

BETWEEN

THE IMPERIAL SUPPLY COMPANY, LIMITED,
PLAINTIFFS;1912
Feb. 14,

AND

GRAND TRUNK RAILWAY COMPANY OF
CANADA DEFENDANTS.

Patent of invention—License to Manufacture same—Instrument not executed by Licensee—Validity—Estoppel.

B. and D. were employees of the Grand Trunk Railway Company. Under the instructions of R., superintendent of the motive power of the railway, they experimented on lubricators for use on the railway, and eventually succeeded in making a triple sight feed lubricator for which they obtained a patent in Canada. Following the usual custom of the railway company in such cases, R. sought to obtain a license from the inventors which would enable the company to use the invention not only on its own line but also on its allied lines. B. and D. refused to do more than license the use of the invention by the defendant company on their own line of railway. Subsequently, an instrument purporting to be a license to the company to use the said invention on their own line of railway only was prepared under the instructions of an officer of the railway subordinate to R., and was executed by B. and D. This instrument was not executed by the defendant company, and did not provide for the payment of any royalties for the use of the invention; the express consideration being the nominal sum of one dollar. It also contained a covenant on the part of the inventors that they would maintain the validity of any patents to be thereafter granted to them for such invention.

When this instrument was communicated to R., he wrote to the official who had obtained the same, objecting to the license being limited to the defendant company's line of railway and directing a new license to be drawn up extending the use of the invention to the Grand Trunk Pacific Railway as well as the Grand Trunk Railway. R's letter was communicated to B. and D. who knew that R. was the proper officer of the Company to make agreements of this nature. The instrument in question was in the possession of the defendant company at the time of action brought.

Held, upon the facts, that the instrument was not binding upon the defendant company as a license.

Semble, that in an action for infringement the company would not be estopped from asserting the invalidity of the title.

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Argument
 of Counsel.

THIS was an action arising out of an alleged breach of a license to use the invention covered by Canadian patents numbered 98330 and 129053, respectively. The facts are stated in the reasons for judgment.

January 11th, 1912.

The case came on for hearing at Montreal.

V. E. Mitchell, K.C., and *G. Stairs*, for the plaintiff, contended that there had been established by the evidence a relationship of licensor and licensee between the inventors and the Grand Trunk Railway Company; and in consequence of that relationship the defendant company could not set up the invalidity of the patents in suit. The following authorities were relied on:—

Halsbury's Laws of England (1); *Nicolas on Patents* (2); *Crossley v. Dixon* (3); *Clark v. Adie* (4); *Redges v. Mulliner* (5); *Frost on Patents* (6); *Ashworth v. Law* (7); *Useful Patents v. Rylands* (8); *Mills v. Carson* (9); *Africa Gold Co. v. Sheba Gold Co.* (10); *Bassett v. Graydon* (11); *Post Card Automatic Supply Co. v. Samuel* (12).

They also relied on Art. 1730 of the Civil Code.

E. Lafleur, K.C. and *W. H. Biggar, K.C.*, for the defendant company, argued that inasmuch as the defendant company had not executed their license it was not binding on them nor could estoppel be raised upon it. The instrument contained no recitals and no covenants binding upon the defendant. Moreover, it was expressly repudiated by Mr. Robb, the only official of the company having authority to bind the

(1) Vol. 1, p. 201.

(2) p. 99.

(3) 10 H.L.C. 293.

(4) L.R. 2 A.C. 423.

(5) 10 R.P.C. 27.

(6) 3rd ed. Vol. 2, pp. 115, 148, 152.

(7) 7 R.P.C. 234

(8) 2 R.P.C. 261.

(9) 10 R.P.C. 17.

(10) 14 R.P.C. 663.

(11) 14 R.P.C. 711.

(12) 6 R.P.C. 560.

defendant. Such repudiation was expressly communicated to the inventors.

CASSELS, J. now (February 14th., 1912) delivered judgment.

In this case a statement of claim was filed on behalf of the Plaintiffs who claim to be assignees of two certain patents, one numbered 98330, bearing date the 3rd April, 1906, and the other numbered 129053, bearing date the 1st November, 1910.

The case came on for trial before me in Montreal on the 22nd May, 1911, when it was on application adjourned with leave to the defendants to amend their pleadings so as to raise other defences. In their statement of claim the plaintiffs allege that by an instrument in writing executed on the 2nd June, 1906, Thomas Akin Dalrymple and Robert Burnside, Jr., who were the patentees under the first patent, and who are alleged to be the inventors of the invention described in the second patent, licensed the Grand Trunk Railway Company for the consideration of one dollar, to use the inventions in question. As the document is short, I set it out verbatim:—

“KNOW ALL MEN BY THESE PRESENTS, that we, Thomas Akin Dalrymple, and Robert Burnside, both of the City of Montreal, Province of Quebec, Dominion of Canada, Machinists, for and in consideration of the premises and of the sum of one dollar (\$1.00) to us paid by the Grand Trunk Railway Company of Canada (the receipt whereof is acknowledged) do hereby empower and license the said Grand Trunk Railway Company of Canada, their servants and agents and the servants or agents of any company whose line or lines of railway is or are known as part of the Grand Trunk Railway System, to manufacture at any of the shops or works of any of the said

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Companies, for the use by the said Companies, their servants or employees, and each of them, but not for sale, the articles and appliances; to wit:—a Triple Sight Feed Lubricator, letters patent for which have been applied for in the Dominion of Canada and the United States of America on the 12th and 13th days of December, 1905, respectively, together with any and all modifications and further improvements of which the said invention or improvement or any part thereof is susceptible. The said license and authority to continue to the full end of the terms for which the said patents in either Canada or United States, or any of them, covering the said invention or improvements, or patents for any and all modifications and further improvements thereof is or are shall be granted renewed or extended.

“And we, the said Thomas Akin Dalrymple and Robert Burnside, do hereby agree with the Grand Trunk Railway Company of Canada that the right to manufacture and use the said improvements, articles and appliances and modifications or improvements thereof herein granted shall not be subject to any royalty or payment whatever by the said Companies or any of them other than the said sum of One dollar (\$1.00) hereby acknowledged.

“And we further covenant and agree with the said Company, that we will do all and every act and thing necessary to protect and preserve our interest in and right to the said inventions and the said letters patent when granted, and also in and to any patents hereafter granted for any modification or further improvement of said inventions, and will at all times fully protect the said Companies and each of them in the enjoyment of the privileges hereby granted to manufacture and use the said inventions or improvement, or

any modification and improvement thereof, and that any license or right to manufacture, use or sell the said invention or improvement or any modification or improvement thereof, or any of them which shall at any time be granted by us to any other person or corporation shall be made expressly subject to the rights hereby conferred upon the said Companies and each of them.

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It is understood that the above agreement does not include the Grand Trunk Pacific Railway or the Central Vermont Railway.

WITNESS our hands and seals this Second day of June in the year of our Lord one thousand nine hundred and six.

Signed, sealed and delivered in presence of (Sgd.) Jno. A. Duffie.	}	(Sgd.) THOMAS AKIN DALRYMPLE (SEAL)
		(Sgd.) ROBERT BURNSIDE, JR. (SEAL)"

In this document the words are inserted, "It is understood that the above agreement does not include the Grand Trunk Pacific Railway or the Central Vermont Railway".

The plaintiffs claim that under this agreement the defendants became licensees under the patentees. They also claim that the Grand Trunk Railway Company had been making lubricators for the Grand Trunk Pacific Railway Company. The latter fact is not disputed.

The Grand Trunk Railway Company set up several defences. They first set up that the document of the 2nd June referred to, was never in fact so accepted, regarded, treated or acted upon by the defendants as to constitute an agreement. They further assert that

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if the document in question is an agreement binding upon the Grand Trunk Railway Company, the doctrine of estoppel cannot be held as applicable to the case in hand. They furthermore set up that the patentees obtained the patents in trust for the railway company, and in the alternative they allege that there was no invention disclosed by the patents, and in any event that these patents are void having regard to the state of the art, and for other reasons.

On the first hearing I suggested to counsel that if the law of estoppel was not applicable to the case in hand, the Grand Trunk Railway Company would be in a better position if the document were held to be binding on them. If the document of the 2nd June, 1906, is as contended for by the Grand Trunk Railway Company, then the Grand Trunk Railway Company would become infringers of the patented inventions assuming the patents to be eventually upheld as valid patents. On the other hand, if the alleged agreement of the 2nd June, 1906, were held valid, but that there was no estoppel preventing the Grand Trunk Railway Company from disputing the validity of the patents so far as their sales to the Grand Trunk Pacific are concerned, then the Grand Trunk Railway Company would have the right to attack the validity of the patents in this action, and if they failed they would still have the right under the alleged license to continue manufacturing for their own uses. I suggested to counsel at the trial that it would be better to determine the two points—First, is the alleged document of the 2nd June, 1906, an existing and valid license binding upon the Grand Trunk Railway Company; and, Secondly, if it were held to be a valid and existing license, are the Grand Trunk Railway Company at liberty to endeavour to impeach the patents, or are

they estopped from denying the validity of the patents? If these two issues were held against the Grand Trunk Railway Company, then there would be nothing left but a reference as to the damages for the infringement of the patent—and in this latter event a prolonged litigation affecting the validity of the patents would be avoided. This course, subsequent to the trial, seemed to meet with the approval of the counsel; and an order was made that these issues should be first tried. It was also directed that the issue as to whether or not the patentees were trustees for the Grand Trunk Railway should also be tried. At the subsequent trial which took place on the 11th January, 1912, both counsel for the plaintiffs and for the defendants agreed that it would be better that this last issue should be held over to be tried, if the case came down to trial on the defences as to the validity of the patents.

I have considered carefully the question of estoppel, and have arrived at the conclusion that if the agreement of the 2nd June, 1906, be a valid and a binding agreement, the Grand Trunk Railway Company are estopped. In the view I take of the case, namely that the agreement is not a binding agreement on the Grand Trunk Railway Company, it may be unnecessary to deal with the question of estoppel. Later on, however, I will deal with this question; as if I am in error in the conclusion I have arrived at in regard to the agreement being one not binding on the Grand Trunk Railway Company, then the question of whether there is estoppel or not may become material. The case is a peculiar one, and I have been very much impressed by the able argument presented by Mr. Mitchell, K.C., in support of the plaintiffs' contention.

After the best consideration I can give to the case I have come to the conclusion that the agreement of

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the 2nd June, 1906, was never assented to or accepted by the defendants, the Grand Trunk Railway Company. It must be borne in mind that the patentees, Robert Burnside, Jr., and Thomas Akin Dalrymple, were employees of the Grand Trunk Railway Company. It was admitted that Mr. Robb was the superintendent of motive power employed by the Grand Trunk Railway Company. Mr. Maver was the master mechanic. I do not wish at the present stage of the proceedings to pass upon the question as to whether or not the invention was an invention by these two mechanics or whether the invention belonged to the Grand Trunk Railway Company. Two cases, one in the United States, and one in England, deal with the question when an invention becomes the property of the employer or when it becomes the property of the workman. (1) It is material, however, in considering the evidence as to whether the alleged document of the 2nd June, 1906, was accepted by the Grand Trunk Railway Company, to take into account the facts as to how the alleged inventions were arrived at. Mr. Robb states that the lubricators that the Grand Trunk Railway Company were using were not satisfactory; and he told his master mechanic, Mr. Maver, "to get up a lubricator ourselves in our own shop". "Q.—Which "would be more satisfactory? A—A lubricator which "would suit our requirements." He goes on to say "that "the lubricator we had was too small, and it "was weak, and it lacked a bulls-eye glass. I told "him to embody all these features, and have a lubri- "cator which would hold more oil, which would take "care of the larger engines, and which would have a

(1) See *Worthington v. Moore*, 64 L. T. N. S. 338 and *Hapgood v. Hewitt*, 119 U.S. 226.

“bulls-eye glass. I told him to embody all these
“features from the old lubricators, and to make one
“that would be our own lubricator. These were the
“instructions I gave”.

It appears that pursuant to these instructions the work in question was performed. It would appear also before or after the patents were granted, the account for the expenses of obtaining the patents, certainly the earlier patent, was sent to the Grand Trunk Railway Company. Mr. Robb refused to pay this on the ground that the patentees had declined to grant the license asked by the Grand Trunk Railway Company. It also appears that in cases where the Grand Trunk Railway permitted their workmen to experiment at their expense, that a form of license was always executed which permitted not merely the Grand Trunk Railway Company to use the inventions, but their allied lines—and the Grand Trunk Pacific Railway was an allied line of the Grand Trunk Railway Company.

In the first place both Robert Burnside, Jr., and T. A. Dalrymple, knew that Mr. Robb was the official representing the Grand Trunk Railway Company who had the authority to make agreements of this nature. Dalrymple in his evidence states as follows:—

“THE COURT:—As I understand from your evidence, your previous communication between you
“and Mr. Robb for this license was prior to this
“document being signed of the 2nd of June? A—Yes.

“Q—Mr. Robb was insisting that the Grand Trunk
“Pacific should be included in the license? A—Yes.

“Q—Did he ever recede from that position prior
“to this document being signed? A—He never told
“me if he did.

“Q—And you knew that Mr. Robb was the senior
“man? A—Yes.

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“Q—And that the document in question was drawn
 “by a junior in his office. As far as you know
 “Mr. Robb had never changed his mind? A.—As
 “far as I know”.

It would appear that the document in question was
 apparently drawn up under the instructions of Mr.
 Maver. The document itself is not signed by the
 Grand Trunk Railway Company. It was forwarded
 by Mr. Maver to Mr. Robb on the 4th June, 1906.
 Mr. Robb returned it at once to Mr. Maver in a letter
 of the 7th June, in which he states:—

“Referring to your letter of June 4th and attached
 agreement. As I explained to Messrs. Dalrymple
 and Burnside while in my office, the right to manu-
 facture and use this lubricator must apply to the Grand
 Trunk Pacific as well as the Grand Trunk.....
 I shall be glad if you will have the papers made out
 and signed in this way.”

This letter was communicated by Mr. Maver to
 Mr. Dalrymple by a letter of the 12th June, 1906,—
 and it is admitted that a copy of Mr. Robb’s letter
 was sent with the letter of the 12th of June. Dalrymple
 and Burnside, who had previously been negotiating
 with Mr. Robb were aware of his position in the
 railway—they were aware that he had charge of that
 portion of the railway relating to the patents for inven-
 tion; and they were aware that Mr. Robb had never
 receded from the position which he took, as shewn
 by the evidence of Dalrymple quoted above. They
 knew that Mr. Robb required that a new agreement
 should be drawn. It would have been better had the
 document in question been returned. It seems to
 have been filed away like other papers in the pigeon
 holes of the Grand Trunk Railway Company. It
 was not registered. Both Burnside and Dalrymple

knew that Mr. Robb who represented the Grand Trunk Railway Company, was the proper officer to accept it on behalf of the Grand Trunk Railway Company.

Ingenious arguments are based upon the examination of Mr. Robb for discovery, and certain admissions said to have been made by him. I have no doubt whatever that Mr. Robb was truthfully relating the facts, as he understood them, when examined in the witness box in Montreal. And this is corroborated by his letter, which I have quoted, to Mr. Mayer of the 7th June. I do not think that I can find that the agreement was ever accepted by the Grand Trunk Railway Company. Nor do I think that Burnside and Dalrymple were in any way misled by the act of Mr. Maver. At all events Maver had no power to bind the Grand Trunk Railway Company. I must therefore find this issue in favour of the Grand Trunk Railway Company.

On the question of estoppel, as I have mentioned above, it may not be necessary for me to deal with this question; but as the parties argued the case at full length, and as it may be helpful to have my views in case a higher court were of opinion that I have come to a wrong conclusion on the question as to whether the document is binding or not, I will give my views. The clause in the so called agreement—
 “It is understood that the above agreement does not include the Grand Trunk Pacific Railway or the “Central Vermont Railway” might as well have been omitted from the document. The license without these words, if it were in force, would have been sufficiently explicit. It is not a covenant on the part of the Grand Trunk Railway Co., nor as I have stated, have the Grand Trunk Railway Company signed the

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document. I have found no case where a form of license is identical with the one in question. The nearest case is the case of *The Magic Ruffle Company v. Elm City Co.* (1) In that case the license was to manufacture portions of four patents. There was a covenant and there were recitals. The court at page 156 concluded that the defendants might have been sued for breach of their contract. It also pointed out that the alternative remedy might have been adopted of treating them as infringers in an action for infringement brought. The facts are not the same.

I think, however, on principle that if this document were a binding agreement on the Grand Trunk Railway Co., that estoppel would extend so as to prevent the Grand Trunk Railway Co., when being sued as infringers for manufacturing the patented inventions and selling to the Grand Trunk Pacific, from setting up as against the claim of the patentees the invalidity of the patents. I think there is a good deal of force also in the contention of Mr. Mitchell, that the latter part of the document which states,—

“And we further covenant and agree with the said Company, that we will do all and every act and thing necessary to protect and preserve our interest in and right to the said inventions and the said letters patent when granted, and also in and to any patents hereafter granted for any modification or further improvement of said inventions, and will at all times fully protect the said companies and each of them in the enjoyment of the privileges hereby granted to manufacture and use the said inventions or improvements,” etc.

(1) 13 Blatch. 151.

adds strength to the contention put forward on behalf of the plaintiffs.

There is in this case no estoppel by recital unless that part of the document which I have just referred to would amount to it. But estoppel may exist from the relative positions of the parties even without recital. On this point I would refer to Terrell on Patents, (1); Fulton on Patents, (2); Nicolas on Patents, (3); Frost on Patents, (4); and Thornton on Patents British and Foreign, 1910, p. 324.

In these text-books nearly all the later cases have been considered. I have examined a large number of them, but find no case in which a license is similar to the terms of the one in question. In most cases the licensee had agreed to pay royalties. In *Crossley v. Dixon*, (5); it is pointed out that a license may be verbal and the licensee estopped from disputing the validity of the patents, so long as he uses them. (6).

The question was raised by Mr. Lafleur at the trial that it would be open to the licensees to show the invalidity of the patents in order to show a failure of consideration. I think a consideration of the cases indicate that this could only be done where there was fraud in obtaining a license. There is no warranty of the validity of the patents. There is no contention of that nature under these pleadings. A case that might be looked at which discusses a considerable number of the cases, is *Vermilyea v. Caniff*, (7). It is a decision that the Chancellor of Ontario gave in 1886, and deals with the question of attacking the patents.

Before closing the judgment I think it advisable

(1) 5th ed. 1909, 205.

(2) 4th ed. 1910, pp. 280, 283.

(3) 1904, p. 99.

(4) 3rd ed. 1906, Vol. 2, pp. 115 and 158.

(5) 10 H. L. Cas. p. 293.

(6) *Clark v. Ady*, 2 App. Cas. p. 425.

(7) 12 Ont. R. 164.

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that I should give leave to the plaintiffs to amend their pleadings and also their proof in one respect. I do not find in their proof of title as made at the trial any copy of the assignment from Herbert H. Bradfield and Charles A. Myers of the earlier patent. In the agreement of the 5th of October, 1910, it is recited that "Whereas the said Herbèrt H. Bradfield and "Charles A. Myers by agreement in writing dated "April 6, 1910, did assign to the Imperial Supply Co., Limited," etc. This assignment of the 6th April, 1910 has not been put in. If the plaintiffs so desire they are at liberty to put in a certified copy from the Patent Office of this assignment.

I also do not find on the record any plea of estoppel. It seems to me that the plaintiffs should have such plea upon the record, if it is their intention to rely upon it. Such a plea may also be filed.

The Grand Trunk Railway Co., set up by counterclaim that the patent is void. There is no defence to this counterclaim. As I understand it, the counterclaim is equivalent to a substantive action. Had the defendants applied for judgment on the counterclaim for default, it may be that they would have been entitled to judgment. If the plaintiffs so desire in order to make the record complete they can file whatever defence they deem necessary to the counterclaim. I would refer the solicitors of the parties to Rule 41 of the Exchequer Court, which has the force of a statute.

The costs of this portion of the trial are reserved to be dealt with when the case comes on subsequently to be tried, or if there is no further trial then they can be spoken to before me in Chambers.

Solicitors for plaintiff: *Casgrain, Mitchell, McDougall & Creelman.*

Solicitor for defendant: *A. E. Beckett.*