Seymour Vs. Mccormick

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Appellant : Seymour

Respondent : Mccormick

Judgement :

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Seymour v. McCormick

57 U.S. (16 How.) 480

ERROR TO THE CIRCUIT COURT OF THE UNITED

STATES FOR THE NORTHERN DISTRICT OF NEW YORK

SYLLABUS

In 1834, McCormick obtained a patent for a reaping machine. This patent expired in 1848.

In 1845, he obtained a patent for an improvement upon his patented machine, and in 1847 another patent for new and useful improvements in the reaping machine. The principal one of these last was in giving to the raker of the grain a convenient seat upon the machine.

In a suit for a violation of the patent of 1847, it was erroneous in the circuit court to say that the defendant was responsible in damages to the same extent as if he had pirated the whole machine.

It was also erroneous to lay down as a rule for the measure of damages the amount of profits which the patentee would have made if he had constructed and sold each one of the machines which the defendants constructed and sold. There was no evidence to show that the patentee could have constructed and sold any more than he actually did.

The acts of Congress and the rules for measuring damages examined and explained.

The manner in which the suit was brought, and the charge of the circuit court, which was excepted to, are stated in the opinion of the Court. The reporter passes over all other questions which were raised and decided except those upon which the decision of this Court turned.

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MR. JUSTICE GRIER delivered the opinion of the Court.

The plaintiff below, Cyrus H. McCormick, brought this action against the plaintiffs in error, Seymour & Morgan, for the infringement of his patent right. The declaration consisted of two counts.

The first alleged that the plaintiff was the true and original inventor of certain new and useful improvements in the machine for reaping all kinds of small grain, for which he obtained letters patent on the 21st of June, 1834. And moreover that the plaintiff was the inventor of certain improvements upon the aforesaid patented

reaping machine for which he obtained letters patent on the 31st day of January, 1845. And it charged that the defendant had made three hundred reaping machines which infringed the inventions and improvements, fourthly and fifthly claimed in the schedule or specification of the last-named letters patent.

The second count alleged that the plaintiff was the first inventor of certain other improvements upon his said reaping machine before patented, for which he obtained letters patent on the 23d day of October, 1847. And that the defendant manufactured and constructed three hundred machines embracing the principles of the last-named invention and improvements. The defendants pleaded not guilty, and the case being called for trial in October, 1851, they prayed a continuance of the cause on account of the absence of certain witnesses material to their defense against the charge laid in the first count, to-wit, the infringement of the patent of 1845.

The court intimated an opinion that the affidavit was sufficient to put off the trial of the cause, whereupon the plaintiff's counsel stated to the court that rather than have the trial put off, they would not on said trial seek to recover against the defendant on account of any alleged infringement or violation by the defendants of the plaintiff's rights under his letters patent bearing date January 31, 1845, set forth in his declaration, but would proceed solely for a violation of the rights secured to him by his letters patent bearing date October 23, 1847, set forth in his declaration, under the last claim specified in that patent relating to the seat for the raker.

The trial then proceeded on the last count in the declaration for the infringement by defendants of this last patent, and

testimony offered to show that the plaintiff was not the original and first inventor of the reaping machine as described in his patents of 1834 and 1845 was rejected.

Numerous exceptions were taken by defendants in the course of the trial and to various instructions contained in the charge of the court. Most of these involve no

general or important legal principle, and could not be understood without prolix statements with regard to the facts of the case and the structure of the peculiar machines. To notice them in detail would be both tedious and unprofitable. We deem it sufficient, therefore, to say that the defendants have failed to support their exceptions as to the rulings of the court concerning the testimony and that the charge of the learned judge is an able and correct exposition of the law as applicable to the case, with the exception of the points which we propose now to examine, and which are contained in the following portion of the charge.

"The only remaining question is that of damages. The rule of law on this subject is a very simple one. The only difficulty that can exist is in the application of it to the evidence in the case. The general rule is that the plaintiff, if he has made out his right to recover, is entitled to the actual damages he has sustained by reason of the infringement, and those damages may be determined by ascertaining the profits which in judgment of law he would have made, provided the defendants had not interfered with his rights."

"That view proceeds upon the principle that if the defendants had not interfered with the patentee, all persons who bought the defendants' machines would necessarily have been obliged to go to the patentee and purchase his machine. That is the principle on which the profits that the patentee might have made out of the machines thus unlawfully constructed present a ground that may aid the jury in arriving at the damages which the patentee has sustained."

"It has been suggested by the counsel for the defendants that inasmuch as the claims of the plaintiff in question here are simply for improvements upon his old reaping machine, and not for an entire machine and every part of it, the damages should be limited in proportion to the value of the improvements thus made, and that therefore a distinction exists in regard to the rule of damages between an infringement of an entire machine and an infringement of a mere improvement on a machine. I do not assent to this distinction. On the contrary, according to my view of the law regulating the measure of damages in cases of this kind, the rule which is to govern is the same whether the patent covers an entire machine or an improvement on a machine. Those who choose to use the old machine have a

right to use it

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without incurring any responsibility, but if they engraft on it the improvement secured to the patentee and use the machine with that improvement, they have deprived the patentee of the fruits of his invention the same as if he had invented the entire machine, because it is his improvement that gives value to the machine on account of the public demand for it. The old instrument is abandoned and the public call for the improved instrument, and the whole instrument, with the improvement upon it, belongs to the patentee. Any person has a right to use the old machine, and if an inventor engrafts upon an old machine, which he has a right to use, an improvement that makes it superior to anything of the kind for the accomplishment of its purposes, he is entitled to the benefit of the operation of the machine under all circumstances with the improvement engrafted upon it to the same degree in which the original inventor is entitled to the old machine."

"There are some data, furnished by the counsel on both sides, which it is proper the jury should take into view in ascertaining the damages, provided they arrive at this question in the case. It is conceded that just three hundred machines have been made by the defendants of the description to which I have called your attention, and testimony has been gone into on both sides for the purpose of showing the cost of the machines and the prices at which they sold. In order to ascertain the profits accruing to the party who makes machines of this description, you must first ascertain the cost of the materials and labor and the interest on the capital used in the manufacture of the machines. You must also take into account the expenses to which the manufacturer is subjected in putting them into market, such as that of agencies and transportation, also of insurance, and where the article is sold on credit, a deduction must also be made for bad debts. All these things must be taken into account in order to bring into the cost every element that properly goes to constitute it in the hands of the manufacturer. When you have ascertained the aggregate sum of the cost, deduct it from the price paid by the purchaser and you have the net profit on each machine. By this process you are enabled to approximate to something like the actual loss that the patentee

sustains in a case where his right has been violated by persons interfering with him and putting into market his improvement."

The plaintiffs in error complain that these rules with regard to damages, as thus laid down by the court, are incorrect, and have produced a verdict for most ruinous damages far beyond anything justified by the facts of the case. 1. Because the jury were instructed that it is a legal presumption that if

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defendant had not made and sold machines, all persons who bought the defendant's machines would necessarily have been compelled to go to the patentee and purchase his machines. That this principle was enunciated as a binding principle of law, although the plaintiff below had given no evidence to show that he could have made and sold a single machine more than he did or was injured in any way by the competition of the defendants or hindered from selling all he made or could make. And secondly because the jury were instructed that the measure of damages for infringing a patented improvement on a machine in public use is the same as if the defendant had pirated the whole machine and every improvement on it previously made, and as a consequence that the plaintiff below had a right to recover as great damages for the infringement of the patent in his second count as if he had proceeded on both counts of his declaration and shown the infringement of all the patents claimed, and that in consequence of these instructions they have been amerced in damages to the enormous sum of $17,306.66, and with costs to nearly the round sum of $20,000.

We are of opinion that the plaintiffs in error have just reason of complaint as regards these instructions and their consequent result.

The first patent act of 1790 made the infringer of a patent liable to "forfeit and pay to the patentee such damages as should be assessed by a jury, and, moreover, to forfeit to the person aggrieved the infringing machine."

The act of 1793 enacted

"That the infringer should forfeit and pay to the patentee a sum equal to three times the price for which the patentee has usually sold or licensed to other persons the use of said invention."

Here, the price of a license is assumed to be a just measure of single damages, and the forfeiture by way of penalty is fixed at treble that sum. But as experience began to show that some inventions or discoveries had their chief value in a monopoly of use by the inventor, and not in a sale of licenses, the value of a license could not be made a universal rule as a measure of damages. The Act of 17 April, 1800, changed the rule, and compelled the infringer "to forfeit and pay to the patentee a sum equal to three times the actual damage sustained by such patentee." This act continued in force till 1836, when the act now in force was passed.

Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust. For there is no good reason why taking a

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man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages. It is true, where the injury is wanton or malicious, a jury may inflict vindictive or exemplary damages not to recompense the plaintiff, but to punish the defendant.

In order to obviate this injustice, the Patent act of 1836 confines the jury to the assessment of "actual damages." The power to inflict vindictive or punitive damages is committed to the discretion and judgment of the court within the limit of trebling the actual damages found by the jury.

It must be apparent to the most superficial observer of the immense variety of patents issued every day that there cannot, in the nature of things, be any one rule of damages which will equally apply to all cases. The mode of ascertaining actual

damages must necessarily depend on the peculiar nature of the monopoly granted. A man who invents or discovers a new composition of matter, such as vulcanized India rubber or a valuable medicine, may find his profit to consist in a close monopoly, forbidding anyone to compete with him in the market, the patentee being himself able to supply the whole demand at his own price. If he should grant licenses to all who might desire to manufacture his composition, mutual competition might destroy the value of each license. This may be the case also where the patentee is the inventor of an entire new machine. If any person could use the invention or discovery by paying what a jury might suppose to be the fair value of a license, it is plain that competition would destroy the whole value of the monopoly. In such cases, the profit of the infringer may be the only criterion of the actual damage of the patentee. But one who invents some improvement in the machinery of a mill could not claim that the profits of the whole mill should be the measure of damages for the use of his improvement. And where the profit of the patentee consists neither in the exclusive use of the thing invented or discovered nor in the monopoly of making it for others to use, it is evident that this rule could not apply. The case of Stimpson's patent for a turn-out in a railroad may be cited as an example. It was the interest of the patentee that all railroads should use his invention, provided they paid him the price of his license. He could not make his profit by selling it as a complete and separate machine. An infringer of such a patent could not be liable to damages to the amount of the profits of his railroad, nor could the actual damages to the patentee be measured by any known ratio of the profits on the road. The only actual damage which the patentee has suffered in such a case is the nonpayment of the price which he has put on his license, with interest, and no

more. There may be cases, as where the thing has been used but for a short time, in which the jury should find less than that sum, and there may be cases where, from some peculiar circumstance, the patentee may show actual damage to a larger amount. Of this a jury must judge from the evidence, under instructions from the court that they can find only such damages as have actually been proved to

have been sustained. Where an inventor finds it profitable to exercise his monopoly by selling licenses to make or use his improvement, he has himself fixed the average of his actual damage, when his invention has been used without his license. If he claims anything above that amount, he is bound to substantiate his claim by clear and distinct evidence. When he has himself established the market value of his improvement as separate and distinct from the other machinery with which it is connected, he can have no claim in justice or equity to make the profits of the whole machine the measure of his demand. It is only where, from the peculiar circumstances of the case, no other rule can be found that the defendant's profits become the criterion of the plaintiff's loss. Actual damages must be actually proved, and cannot be assumed as a legal inference from any facts which amount not to actual proof of the fact. What a patentee "would have made, if the infringer had not interfered with his rights" is a question of fact, and not "a judgment of law." The question is not what speculatively he may have lost, but what actually he did lose. It is not a "judgment of law" or necessary legal inference that if all the manufacturers of steam engines and locomotives who have built and sold engines with a patented cut-off or steam whistle had not made such engines, that therefore all the purchasers of engines would have employed the patentee of the cut-off or whistle, and that consequently such patentee is entitled to all the profits made in the manufacture of such steam engines by those who may have used his improvement without his license. Such a rule of damages would be better entitled to the epithet of "speculative," "imaginary," or "fanciful" than that of "actual."

If the measure of damages be the same whether a patent be for an entire machine or for some improvement in some part of it, then it follows that each one who has patented an improvement in any portion of a steam engine or other complex machines may recover the whole profits arising from the skill, labor, material, and capital employed in making the whole machine, and the unfortunate mechanic may be compelled to pay treble his whole profits to each of a dozen or more several inventors of some small improvement in the engine he has built. By this doctrine, even the smallest part is made equal to

the whole, and "actual damages" to the plaintiff may be converted into an unlimited series of penalties on the defendant.

We think, therefore, that it is a very grave error to instruct a jury "that as to the measure of damages the same rule is to govern, whether the patent covers an entire machine or an improvement on a machine."

It appears from the evidence in this case that McCormick sold licenses to use his original patent of 1834 for twenty dollars each. He sold licenses to the defendants to make and vend machines containing all his improvements to any extent for thirty dollars for each machine, or at an average of ten dollars for each of his three patents. The defendants made and sold many hundred machines, and paid that price and no more. They refused to pay for the last three hundred machines under a belief that the plaintiff was not the original inventor of this last improvement, whereby a seat for the raker was provided on the machine so that he could ride and not be compelled to walk, as before. Beyond the refusal to pay the usual license price, the plaintiff showed no actual damage. The jury gave a verdict for nearly double the amount demanded for the use of three several patents in a suit where the defendant was charged with violating one only, and that for an improvement of small importance when compared with the whole machine. This enormous and ruinous verdict is but a corollary or necessary consequence from the instructions given in that portion of the charge of the court on which we have been commenting, and of the doctrines therein asserted and to which this Court cannot give their assent or concurrence.

The judgment of the circuit court is

Reversed with a venire de novo.

ORDER

This cause came on to be heard on the transcript of the record from the Circuit Court of the United States for the Northern district of New York, and was argued by counsel. On consideration whereof it is now here ordered and adjudged by this Court that the judgment of the said circuit court in this cause be, and the same is

hereby reversed with costs, and that this cause be, and the same is hereby remanded to the said circuit court with directions to award a venire facias *de novo.*