Judgment of the Lords of the Judicial Committee of the Privy Council on the Petition of John Saxby and another for prolongation of the terms of Saxby's Patent for Improvements in Railway Signals, &c.; delivered 17*th June*, 1870.

Present:

Lord Cairns.
Sir William Erle.
Sir James W. Colvile.

THEIR Lordships do not propose in this case, to go into any question with reference to the novelty or utility of this invention. In point of fact, it is not the practice of this Tribunal to decide upon the novelty or utility of a Patent; and although they would of course abstain in any case from prolonging a Patent which was manifestly bad, yet, in one point of view, they are in the habit of taking into account that which may be termed the question of utility; not that amount of utility which would be necessary to support a Patent, but that kind of utility which might more properly be described as merit. Upon that question it is the habit of this Tribunal to consider whether the invention brought before them is one of that high degree of merit which, if everything else were satisfactory, would entitle the Patentee to a prolongation. But, in the present case, as I have already stated, their Lordships propose to deal with that which is at the very threshold of the case, the question of accounts.

Now, it is the duty of every Patentee who comes for the prolongation of his Patent, to take upon himself the onus of satisfying this Tribunal in a manner which admits of no controversy, of what has

been the amount of remuneration which, in every point of view, the invention has brought to him, in order that their Lordships may be able to come to a conclusion whether that remuneration may fairly be considered a sufficient reward for his invention, or not. It is not for their Lordships to send back the accounts for further particulars, nor to dissect the accounts for the purpose of surmising what might be their real outcome, if they were differently cast; it is for the applicant to bring his accounts before their Lordships in a shape which will leave no doubt as what the remuneration has been that he has received.

Now, their Lordships are by no means prepared to say, that if they had taken these accounts simply as they stand, and had assumed that this was a Patentee who, upon an invention of this kind, had received during the currency of the Patent, the sum of 4,519*l.* for royalties, and 14,322*l.* for manufacturers' profits, their Lordships are by no means prepared to say if it had rested with those figures merely, that they would have been of opinion that that alone would have been an insufficient reward for a Patent of this kind. It has been decided, more than once, by this Board, that where a Patentee is also the manufacturer, the profits which he makes as manufacturer, although they may not be in a strict point of view profits of the Patent, must undoubtedly be taken into consideration upon a question of this kind. It is obvious that in different manufactures there will be different degrees of connection between the business of the applicant as a manufacturer, and his business or his position as the owner of a Patent. There may be Patents of some kind which have little or no connection with the business of the manufacturer, and there may be Patents of a different kind, where there is an intimate connection with the business of the manufacturer; that the possession of the Patent virtually secures to the Patentee his power of commanding orders as a manufacturer.

Now it is to be borne in mind that in this case the two gentlemen who are Applicants, and who formerly were officers of a railway company, have embarked in a business as manufacturers, a business which appears to have risen to considerable magnitude, because we have it in evidence that the gross profits which are represented to have accrued

from what have been termed the manufacture of locking machines or levers represent something like a quarter of the gross profits of their manufacture, and their Lordships think that it is impossible upon the evidence before them to do otherwise than to come to the conclusion that that general business of manufactures of railway signals, and those things connected therewith, has really been secure to those Applicants by virtue of the possession of this Patent. The description of the work that has to be done upon a railway would show to any one that it was an obvious convenience to have it done by the person who supplied and was answerable for the proper working of the levers; and, in point of fact, the last witness, Mr. Farmer himself, mentioned that when he had to consider whether he would or not give a license to Mr. Mackenzie, he was guided in his refusing that license by the consideration that he thought his Patent would be seriously prejudiced if manufacturers other than himself were to supply it to the railway companies when the collateral works might be so imperfectly executed that the invention would get into disrepute. That is an argument that would tell with great force with the railway companies themselves, and naturally would lead them to select as the person who was to construct the whole article, those who were the owners of the Patent, and who were interested in its success. Their Lordships therefore consider that they must not only take into account the 4,519*l.* admitted to be received for royalties, but that they must also take into account the admitted manufacturers' profits of 20 per cent. on these locking machines and levers, and that they must further not overlook the fact, although it is hard to say what pecuniary value should be put upon it, that the general manufacturing business of these Applicants is closely connected with and, as their Lordships think, has been to a great degree produced by their position as Patentees.

But the matter does not stop there, because their Lordships have to express their dissatisfaction at the manner in which these accounts have been made out, and their strong impression that a re-casting of the accounts might lead to a conclusion still more unfavourable to the Patentees.

It appears upon the evidence that the manner in which the expenditure of these levers has been made out is this: they first take the cost of the materials, and then the wages expended; to those two items a sum of 25 per cent. is added. Then to the sum thus obtained, another 25 per cent. is added: the first 25 per cent. representing what are called factory charges, depreciation of machinery, and clerks' wages, and so on; the second 25 per cent. representing the cost of the transport, and fixing the machines. But it is quite obvious, and it is admitted upon the evidence, that these are conjectural charges. They may be quite right. They may not be more than was actually expended under the heads connected with these levers; but on the other hand, they may be—and in a well-managed trade there is every reason why they ought to be—items which, although conjectural, ought to be so large as to leave a safe margin to make it sure that the manufacturers, in drawing their subsistence money and dividing their profits from time to time, will err upon the safe side, and not upon the wrong side, But if it be so,—if upon an accurate taking of the accounts, the result of these conjectural charges, and their analysis, should show that they were larger than what were necessary, it is obvious again that there is a source of profit accruing to the manufacturer, of which we have no trace whatever in these accounts. We do not say that there was that profit, nor are their Lordships in a position to form an opinion upon it; but it is their duty to say that it was for those who submitted the accounts to them to put it beyond doubt that there was no further probable source from which profit might have been derived.

Again, when we look at the items in the account in discharge of those sums which are brought to charge, their Lordships find items, the explanation of which is anything but satisfactory. We refer particularly to the sum of 819*l.* paid on the settlement with Hudson which appears to have been a subsidiary arrangement between Mr. Saxby and the gentleman with whom he was at the time associated, and may represent anything but expenditure in respect of the Patent. We refer to an item that seems to have been paid in a similar settlement to Spencer and Gossett, of 396*l.* We refer to those

large costs of 3,614*l.* paid to Stevens, which are said to be the result of litigation in respect, not of the Patent of 1856, but of the Patent of 1860, as to which no explanation has been given; and it is difficult to imagine how it came to pass that legal proceedings were taken upon the Patent of 1860 irrespective of the Patent of 1856, and how it was that those proceedings resulted in the granting of the very peculiar kind of license which appears to have been granted to Stevens.

Again, there is an item of 100*l.* brought to discharge in respect of the Patent of 1858, under which nothing whatever appears to have been done; and there is a sum of 365*l.* 4*s.* 10*d.* for the opposition to Easterbrook's application to the Attorney-General for some other Patent, and certain charges as Patent Agents for Mr. Smith, as to all which the explanation which has been offered is far from satisfactory.

Now these items are items which amount in the whole to a very large sum, to a sum exceeding 5,000*l.* It may be, and it is perfectly consistent with anything their Lordships can see, that if those sums were removed from the discharged side of the account, the capital side of the account would lose considerably, and the profits arising from this Patent would appear to be very much greater.

Their Lordships have also to observe that the omission from the accounts and the omission from the evidence of any particulars as to what licenses may have been granted by Stevens and what profits may have resulted from that source, is a defect which has by no means been explained and which adds another imperfection to the accounts.

It ought, further, to be added that, although it has been said that the Patentee has made out these accounts, in one respect, to his own disadvantage, because he has made no separation between the Patent of 1856 and the Patent of 1860, but has brought to charge all that he has received for putting up these locking machines, although he has applied to them all the newest inventions in the Patent of 1860, their Lordships are of opinion that it is clear that the Patent of 1860 was simply a supplement and improvement upon the *modification* of the Patent of 1856. Mr. Grove himself said he

was not sure whether he should call it an improvement or a modification, and that it was the Patent of 1856 which commanded the payment of these items and not the Patent of 1860.

Upon the whole, their Lordships are of opinion that the Applicant has failed in his Petition and that the Petition ought to be dismissed; and their Lordships consider that the Petition ought to be dismissed without any costs being paid to the Opponents.

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