. 465 at 475.

1933

ELECTRIC
CHAIN CO
OF CANADA

LTD.

v.

ART METAL
WORKS INC.

Hughes J.

that people may substitute the limited liability of a company for the unlimited liability of the individual, with the object that by this means enterprise and adventure may be encouraged. A company, therefore, which is duly incorporated, cannot be disregarded on the ground that it is a sham, although it may be established by evidence that in its operations it does not act on its own behalf as an independent trading unit, but simply for and on behalf of the people by whom it has been called into existence.

Moreover, in *Collette v. Lasnier* (1), this Court held that in the circumstances of that case the profits made by the defendants were not a proper measure of damages; that the evidence furnished no means of accurately measuring the damages, but that substantial justice would be done by awarding \$100.

But the New Jersey corporation is undoubtedly entitled to substantial damages for infringement. In *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (2), Fletcher Moulton L.J., at page 163, said:

[The defendants seek to diminish the damages by a variety of affidavits intended to show that the particular purchasers for whom they manufactured these infringements were customers who would not have purchased from the plaintiffs if they had not purchased from them. I am not for a moment going to say that evidence of that kind may not be relevant, but the argument based upon it was, that where a plaintiff proves the sale of infringing instruments by the defendants he does not establish any right to damages unless he shows how many of those particular instruments would have been purchased from him if the defendant had not sold them; and the counsel for the defendants were bold enough to say that in this case of infringement on a large scale there ought to be only nominal damages.

And at page 164:

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.

And in *Watson, Laidlaw & Company, Limited v. Pott, Cassels & Williamson* (3), Lord Shaw of Dunfermline said at page 31:

The argument is—for indeed this instance covers sufficiently the whole ground—the argument is: Here it is demonstrated that the patentees have lost no trade which they could have obtained. And under the cover of certain judicial dicta the infringers are entitled to say that the entire measure of the patentees' damage is exhausted when restoration of the *status quo ante* has been obtained.

And at page 32:

But in addition there remains that class of business which the respondents would not have done; and in such cases it appears to me that

(1) (1885) 13 Can. S.C.R., 563.

(2) (1911) 28 R.P.C. 157.

(3) Session Cases (1913-1914) 18.

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 every one of the infringing machines in a market which the patentee 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, Limited* (1). Each of the infringements was an actionable wrong, and although they may have been committed in a range of business or of territory which the patentee might 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.

The result is that the judgment of the 6th day of February, 1933, and the report of the Registrar dated the 15th day of August, 1932, will be vacated and set aside and in lieu thereof the New Jersey corporation will have judgment against the appellant for damages which we fix at \$750 with the costs of the action down to and including the judgment of the 31st day of May, 1932, only, and the appellants will have the costs of this appeal.

Judgment accordingly.

Solicitor for the appellant: *G. E. Maybee.*

Solicitors for the respondents: *Smart & Biggar.*

1933
ELECTRIC
CHAIN CO.
OF CANADA
LTD.
v.
ART METAL
WORKS INC
Hughes J.