1936

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Exchequer Court of Canada

RALPH M. SPANKIE
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1936

JUDGES

OF THE

EXCHEQUER COURT OF CANADA

During the period of these Reports:

PRESIDENT:

THE HONOURABLE ALEXANDER K. MACLEAN
(Appointed 2nd November, 1923)

PUISNE JUDGE:

THE HONOURABLE EUGENE REAL ANGERS
(Appointed 1st February, 1932)

DISTRICT JUDGES IN ADMIRALTY OF THE EXCHEQUER COURT OF CANADA

The Honourable ARCHER MARTIN, British Columbia Admiralty District—appointed 4th March 1902.

do CHARLES D. MACAULAY, Yukon Admiralty District—appointed 6th January, 1916.

do HUMPHREY MELLISH, Nova Scotia Admiralty District—appointed 25th November, 1921.

do LOUIS PHILIP DEMERS, Quebec Admiralty District—appointed 3rd November, 1928.

His Honour FRANK M. FIELD, Ontario Admiralty District—appointed 7th December, 1932.

do DONALD MCKINNON, Prince Edward Island Admiralty District—appointed 20th July, 1935.

do LEONARD PERCIVAL DEWOLFE TILLEY, New Brunswick Admiralty District—appointed 14th August, 1935.

DEPUTY LOCAL JUDGE:

The Honourable Sir JOSEPH A. CHISHOLM—Nova Scotia Admiralty District.

ATTORNEY-GENERAL FOR THE DOMINION OF CANADA:

The Honourable ERNEST LAPOINTE, K.C.

21016—1½a

CORRIGENDA

P. 11, L. 36.—"Talbot *v.* Watson" should read "Talbot *v.* Wilson"; footnote should read "(1909) 26 R.P.C. 467."

P. 92.—In l. 27 of head-note "protested" should read "protected."

PP. 175, 176—Margin should read "Angers J." instead of "Davis J."

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2. *King, The* v. *Southern Canada Power Co. Ltd.* (1934). Ex C.R. 142. Appeal to the Supreme Court of Canada allowed in part. Leave to appeal to the Privy Council granted. Appeal pending.

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6. *King, The* v. *The Ship Emma K.* (1936) Ex. C.R. 92. Appeal dismissed.

7. *Lightning Fastener Co. Ltd.* v. *Colonial Fastener Co. Ltd. et al.* (1936) Ex. C.R. 1. Appeal dismissed; cross appeal allowed in part.

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CASES

DETERMINED BY THE

EXCHEQUER COURT OF CANADA
AT FIRST INSTANCE

AND

IN THE EXERCISE OF ITS APPELLATE JURISDICTION

LIGHTNING FASTENER COMPANY, LIMITED..... } PLAINTIFF;

AND

COLONIAL FASTENER COMPANY, LIMITED, and G. E. PRENTICE MANUFACTURING COMPANY .... } DEFENDANTS.

1935
Apr. 8-11.
Aug. 12.

Patent—Infringement—Damages—Burden of proof—Measure of damages —Sales by infringers—Loss of profits on actual sales—Royalty—Reduction in price of patentee—Trade competition—Interest—Costs.

In an action for infringement of a patented machine it was held that infringement had been proved, and an inquiry as to damages was ordered, the Registrar of this Court being appointed Referee. The product of the patented machine is what is known as *stringers*, and when two opposing stringers are connected by what is called a *slider* and a *bottom stop* they are then ready for application to articles of use and are then called *fasteners*. The plaintiff elected for damages rather than profits.

By his report the Referee, after disallowing certain claims for damages, found substantially (1) that the general principle of basing plaintiff's loss of profits on the loss of the sales of the completed fastener is the proper one, and (2) that for those sales which the plaintiff could not have made in any event, but which were made by defendant, the proper basis of compensation is a fair royalty, and (3) that plaintiff is entitled to a claim for loss due to reduction of prices by defendant.

Both parties appealed.

Held: That in the assessment of damages in patent matters the plaintiff should be compensated for the loss caused him by the infringer's acts; he should be restored by monetary compensation to the position which he would have occupied but for the wrongful acts of the defendant.

2. That defendant's acts being tortious the burden of proof on plaintiff is lightened by the presumption that invasion of a patentee's monopoly will cause him damage.

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3. That in the assessment of damages every article that is manufactured or sold which infringes the rights of the patentee, is a wrong to him, and the patentee is entitled to recover in respect of each one of those wrongs.

4. That where a patentee uses his monopoly by manufacturing the object covered by his patent in order to get the increased profits, his loss, generally speaking, is to be calculated on the basis of the loss of profits to him on the sales of the object made and sold by the defendant, which the patentee would have sold.

5. That in case of sales by the defendant which would not have been made by the plaintiff, the basis for damage is a fair royalty.

6. That the basis for assessing damages in this case should be the profit that the plaintiff would have obtained had it sold the completed fastener, and not the stringer alone, since the stringer is not only an integral part of the article but is the main part, and what the plaintiff lost by means of the defendants' breach of its monopoly is the sale of the article as a whole.

7. That where the infringement is a part only of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that part alone, if the infringing part is clearly separable and does not co-operate with the rest to produce the new effect which is the feature of the patented invention in question.

8. That the plaintiff cannot claim to have suffered a loss of profit on sales it refused to make or for any other reason it would not have made.

9. That since the plaintiff had not a monopoly of the Canadian market, it cannot obtain damages from defendants on the ground that it was forced to reduce the price of its articles to meet price reduction by defendants.

10. That loss by plaintiff due to the establishment of an office in the City of Montreal, Quebec, allegedly to meet free delivery in that city by defendants, is not a natural and direct consequence of defendants' act, and therefore a claim for such loss must be refused.

APPEAL from the Report of the Referee appointed to ascertain the damages recoverable by the plaintiff against the defendants under a judgment obtained by the plaintiff against the defendants in an action for infringement of a patented machine.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C. *for the plaintiff.*

S. A. Hayden, K.C. *for the defendants.*

The facts and questions of law raised are stated in the reasons for judgment of the learned President and in the Report of the Referee.

THE PRESIDENT now (August 12, 1935) delivered the following judgment:—

This is an appeal from the Report of the Registrar, who was appointed a Referee to ascertain the damages recoverable by the plaintiff against the defendants, under a judgment obtained by the plaintiff against the defendants in an action for infringement of a patented machine. Both parties appeal from the Report of the Referee, the plaintiff claiming that the amount found as damages, some $50,000, is insufficient, the defendants claiming that the amount is excessive.

The Referee has taken great pains to present all the relevant facts pertaining to the question of damages, and the reasons for the conclusions which he reached are elaborately set forth in his report. It is my purpose therefore to avoid, so far as I can, repetition of what is to be found in the Referee's Report, and I hope I may be able to express my opinion on the several points in dispute in fairly brief terms. I fully described the patented machine, which was infringed by the defendants, in my judgment, which is to be found in the Exchequer Court Reports (1); it will be sufficient for me here to say that the product of the patented machine is what is known as "stringers," and when two opposing stringers are connected by what is called a "slider" and a "bottom stop" they are then ready for application to articles of use and are then called "fasteners," popularly known as "zipper fasteners."

The report sets forth a memorandum filed by plaintiff's counsel which contains the particulars of the damages claimed, $254,468.50, and the same is stated under nine different heads. In my discussion of the appeal it will be convenient to refer to each of the items of particulars of damages, though not in the precise order in which they are there set forth. The particulars of damages, as incorpor-

(1) (1932) Ex.C.R. 89.

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ated in the Report of the Referee, are precisely as follows:—

MATHEMATICAL CALCULATION OF PLAINTIFF'S DAMAGE BASED ON DEFENDANTS' ACTUAL SALES

	Unitary Machines Ex. 5	Divided Machines Ex. 10	Total
1. Loss due to sales made by defendant of fasteners made in Canada on machines calculated on the price actually obtained by the plaintiff—			
(Column V.C.).. .. 96,749 06			
Deduct (Ex. 13).. . 9,145 34			
27,368 24	87,593 72		
Deduct (Ex. 14).. . 2,754 21			
		24,614 03	112,207 75
2. Loss due to first cut in minimum price calculated on defendant's sales—			
(Column V.D.)..	15,161 32	2,991 95	18,153 27
3. Loss due to second cut in minimum price calculated on defendant's sales—			
(Column V.E.)..	5,042 44	3,909 23	8,951 67
3a. Loss due to third cut in minimum price calculated on defendant's sales—			
(Column V.F.)..		532 34	532 34
4. Loss due to elimination of 5c. flat charge calculated on fasteners over 7½" lengths sold by defendant—			
(Column V.G.)..	1,210 50	101 00	1,311 50
5. Loss due to first cut in minimum price calculated on plaintiff's actual sales of fasteners up to 7½"—			
(Column VI. A.)..	26,632 55	28,375 61	55,008 16
6. Loss due to second reduction of minimum price calculated on plaintiff's actual sales of fasteners up to 7½"—			
(Column VI. B)..	4,636 54	7,270 83	11,907 37
6a. Loss due to third cut in minimum price calculated on plaintiff's actual sales of fasteners over 7¾"—			
(Column VI. C.)..		2,204 85	2,204 85
7. Loss due to elimination of 5c. per piece on plaintiff's actual sales of fasteners over 7½"—			
(Column VI. D.)..	4,081 95	8,978 00	13,059 95

	Unitary Machines Ex. 5	Divided Machines Ex. 10	Total
7a. Loss due to cut of ¼c. per inch on plaintiff's actual sales of fasteners over 7½"— (Column VI. E.)..		5,071 30	5,071 30
8. Loss due to Montreal Offices— (Column VI. F.)..	18,079 76		18,079 76
9. Loss due to elimination of delivery charges— (Column VI. G.)..	7,980 58		7,980 58
Total..	170,419 36	84,049 14	254,468 50

Before proceeding to a consideration of the question of damages there are two preliminary points which may first be disposed of. There was a period when the plaintiff's patent had become void but it was later restored. During the interval in which the patent was void, it is alleged that the defendant Prentice Manufacturing Company commenced to manufacture the infringing machine, and sell the same in Canada, and it is now claimed that under sec. 47, s.s. 6 of the Patent Act, its right to continue the manufacture and sale of that machine is saved. If the facts now alleged had been established at the trial the attack might have been fatal to the plaintiff. The point however was raised before the Referee for the first time, and the final judgment in this action determined that the plaintiff's patent was valid and that the defendants had infringed the same. That point cannot now, in my opinion, be considered in the assessment of damages.

Another point urged by the defendants is that as the plaintiff's patent is for a machine which automatically makes stringers, it is the machine and not its product that should be considered in arriving at the damages here; that is to say, that the plaintiff's damages are to be measured by the number of machines which the defendants made, used or sold. That would not, I think, be a just way of measuring the damages in this or similar cases. It would require but a few machines to supply the whole Canadian market with stringers, and I cannot accept the proposition that the plaintiff's damages are to be calculated on this basis, but if one were required to do so the result would be much the same because one would have to ascertain the

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damages the plaintiff had suffered by reason of the defendants' infringement. The Referee discusses this point at length in his report and I am satisfied with his conclusion.

Turning now to the plaintiff's particulars of damages. I propose first disposing of those items of damages, the amounts of which are to be found in the second column of figures, amounting altogether to some $84,000. These figures represent losses or damages claimed to have been suffered by the plaintiff because of the use of what the Referee calls a divided machine, and with which, at a period or periods within the material time, the defendants manufactured stringers. The plaintiff claims that any stringers made by this divided machine constituted infringement of the plaintiff's patent and any sales of fasteners produced from stringers made by the divided machine should be considered in reaching the amount of damages to which the plaintiff is entitled. The so-called divided machine is really two machines, used in the production of stringers, one performing a preliminary operation, the second the further and final operation. The plaintiff's patented machine is a single unit and automatically performs all operations necessary in the production of stringers, doing what previously had been done by two or more separate machines or mechanisms. The plaintiff's patented machine of itself turned out a completed stringer in the manner I explained in my judgment. It was for that reason I held there was invention in the plaintiff's patent, and in the end that view was maintained. It is the machine made under this patent that has been held to have been infringed, and not any other machine or machines. On this ground the Referee refused all the items referred to, amounting to about $84,000, and I see no reason for disturbing that finding.

Then there is a group of claims, six in number, for damages based on the fact that the defendants on three occasions within the material period reduced their selling price of fasteners, below the plaintiff's price, thus causing, it is claimed, damage to the plaintiff. It transpired in point of fact that the plaintiff was the first to cut prices, which reduction the defendants met. The Referee allowed one item only, referable to the second reduction, amounting to $3,117.86. I think that this item should be disallowed. At the times material here there were very considerable and

legitimate importations of stringers or fasteners, or both, into Canada from abroad, and there was also legitimate competition from within Canada for a time at least, from a concern in Hamilton, Ontario. The plaintiff felt the effect of these importations, which were very substantial, and it appeared before the Tariff Board, urging, on that account I have no doubt, a modification of the tariff upwards on such articles. I do not think that any safe deduction can be made, in this case, from the fact that the defendants at any time sold their product at prices below that of the plaintiff, and which compelled the plaintiff to meet the reduction. It seems to me that to attempt to calculate damages on such grounds, in the circumstances of this case, would carry one into a field that is entirely too speculative. If a patentee has been forced to reduce his price to meet that of an infringer, that would be a ground for damages in many cases, particularly if there were no other competition. But here the plaintiff by no means had a monopoly of the Canadian market for stringers or fasteners. I therefore disallow the item of $3,117.86 which the Referee allowed. This disposes of items numbered 2, 3, 4, 5, 6 and 7 in the plaintiff's particulars of damages.

Turning now briefly to items numbered 8 and 9. The defendants for a period made free deliveries of stringers, or fasteners, to their customers in Montreal, which, it is said operated as a reduction in the plaintiff's profits, because the plaintiff felt obliged to open an office in Montreal, and make free deliveries therefrom in that market, instead of from St. Catherines as was usual. The Referee disallowed these two items and with his reasons and conclusions I agree, and there is nothing further I could usefully add to the same.

I now turn to the first item in the plaintiff's particulars of damages, the most important and the most difficult of all the matters falling for determinaion in this inquiry. Under this head the Referee found the damages to be $47,545.70, and with that finding no one is content. My first impression was that the amount was perhaps excessive, but after a most anxious consideration of the matter I have reached the conclusion that the finding of the Referee is supported by the facts and the law, and I am unable to discover any grounds for disturbing the finding of the Referee. The

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Referee has taken great pains to narrate the facts, he sets forth the several contentions of the respective parties relating to this head of damages, he explains the method he applied in fixing the damages under this head, and he discusses the leading authorities applicable to a case of this nature, particularly such cases as *United Horse Shoe Nail Co.* v. *Stewart* (1): *American Braided Wire Co.* v. *Thompson* (2): *Meters Ltd.* v. *Metropolitan Gas Meters Ltd.* (3): *Watson* v. *Pott* (4); there will be little occasion for me to refer to those authorities at any length.

However, before proceeding to a brief discussion of the Referee's finding under this head, I should like to refer to the case of *United Horse Shoe Nail Co.* v. *Stewart* (5), which case is in some respects quite similar to the one under discussion. In that case the defendant had sold horse shoe nails imported from Sweden but which were there made on machines that fell within the specification of the plaintiff's patented machine, the invention being for improvements in the manufacture of horse shoe nails. In that case Lord Watson points out the difficulties encountered in estimating the damages done to the trade of a patentee by the illegal sales of an infringer, and I wish particularly to emphasize that he states that the damages must be more or less of an estimate. He said:

> 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. They must always be more or less a 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 patentee's 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 (the Swedish) nails had not been in the market.

There is one undisputed fact in this controversy and that is that the defendants made and sold 742,901 fasteners from stringers made on the infringing machines. The Referee, after carefully weighing the evidence, after considering the

(1) (1885) 2 R.P.C. 122; (1886) 3 R.P.C. 140; (1888) 5 R.P.C. 260.
(2) (1890) 7 R.P.C. 47 and 152.
(3) (1910) 27 R.P.C. 721; (1911) 28 R.P.C. 157.
(4) (1913) 30 R.P.C. 285; (1914) 31 R.P.C. 104.
(5) (1888) 5 R.P.C. 267.

legitimate foreign and domestic competition in fasteners, after considering the fact that for a period the plaintiff would sell its fasteners only to selected concerns in particular trades, and after considering the productive capacity of the plaintiff's plant, found that the plaintiff would have sold sixty per cent of this quantity of fasteners had not the defendants come into the market with their fasteners made on the infringing machine, and he estimated the plaintiff's profit thereon at ten cents per fastener; under this branch of this head of damages he found the plaintiff's damages to be $44,574.10. Respecting the balance of the sales made by the defendants he found that every sale of fasteners made on the infringing machine was an illegal transaction, and constituted an injury to the plaintiff, and on this ground he found the plaintiff entitled to damages, and he adopted the method of measuring such damages on a royalty basis of one cent per fastener, which would amount to $2,971.60, and this sum added to the other amount of $44,574.10 would make a total of $47,545.70, which amount he allowed under the first head in the plaintiff's particulars of damages.

Now was the Referee in error in his method of estimating the amount of damages arising under the first branch of this head of damages? I think not. It was perfectly proper to estimate in the best way he could the sales the plaintiff would have made but for the defendants' sales, and he estimated the damages arising therefrom in the way I have already explained. This, I think, was the only rule he could adopt. Lord Shaw, in *Watson* v. *Pott* (1), stated that:

> It is probably a mistake in language to treat the methods usually adopted in ascertaining the measure of damages in patent cases as principles. They are the practical working rules which have seemed helpful to judges in arriving at a true estimate of the compensation which ought to be awarded against an infringer to a patentee. In the case of damages in general, there is one principle which does underlie the assessment. It is what may be called that of restoration. The idea is to restore the person who has sustained the injury and loss to the condition in which he would have been had he not sustained it. * * *

The Referee was, I think, justified upon the evidence, in reaching the conclusion he did respecting this portion of the defendants' sales and I do not think his finding should be disturbed. I know of no better way of ascertaining damages, in patent cases, even though it be a rough and

(1) (1914) 31 R.P.C. at page 117.

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ready method. And in respect of such sales the plaintiff is, I think, entitled to substantial and not nominal damages.

Then as to that quantity of the defendants' sales which the Referee finds the plaintiff would not have made. He was of the opinion that the infringers should pay a royalty of one cent per fastener. That, I apprehend, is based upon the principle that every sale of goods manufactured by the patented machinery must be treated as a damage to the owner of the patent. Lord Watson, in the *United Horse Shoe Nail* case (1), said:

> 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; * * *

Fletcher-Moulton L.J., in the case of *Meters Ltd.* v. *Metropolitan Gas Meters Ltd.* (2), said:

> In the assessment of damages every instrument (meters) that is manufactured or sold, which infringes the right of the patentee, is a wrong to him, and I do not 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.

In *Watson* v. *Pott* (3), Lord Shaw said:

> If with regard to the general trade which was done, or would have been done by the plaintiff within their ordinary range of trade, damages be assessed, these of course ought to enter the account and to stand. But in addition there remains that class of business which the plaintiffs would not have done; and in such cases it appears to me that 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 everyone of the infringing machines in a market which the infringer, 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 Ltd. v. Metropolitan Gas Meters Ltd.* (2). Each of the infringements was an actionable wrong, and although it may have been committed in a range of business or of territory which the patentee may 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.

It seems to me that these principles apply here, and that is what the Referee has done in connection with this portion, the forty per cent, of the defendants' sales; he has measured the damages for such sales on a royalty basis of one cent per fastener and in the circumstances it seems

(1) (1888) 5 R.P.C. 267. (2) (1911) 28 R.P.C. 163.
(3) (1914) 31 R.P.C. 104 (H.L.) at p. 120.

that was a very appropriate method of fixing the damages in this connection, and the amount of the royalty is not, I think, excessive.

Although we are not here concerned with the profits made by the Colonial Fastener Company from its sales of fasteners, because the plaintiff did not elect to claim the profits made by the unauthorized use of its machine, still I think it might be mentioned that this defendant's profit on its sales amounted to $19,820.61 and that was after deducting $11,354.30 paid as royalty to the Prentice Manufacturing Company, which made the infringing machine. Altogether these two sums would amount to $31,174.91, and I think the amount of royalty paid should be added to the first-mentioned sum if one were required to ascertain the plaintiff's damages on the basis of the profits made by the infringer or infringers. This is itself quite a substantial sum, and while the plaintiff elected to take damages, I think it not unfair to refer to the profits of the infringers during the period of infringement, because it is of some assistance in the inquiry.

There is just one other point which I should mention, and I should have referred to it earlier. The defendants contend that it is only that portion of the price of the "fastener" represented by the "stringer" that should be considered in arriving at the plaintiff's profits and damages. As the Referee points out, in the case of the fasteners, the "stringer" is not only an integral part of the article but it is the main part of the article, and he proceeds to state that what the plaintiff has lost by reason of the defendants' breach of its monopoly is the sale of the article as a whole, and if the defendants had not made the sales in question the plaintiff would have made them, and therefore the plaintiff's loss is its loss of profit on the sales of the completed fastener. The Referee then refers to some authorities applicable thereto, such as the *Meters Ltd. Case,* the *United Horse Shoe Nail Case* (*supra*), and *Talbot* v. *Watson* (1). The Referee indicates in his report the particular passages in the reports of these cases which are relevant, and I need not mention them. I agree with the conclusion of the Referee on this point and it is not necessary that I should further discuss the same.

(1) (1886) 3 R.P.C. at 143.

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Subject to the one deduction I have made, I affirm the Report of the Referee as to the amount of damages to which the plaintiff is entitled, and there will be judgment for the plaintiff, with interest from the date of the Report of the Referee, in the sum of $47,574.10.

There remains the matter of costs to dispose of. At first I experienced the same difficulty as did the Referee in respect of the costs of the Reference, but on reflection I think the Referee reached the right conclusion.

In respect of the costs of the appeals from the Report of the Referee I think there should be no order as to costs. The plaintiff substantially holds the award made by the Referee but it has failed to increase the amount, and that was the purpose of its appeal. On the other hand, the defendants have failed practically to reduce the award, which was the purpose of their appeal. In the circumstances I therefore think there should be no order as to costs.

Judgment accordingly.

Following is the Report of Arnold W. Duclos, K.C., Registrar of the Exchequer Court of Canada, the Referee herein:—

On behalf of the plaintiff it is claimed that the following damages should be allowed, and I do not think I can do better than incorporate here the memorandum handed to me by Mr. Biggar, K.C. The terms "Unitary Machines" and "Divided Machines" will require explanation later. The memorandum is as follows:

MATHEMATICAL CALCULATION OF PLAINTIFF'S DAMAGE BASED ON DEFENDANTS' ACTUAL SALES

		Unitary Machines Ex. 5	Divided Machines Ex. 10	Total
1. Loss due to sales made by defendant of fasteners made in Canada on machines calculated on the price actually obtained by the plaintiff—				
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6a. Loss due to third cut in minimum price calculated on plaintiff's actual sales of fasteners over 7¾"— (Column VI. C.)..		2,204 85	2,204 85
7. Loss due to elimination of 5c. per piece on plaintiff's actual sales of fasteners over 7½"— (Column VI. D.)..	4,081 95	8,978 00	13,059 95
7a. Loss due to cut of ¼c. per inch on plaintiff's actual sales of fasteners over 7½"— (Column VI. E.)..		5,071 30	5,071 30
8. Loss due to Montreal Offices— (Column VI. F.)..	18,079 76		18,079 76
9. Loss due to elimination of delivery charges— (Column VI. G.)..	7,980 58		7,980 58
Total..	170,419 36	84,049 14	254,468 50

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Maclean J.

The plaintiff claimed that he would have made all the sales the defendants made, and one witness was optimistic enough to say that but for defendants' infringing acts, plaintiff would have manufactured and sold twice the quantity actually manufactured and sold by the plaintiff itself and the defendant, Colonial Fastener Co.

The first item of the above figures in the first column are arrived at by taking all the fasteners manufactured by the Colonial Fastener Co. on the machine which the court has found to be an infringement of the machine covered by the patent in suit and multiplying this figure by the price at which the plaintiff was selling, and deducting therefrom the manufacturing cost and that proportion of the administrative costs by which plaintiff says these costs would have been increased if it had sold the said fasteners as well as what it manufactured. No deduction is made for selling costs, plaintiff claiming that this would not have been increased by the sale of the additional fasteners. I will refer to this later. The number, 742,901 and that they are infringements is admitted by defendants, but it is claimed *inter alia* that deduction should also be made of the selling costs referable to the sale of that many fasteners, and also a proportion of *all* administration costs. The other items speak for themselves and will be discussed later.

The figures in the second column are fasteners made on two machines, not on the automatic machine found to be infringing, but which plaintiff says are infringements of the method claim. These are arrived at in the same way as those in the first columns. These amounts, the plaintiff claims, are the profit they were deprived of by reason of defendant's infringement and unlawful sales.

I understand the figures are admitted to be *mathematically* correct; at all events no application has been made to have same verified by an expert. I am glad that is so, because I doubt whether I would not have seen fit to appoint or recommend the appointment of a chartered accountant to fix the correct amount for profit from the many and complicated exhibits, as I do not presume to be expert in accountancy. Lest I should be wrong in my assumption, I will reserve defendant's right to apply to the court for the appointment of an accountant to fix the proper figure on the basis of my findings of law.

The defendants further contend:

1. That only the fasteners made on the unitary machines were infringements and that they only should be considered in fixing the damages.

2. That in arriving at the profit made by plaintiff on the sales, only the part of the price which was represented by the stringer fastener should be taken into account, and not the completed fastener with top and bottom attachments and the slider because, they say, the patent covers only the machine and the method of making *fastener stringers*, and that moreover the other parts were covered by other patents.

3. That only the machine should be considered and not the product.

4. That the price reductions were not caused by the acts of the defendant but resulted from market conditions, due to foreign invasion. That the defendants followed the plaintiff's reductions and did not initiate them and they should not be called upon to pay damages based upon such price reductions.

5. That in arriving at the loss of profit to the plaintiff due to loss of sales, the administrative costs along with the manufacturing and selling costs, should be deducted from the price received.

6. That the costs of a Montreal office ($18,079.76) should not be charged to it, as it was not a "direct and natural result" of the infringement. Same reasons as in No. 4 are given, and further that it was good business policy and brought more than the costs, in view of Montreal being the largest clothing centre in Canada.

7. That the elimination of delivery charges stands on somewhat the same footing as the price reduction and should not be charged to it for reasons already given.

8. They also say that during the period material herein the plaintiff did not use a machine as covered by the patent.

9. That the Prentice Company having begun to manufacture while the patent had lapsed and before restoration he could keep on doing so and could therefore not be said to infringe.

I think it would be well, before entering into discussion of each separate item of damage, to state what I consider to be the general principles governing the assessment of damages in patent matters. These are fairly well established, but the difficulty arises in the application of these principles to the several cases. It is settled jurisprudence as stated by Terrell and others that the plaintiff should be compensated for the *loss* caused him by the infringers' acts, that is, "be restored by monetary compensation to the position which he would have occupied but for the wrongful acts of the defendant." Of course such loss must be the "natural and direct consequence of the defendant's acts."

There is a further general division of this loss to the plaintiff. Thus, where a patentee uses his monopoly by manufacturing the object covered by his patent in order to get the increased profits, his loss, generally speaking, is to be calculated on the basis of what the loss of profits to him on the sales of the object made by the defendant, if made

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by him, would have been; whereas where the patentee permits others to use his invention in consideration of a royalty, his loss in such a case is the loss of the royalty, that is, the damages should be assessed on the basis of a royalty. Moulton, L.J. 28 R.P.C. 164—l. 40. It is to be noted that the profits allowed are only those on sales of defendants which plaintiff would have made. This aspect of the case will require, and be given, detailed consideration later.

The onus of proof in patent cases seems to be very much the same as in ordinary cases. The plaintiff must establish the damages he claims, but the defendants' acts being tortious this burden is greatly lightened by the readiness of the courts to presume that invasion of patentee's monopoly will cause him damage, and many Judges have expressed the opinion that these damages cannot be mathematically calculated. Courts have awarded substantial sums in damages in such cases. See the remarks of Lord Moulton in the *Meters* case (28 R.P.C. 162—42), and also those of Cozens-Hardy, L.J. in the same case at page 161—10, citing the language of Vice Chancellor Page Wood as reported in the case of *Penn* v. *Jack*, L.R. 5 Eq. 81, also Lord Shaw in *Watson* v. *Pott* 31 R.P.C. 118.

Moulton, L.J. (page 163—36) says: "The defendants have set up here—the burden of proof is on them—that there is a secondary rule of law, that where a defendant has sold infringing articles the plantiff can only recover damages in respect of those which he can show would have been bought from him, if the defendant had not infringed." The examples given by their Lordships are helpful in the present case. At page 164, line 25 His Lordship further says: "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."

As a further preliminary remark, let me say that I consider all the evidence adduced and exhibits filed at the trial herein are before me in so far as the same may be material to the present issue, or be of assistance to me in the determination of the same.

I might say also, as to the evidence in general, that so far as the volume of sales by defendants is concerned there is no dispute, the plaintiff accepting the number given by the defendants. When, however, we reach the realm of the problematic opinion evidence as to what business would have been done or not done, I am faced with the great optimist and pessimist and will, on some points, have to find corroboration or denial in the surrounding circumstances. Mr. Biggar, K.C., tried in argument to weaken the evidence of Beddoe, but I cannot agree with this. Mr. Beddoe and Mr. Kahane, heard for the defendants were the only two outside witnesses on general condition of the market. I believe they were honest and were both most competent to speak on the questions discussed. The other outside witnesses heard in rebuttal were only on some particular point.

With these general, and I think well-established rules of law and jurisprudence, I will now consider the separate items of damage claimed by the plaintiff upon and in view of the evidence of record, and in the light of the jurisprudence applicable to each.

Now as to the first defence raised by the defendant, namely, that fasteners made on what has been referred to as two machines, e.g. not on the machine which the courts have found to be an infringement, are not infringements, and as such cannot be taken into account in assessing the damages. It appears from Mr. Willetts' evidence, which is not contradicted, that over a certain period, to wit, between June 8, 1932, and May 15, 1933, the defendant, Colonial Fastener Co., did not use the automatic or unitary machine, found to be an infringement of plaintiffs patent, to manufacture fasteners, but used the two or divided machines solely during this period, and it is claimed that for this reason alone I should not include fasteners made thereon in arriving at the quantity of infringing articles. He also described the operation of making fasteners on these machines. The plaintiff claims that these fasteners are an infringement of the method claim, as the operation on one or two machines is substantially the same. I cannot agree with the plaintiff on this point. I have re-read the argument before the President, and find no reference to the method claim. The whole argument went to show that the

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plaintiff's machine was "an automatic machine for the purpose of producing what is practically a new product," that is (the machine) was quicker, cheaper and operated with unvarying success. It was stressed that the invention in this machine consisted entirely in the combination *in one machine,* operated from a single source of energy and all the parts co-operating with all the other parts to produce a given result. In other words the invention here is in the ingenious combination in *one automatic machine* of old devices to produce a new article. (For full description of the machine, etc., see Reasons for Judgment of the Honourable the President.)

Now from the reasons for judgment aforesaid, pp. 8 *et seq,* it is clear that the reason which lead the Court to find invention was because of the unitary principle and *the combination in one machine*—and that though he found the patent valid as a whole, it must be understood that the "method" was one of making fastener stringers on this unitary machine. The learned Judge only found invention in the machine (see p. 9 of Reasons for Judgment). This is made even clearer upon reading the President's remarks regarding infringement by the defendant's machine (pp. 9 and 12).

This judgment was reversed by the Supreme Court of Canada but, as already remarked, was restored by their Lordships of the Privy Council, save as aforesaid.

Their Lordships in their judgment lay great stress on the matter of the invention or patentability being in the "idea of combining in this class of work all the necessary operations *in one machine* . . ." Again they say "So far from the *combination* being obvious . . ." In fact in all but one paragraph their Lordships discuss this question, then at the bottom of page 10 they say, *re claim 19:*

> This is a method claim. It is said to be anticipated by Aaronson's patent, but even if the method is limited to fixing members onto stringers the claim is for something which had never been done before, namely, producing stringers fitted with identical members so that a pair of stringers can co-operate to form a complete fastener. Their Lordships think that this is a novel claim with ample subject-matter and is valid and has been infringed.
>
> The respondents laid some stress upon the fact that by their machine the members are fixed lightly to the tape which has subsequently to be further treated in another machine. The fact that their *machine* is not as efficient as that of the appellants will not enable them to escape the charge of infringement.

I think it clear that in the judgment of their Lordships of the Privy Council one must read after the word "infringement" at the end of the first paragraph the following: "by manufacturing the fasteners in question on the patented machine in accordance with the said method." Would not claim 19 be invalid if as broad as plaintiff would make it? In fact the units on the stringers made by the defendants were not exactly like plaintiff's, and it must also be borne in mind as worthy of some consideration that, in an action by plaintiff against these defendants involving a patent on a similar "unit" was dismissed. (See Ex. X.) In any event, I do not think, on the facts, that the operation explained by Willetts, in using the two machines, can be said to be an infringement of claim No. 19. After consideration of the judgments aforesaid, and the evidence of record, I am of the opinion that the fastener stringers made on the two or divided machines, as explained by Willetts, are not infringements of plaintiff's patent, and, therefore, for purposes of fixing damages I disregard the same. This disposes of all items in the second column of plaintiff's claim amounting to $84,049.14.

We then come to *defence No. 2,* a question of law which might better be disposed of at this point. The defendants claim that that part only of the price of the fastener, represented by the "stringer," should be considered in arriving at the profit and damages. That is to say, in arriving at the loss sustained by the plaintiff by reason of loss of sales, the profit-forming part of the plaintiff's damages should be the profit on the fastener "stringer" alone, and not on the completed fastener, because, they say, the patent covered a machine for making *fastener stringers* only. I cannot agree with this contention of the defendants.

The law on this point will be found in Terrell, 8th edition, pp. 441-2: "Where the infringement is a part only of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that part alone, if the infringing part is clearly separable and does not co-operate with the rest to produce the new effect which is the feature of the patented invention in question. But where it is an integral part of a machine as a whole, damages must be based on the fact that the plaintiff has lost an order for the whole machine, and the profits on the whole machine must be taken into account."

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In the case of the fasteners, the "stringer" is not only an integral part of the article but it is the main part of the article and thus this case is much stronger on the point than the cases referred to below.

In the present case it seems clear that what the plaintiff has lost by reason of the defendants' breach of its monopoly is the sale of the article as a whole. If the defendants had not made the sales in question the plaintiff would have made them and therefore the plaintiff's loss is its loss of profit on these sales of the completed fastener. This applies only, of course, to those sales which it is proved the plaintiff would have made. This will be discussed later.

I would refer to the remarks of Eve, J. in *Meters Ltd.* v. *Metropolitan Gas Meters, Ltd.* (1); and also the remarks of Cozens-Hardy, M.R. in the same case on appeal (2); also the remarks of Lord Moulton, p. 162, line 42; also the remarks of Lord Buckley, p. 165, line 36.

In this case the patent covered a particular kind of mechanism to control the opening of a gas valve in a prepayment gas meter, a small part of the meter, yet the damages were based upon the price of the whole meter. See also the remarks of Lord Kinnear in *United Horse Shoe Nail* v. *Stewart* (3).

The case of *Talbot* v. *Wilson* (4) has, to my mind, no applicability to this case. There the patented article was a carburetor and control mechanism installed in a motor car, which is not in any way analogous to the present case. It was a mere accessory of the car. It could scarcely be argued that the presence of the patented device sold the car. On this point, therefore, I think that as regards the sales made by the defendants, which have been proved to the satisfaction of the Court the plaintiff would have made, the basis for assessing damages should be the profit that the plaintiff would have obtained had it sold the completed fastener, and not the stringer alone.

By their *third defence,* defendants claim that as the patent in suit is for a machine and a method of making stringer fasteners thereon, that the machine and not the product should be considered in fixing the damages. I do

(1) 27 R.P.C. 730, line 20 *et seq.*
(2) 28 R.P.C. 160, line 47.
(3) 3 R.P.C. 143 at bottom.
(4) 26 R.P.C. 467.

not agree with this view. It is true as was argued (pp. 704-5) that an action by plaintiff against defendants, and based on a patent covering the unit was dismissed, but if defendants made such unit on a machine covered by the present patent then they infringe the same. The only way of arriving at the value of the monopoly to plaintiff or the damage caused it by defendants' acts, is by reference to the market value of the product and the revenue derived from its sale and distribution. Comparatively few machines can furnish the whole Canadian market, and in order to find the value to defendants of the use of such machines, one would naturally find the product thereof and the revenue therefrom to fix a fair royalty. In fact such a contract existed or exists between the two defendants, Ex. 19, whereby *inter alia,* a royalty is fixed based on the gross sales price of the product and a rent for the machine. I find that the only way, or at least the best way, to assess damages in these cases is to find the reasonable loss to plaintiff by the sale of the product or the loss of a fair royalty which defendants should have paid for manufacturing the product in question. I will follow this course in the consideration of this case.

There is another general defence made by the defendant, George E. Prentice Manufacturing Company, numbered 9 above, based upon section 47, ss. 6 of the Patent Act, which had better be discussed here. This defendant claims that he began lawfully to manufacture, use, and sell in Canada the invention covered by the patent in suit during the period when such patent was void, i.e. had lapsed, and before it was restored, and that it could continue to do so as if it had not been restored and revived, and that he has not infringed and cannot be condemned to pay damages. I am not discussing whether the facts alleged are proved or not, though I fancy they are, from the evidence at trial and before me, and a perusal of Ex. Z; I cannot however see how this comes before me on this reference. The judgment of the Privy Council, and the judgment of this Court, which is affirmed, both find that the *defendants* have infringed, and it is not for me to pass upon this question. In any event the question is largely academic, inasmuch as, by the contract, Ex. 19, the George E. Prentice Company has undertaken " to defend at its own expense any suit brought

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against (Colonial Fastener Co.) for alleged infringement of any other patent because of the sale of fasteners under said Canadian Patent No. 286,528, and will pay any money damage obtained against (Colonial Fastener Co.) in the nature of royalty on the fasteners sold by (Colonial Fastener Co.) and will pay the costs of said suit" . . . So that whether one finds joint and several liability for the damages herein or not, the Prentice Company must eventually pay them, or at least the equivalent of royalty. As a matter of fact the one furnished the gun with which the shooting was done, whilst guaranteeing it was not loaded. *In so far as I can,* I will reserve this question for the decision of the Court.

In any event the infringements by George E. Prentice Co. in this action must be found subsequent to 1930, and therefore must consist in their exporting and renting to Colonial the machines found to be infringements, for use by them here.

Coming now to the discussion of the first item claimed by plaintiff, namely, the sum of $87,593.72. This, the plaintiff says, is the damage suffered by it by reason of the loss of profit it would have made from the sale of 742,901 fasteners sold by the defendant, Colonial Fastener Co. which would otherwise have been sold by it. This sum is arrived at by taking the price received by plaintiff from time to time for the completed fastener, and deducting therefrom the manufacturing costs and such items of administration costs as would be increased by making these sales. This amount of $87,593.72 represents a profit of $·1179 per fastener, which is an average profit, due to the price changing from time to time. From an examination of Exhibit 5 one gets profits varying from $·099 to 15 cents or an average of over 12 cents per fastener; but this is before deducting items *re* administration shown in Exhibit 13. But there is no allowance made for possible selling costs of this extra quantity.

There is no dispute about the number sold, to wit, 742,901 but the defendant claims:

1. that the profit should be calculated on the sale of the stringer alone;

2. that as the sales by defendant were made to its own customers and to those to whom the plaintiff had refused

to sell; plaintiff suffered no damages, or at most, the damages should be calculated on a basis of royalty.

3. that even if the loss of profit is to be the basis, then in arriving at such profits one should deduct not only the manufacturing costs and part of the administration costs, but all the administration costs and the selling costs.

In the case of *Watson Laidlaw & Co.* v. *Pott, Cassells and others* (31 R.P.C. 104) before the House of Lords, their Lordships discussed the question very fully referring to the previous leading cases on the same point. I gather from this case that each sale of the infringing article is a separate tort; that the onus is upon the plaintiff; that where the plaintiff elects to take damages these damages are the loss sustained by it by the fact of the infringer selling what it would have sold, i.e. the loss of profit the plaintiff would have made had he sold the articles sold by the infringer. In reference to the sales made by the infringer, which the court concludes the plaintiff would not have made, the basis for damage is a fair royalty. Practically all judges refer to the difficulty facing them in such matters and the impossibility of arriving at the amount with any kind of mathematical accuracy. Lord Shaw says that this is accomplished "to a large extent by the exercise of a sound imagination and the practice of the broad axe." This was cited to me by counsel for the plaintiff as an authority in its favour only. However, I think the meaning of Lord Shaw's words is really another way of saying that accuracy was impossible and that imagination must be exercised for or against the plaintiff. It does not mean that one can be generous, for damages are by way of compensating the plaintiff and not as a penalty or punishment of the defendant.

It might here be mentioned that the defendant, Colonial Fastener Co. has admitted that its profits from the sale of these 742,901 fasteners amounted to $19,820.61; and in arriving at this amount they have deducted all royalties paid Prentice Co. ($11,354.30) and all items of general overhead, from the price received, which I think should not be deducted in ascertaining profits in a case like this. Moreover, the price of the stringer only is taken into account and not the whole fastener. I am, however, not interested in the

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exact amount of alleged profits to defendant by reason of its unlawful acts, because I wish to make it clear that I am not using these figures as a basis for fixing the damages. Netherless, it may be of assistance in fixing a fair royalty, and is a help in judging the reasonableness of the figures allowed the plaintiff.

The first defence has already been dealt with.

As to the first part of the second defence that plaintiff is not entitled to *anything* as damages unless it proves that if the Colonial Fastener Co. had not made the sales, the plaintiff would have done so. This is unfounded, even as to the sales made by the defendant to the parties to whom the plaintiff had refused to sell. I find that as to such sales the defendants are liable to pay a fair royalty, that is, they must pay the plaintiff what it would have cost them to make these sales lawfully. (See remarks of Moulton, L.J. in the *Meters Case,* 28 R.P.C. 165, lines 14 to 25).

The case of *Pneumatic Tyre Co.* v. *Puncture Proof* etc. 16 R.P.C. 209 at p. 212 was cited as an authority which should be followed, and which rejected the resort to royalty in a case like the present. I cannot agree; the facts there were different but the law laid down is in line with the cases herein referred to. It may be arguable whether plaintiff can recover anything on sales which it had refused to make, or would not have made, but as to such sales I have had to resort to royalty on the suggestions to that effect found in the *Meters case* (supra).

The Patent Act, Sec. 40, provides means to force the owner of a patent who fails to satisfy the public demand, to grant licences to others to do so, etc., but it does not permit a person to use a monopoly without compensating the owner. On the other hand, I do not think, as contended by plaintiff, that it (plaintiff) could claim to have suffered a loss of profit on sales it refused to make or for any other reason it would not have made. The question then becomes one of law and fact as to whether the plaintiff has discharged the onus on it by law, in view of the evidence that plaintiff would not have made all the sales which were made by defendants, then as to what part or portion thereof is it entitled to claim a loss of profit, what that profit is or should be, and on what part it is entitled to receive a fair royalty, as damages, and lastly what should this royalty be?

On these points the evidence generally is unsatisfactory. (As to question of onus see *Meters Case*, 27, R.P.C. 731, line 14, where one who had not tendered was refused loss of profit; and see lines 21-23; See also same case, 28 R.P.C. 165, line 15).

If the plaintiff had been the only company that could have lawfully sold in Canada, the general evidence that it had lost the sale of at least 742,901 fasteners by reason of the defendant's infringement, which it could have made, without proving specifically that actual sales made by defendant would have been made by it, would probably have been enough to establish its right to loss of profit on all the sales, at all events, it would constitute a strong prima facie proof. However, the situation here is quite different. We have in the early period importations from the United States and later from Germany and England, etc., and in 1934 we have the Hamilton company, a strong home competitor. In the circumstances the case requires definite and affirmative proof. What proof have we on this point?

The plaintiff's evidence in chief on this was to the effect that it could have manufactured the quantity manufactured by the defendants as well as its own, but does not state it would have made the actual sales made by the defendants. In fact it is stated that it was their policy to make agreements with certain firms by which it would bind itself to furnish fasteners to them alone for use on the particular article put out by them, and over a dozen names were given to whom plaintiff had refused, from time to time, to sell, because of these exclusive contracts. True, it was also stated that under this policy the purchaser of fasteners was induced to push the sales more than if the market was open and thus it would benefit more from such contract, or as much as from selling in the open market. I can understand how, in order to introduce the fastener, such an agreement would be mutually beneficial, but after all the plaintiff's sales are limited by the output of the manufacturer to whom it sells. I fail to see how such contract, could, with advantage, be kept up, especially after importations came in from the United States, Europe and England. I am confirmed in this opinion by the sales manager of the plaintiff, Mr. Kelly, when in Ex. F. he speaks of the value of such arrangement in "pioneering" days

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(See Ex. F. Pars. 3 and 5). The plaintiff itself claims that the defendant Colonial Fastener Co's entry in the market with the infringing article forced it to give up this policy; but I cannot agree that said defendant was alone responsible for this change, several market conditions have to be considered. It should be noted that late in 1930 this policy was practically abandoned, though kept up in the case of unexpired contracts till 1931.

The witness Willetts at page 534 says that in 1930 all their sales were to parties to whom the plaintiff had refused to sell. This is probably right, because this was at a time when the plaintiff still had the restricted contracts. At page 539 he estimates that 35 per cent of the total sales of 742,901 were to persons to whom the plaintiff refused to sell, or who could not obtain same from plaintiff. Considering that the sales of the defendant, Colonial Fastener Co., are only about 10 per cent of those made by the plaintiff, this may be a fair estimate.

An uninterested witness, Beddoe, said that no more than 15 per cent of the sales made by defendant would have gone to plaintiff and gave reasons for so saying. An examination of Exhibit 18—list of defendant's customers, and Exhibit 22—list of plaintiff's customers, seems to show that many of defendant's customers were also customers of plaintiff. In fact, some were undoubtedly plaintiff's customers and only dealt with defendant, Colonial Fastener Co., at times.

I might here note what I consider is a significant piece of evidence on the defendant's influence on the Canadian market and the existing prices, though I shall have to refer to it again when dealing with the forced reduction in prices by plaintiff. At page 182 of the evidence Mr. Fox gave us the percentage which the production of their No. 5 unit bore to their total production and sale of units. From his statement it appears that the percentage of No. 5 unit to the total production and sale increased from 32 per cent in 1928 to over 87½ per cent in 1933 and that in 1934 it dropped a little below this figure. That is there was steady increase from 1928 to the end of 1933 in the sales of the No. 5 unit, *which was the only one manufactured by the defendant*. I gather from this that the sales by defendant, Colonial Fastener Co., did not influence plaintiff's sales to

the extent to which the plaintiff would have me believe. Plaintiff's evidence on this aspect is general, and given by their own officers, and is flatly contradicted by defendant's officers, but in support of the defendant's contention we have Mr. Beddoe, an independent witness, fully competent to give an opinion on the question. There is no doubt, I think, on the evidence as a whole, that some of the defendant's sales would have been made by the plaintiff, and no doubt some would not, and as to the latter I will apply royalty and not profit as a basis for damages.

On the question of what percentage of 742,901 sales is to be credited to plaintiff I will be forced to follow the suggestion of Lord Shaw and exercise a sound imagination in arriving at this figure. The defendant might have made a clearer and more positive proof of the sales that would not have gone to plaintiff in any event, but as the onus of proving the positive was on the plaintiff and as an adjournment was granted after defendant had closed its evidence, and as the rebuttal does not make the matter much more definite, I find the plaintiff has failed to prove it would have made all the sales. After carefully weighing the evidence as a whole, I find that at least 40 per cent of the defendant's sales would not in any event have been made by the plaintiff, to wit, 297,160 fasteners, and on these I will allow it a royalty as damages. On the amount of this royalty I have not had much help, but in order to save costs I will do the best I can, upon all the evidence before me. There is the royalty paid by Eaton Company to plaintiff and the royalty agreed upon in a similar matter in the United States by Prentice, and that paid by Colonial Fastener Co. to George Prentice Co. as appears from Ex.19, namely, 15 per cent of the gross sales price. From the affidavit of Mr. Willetts, filed 24th September, 1934, the total sum received from the sales of the 742,901 fastener stringers amounted to $84,913.50, 15 per cent of which represents $12,737.02 being the total royalty on this number of fasteners, or making a royalty of $·0171 per fastener, or about $1\frac{3}{4}$ cents. Mr. Prentice at page 712 says that he has granted licences and has been offered licences at the rate of $\frac{2}{3}$ cents per fastener. I have only gone into these figures with a view to fixing a fair sum to be allowed as royalty. These are however not quite compar-

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able to that which I have to fix, owing to other considerations and concessions in the contracts. Generally speaking royalty is what the market will stand. That is in fixing a royalty, one must find the market price, and deduct the expenses and costs of manufacturing, etc. and find the profit. Then arrive at the proportion of that profit which can properly be said to be due to the invention. A number of factors must be considered, such as the volume of sales, etc. The evidence is slim but I will express an opinion, glad that if wrong, I can be put right, by this Court, or other Courts to which an appeal lies in the premises. I will fix the royalty at 1 cent per fastener, and would therefore assess the damages for the loss of these sales at $2,971.60.

Now as to the balance of the sales, to wit, 445,741 fasteners, I find the evidence establishes that plaintiff would have made these, or at least have lost the sale of that many by reason of defendant's acts, and it remains to fix the loss of profit that plaintiff has sustained by reason of the loss of these sales.

Early in the inquiry defendant put questions to the plaintiff's witnesses to obtain from them their administration costs. Objection was made by plaintiff and maintained by me. I, perhaps, should have allowed the evidence in to be dealt with by the final judgment. My reasons for so ruling will appear of record, but mainly they were these. What the plaintiff is entitled to get by way of damages is the loss to it. It was established by evidence that their existing establishment could have manufactured and sold as many more as the defendant had manufactured without extra administration costs save such as appear by Ex.13 and have been deducted from the price, to arrive at the profit. Among those not increased were included such items of cost as salary of the managing director, other office salaries, rent, insurance, etc. I think it is evident, without proof, that such extra sales could have been made without any increase in the above, and therefore this proof was immaterial, this increase being approximately only 10 per cent of the plaintiff's sales. I am confirmed in my view then taken by the subsequent evidence and the jurisprudence read, that, in arriving at the profit for the basis of the assessment of damages,

such administration costs should not be deducted. See remarks of Lord Kinnear (3 R.P.C. 141 at p. 144, lines 2 and 3) where he refers only to manufacturing costs, and Moulton, L.J. (28 R.P.C. p. 163, line 44) who refers to manufacturing profit. I assume that the learned judges used the exact words they meant to use, no more and no less.

I find that the plaintiff has followed the right principle in fixing the expenses to be deducted from the price to find the profit of which it has been deprived by the acts of the defendants. However, I think some further amount should have been deducted for the costs of selling this extra number of fasteners, See Ex. 13 and p. 295 of evidence, and as the defendant, Colonial Fastener Co. sold the greatest quantity or proportion of the 742,901 during a period when the prices were low, and consequently the profits were less, for the manufacturing and administration costs did not vary with the price, I think justice will be done if I fix the plaintiff's profit per fastener at 10 cents, and that this is a reasonable figure to accept as the loss of profit to plaintiff on these fasteners, where the profit is to be taken as a basis for the damages, namely, on 445,741 fasteners.

I therefore find that the plaintiff should recover from the defendants, under this head, the sum of $44,574.10; making a total for the first item of the first column, namely, plaintiff's loss on sales made by defendant, of $47,545.70.

The next item to be discussed is that referring to the damages claimed by reason of being forced by defendants acts to reduce its prices. The plaintiff says that but for the infringement by defendants and their cutting the prices, it could have maintained its regular price, and that in consequence it is entitled to recover from the defendants the difference between the price it says it could have maintained and the actual price at which it sold, both as regards its sales as well as the sales made by defendants.

For reasons already mentioned as to the non-infringing machines, all items in the second column must be refused.

The following items shown on pages 3 and 4, supra, to wit, those numbered 2, 3, 4, 5, 6, 7 and 9 are susceptible of the same treatment and of being discussed together. How-

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ever the proof as to the first reduction is on a different footing than that affecting the second and third reductions.

There is no doubt, I think, from the remarks of the judges in the following cases that the plaintiff is entitled in law to be compensated for such losses, but it must be proved that such reductions are the natural and direct result of defendants unlawful acts: *United Horse Shoe Nail* v. *Stewart,* (1); *American Braided Wire* v. *Thompson,* (2); *Meters* v. *Metropolitan Gas,* (3); *Watson* v. *Pott,* (4).

Then, again, it is possible that in some instances, it may be found that the defendants have contributed to bringing about a condition in the market which compelled plaintiff to reduce prices to meet competition, but were not alone responsible in bringing about such a condition, and in such a case I will be obliged to arrive at some ratio of responsibility between all the contributing causes, as will do justice between all parties.

This is not an easy matter. There is no doubt that the fact of an infringer being in the same market is not a help to plaintiff, notwithstanding the greater salesmanship. However, one must be sure that the condition of the market follows upon the acts of the defendants, always keeping in mind that it is compensation and not punishment that is being meted out.

As to the first reduction in price, covered by items numbered 2 and 5 of list on page 3 hereof. The witnesses called by plaintiff, when first called, claimed that this first cut was forced upon it by reason of the defendant, Colonial Fastener Co. cutting prices; that it followed but did not lead in this price cutting experiment; that although there was a substantial quantity of fasteners imported from abroad, it was not enough to compel it to reduce its prices; that the home competition was the only really serious one. The defendants have filed two exhibits on this point which to me are positive proof that the defendant, Colonial Fastener Co. did not reduce its price before the change made by plaintiff on June 18, 1931, these are Exhibits A and Q. These to me are complete corroboration of the testimony

(1) 3 R.P.C. 140 and 5 R.P.C. 250.
(2) 7 R.P.C. 47 and 152.
(3) 27 R.P.C. 721 and 28 R.P.C. 157.
(4) 30 R.P.C. 285 and 31 R.P.C. 104.

of defendant's witnesses to the effect that the plaintiff initiated the reductions in every case and that they only followed.

The plaintiff then tried to show that the only way it could find out whether defendant was cutting prices or not was from statements made by prospects to the salesmen or from general trade rumours. This, I think, is a very risky foundation for sworn testimony.

I can easily imagine a proposed purchaser wishing to buy as low as possible, saying to a salesman, I can get this from Colonial Fastener Co. for less than your price, without any foundation—only bluff. This is not evidence, and if plaintiff became panicky and lowered its price because of such rumours or statements, it is unfortunate if it were thereby misled, but hardly something for which the defendant can be held responsible. I am satisfied that it was not the direct consequence of any act of the defendants, for I cannot find on the evidence that the defendant, Colonial Fastener Co. initiated this price reduction, nor were their sales sufficient to have forced plaintiff to reduce its price, and therefore I think these two items, $15,161.32; $26,632.55, must be refused. The other item (No. 9) for $7,980.58 in respect to giving free delivery, really part of this reduction, is discussed below. (See argument p. 825). For the same reasons item $2,991.95 would be refused, even if it is found that fasteners made on the two machines are to be taken into consideration.

There were other fasteners legally on the market besides those of plaintiff and defendants, and one cannot and must not *infer* that the reduction was the natural and direct consequence of defendants acts. Again, I repeat as worthy of consideration on this point also, the fact of large and steady increase in plaintiff's business in No. 5 units, and the small quantity sold by defendants as compared with that of plaintiff. It follows that plaintiff must clearly prove that the reduction was due to defendants acts, which, on the whole evidence, I do not think is proved.

In the case of *United Horse Shoe Nail Co.* v. *Stewart & Co.* (1) lines 50 to end of page, and p. 269, lines 1 to 9, Lord Macnaghten found there was no right to recover such

(1) 5 R.P.C. 260 at p. 268.

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loss on facts similar to those in this case. See also same case at p. 267, lines 25-35, and the same case in 3 R.P.C. 139 at p. 144, lines 21 and following.

In *American Braided Wire* v. *Thomson* (1), the headnote reads: "That the facts in this case were entirely different from those in *The United Horse Nail Company* v. *Stewart* in which case the plaintiffs themselves reduced their prices and were claiming damages in respect of that reduction," and also idem p. 160, lines 1 to 7.

Now, coming to the second reduction in prices, namely, those of February, 1934. In reference to these the plaintiff's witnesses, all officers of the company, claimed that the defendants acts of infringement were the sole cause for their reducing their prices on this date, and that the presence of the foreign importations was a trivial matter and that they could easily have competed with them and maintained their prices. They admit, however, that the volume of sales by the foreign importer were at least equal to the sales made by the defendant, Colonial Fastener Co. The evidence of the defendant, through its officers, corroborated however in substance by two independent witnesses in the same business, is a straight contradiction of plaintiff's evidence and is to the effect that the foreign importations from Czechoslovakia, Germany and England were a serious menace to the local market both on account of the volume of sales and the lower prices at which these countries were able to sell here, that is, they delivered as satisfactory an article here to the customer for a price lower than the plaintiff's price. Of course all persons called maintained that their fasteners were the best on the market, but I have ignored such proof. It was also proved that the plaintiff applied to the Tariff Board for protection against these importers, and letters to the trade by plaintiff (filed) show how keen and dangerous this competition had become.

It was further proved that in the early part of 1934 a very large and strong corporation from the United States, with a subsidiary at Hamilton, The United-Carr Manufacturing Co. established a business there, becoming a powerful competitor of plaintiff's, which has its establishment at St. Catharines, only a few miles away from Hamilton.

(1) 7 R.P.C. 153.

Even if the witness Kahane who gave the volume of his sales at about 400,000 in 1932, stating them to be about 10 per cent of the total imports, and if this percentage is not quite accurate, and even if the letters of plaintiff, Exhibits C and D, being trade sales letters exaggerated and magnified difficulties, as probably they did, for purposes for which such letters are written, it is, however, beyond any doubt whatever that the importations into Canada during the period preceding the price reduction were very substantial and menacing. It is immaterial for my purpose whether the volume was two or three million fasteners. It is enough for my purpose if the volume of the importations was enough, and the lower price was such as to suggest to plaintiff the advisability of reducing its prices to meet the said competition.

In face of such evidence I cannot accept the evidence of plaintiff that this and the fact of a new and powerful competition locally was unimportant and had no bearing on its price reduction. Neither can I accept the position put forward by the defendants on this point that the importations were the sole factor to be considered and alone forced plaintiff to make the reductions.

On the 25th April, 1933, the Supreme Court of Canada gave a judgment in this case dismissing plaintiff's action, and no doubt and with good reason defendant, Colonial Fastener Co., became more aggressive and in fact sold practically as much for the period between July, 1933, and March, 1934, as was sold during the balance of four years.

After carefully considering the evidence, I have arrived at the opinion that all these things, to wit, the foreign invasion, the new competitor in the local market and the competition of the said defendant were instrumental in deciding the plaintiff to reduce its prices as aforesaid, and therefore the defendants must be held responsible for part, but which part is a difficult question and one which I have to answer. It is one on which no two persons would likely agree upon separate consideration of the evidence, because after all it is a figure which cannot be arrived at with any degree of mathematical accuracy. It is at best a justifiable guess or opinion based upon the evidence before me.

On the whole, the United Carr Manufacturing Co., being in the same locality as plaintiff and the importations being

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lower in price, I have decided to divide the total losses to plaintiff in the ratio of 25 per cent, 37½ per cent, and 37½ per cent, and would charge the defendants with 25 per cent of the losses.

Now the figures involved are those numbered 3, 4, 6 and 7 on pages 3 and 4 hereof, namely, (3) $5,042.44; (4) $1,210.50-$6,252.94, and (6) $4,636.54; (7) $4,081.95-$8,718.49. These must be divided into two; *first,* the losses based on defendants' sales, namely, No. 3 and 4, $6,252.94; and *second,* those based on plaintiff's own sales, namely, Nos. 6 and 7, $8,718.49, for the following reason:

In reference to losses from forced reductions based on defendants' sales the 25 per cent thereof to be charged against defendant must be taken on 60 per cent of the said sales, because it is only on 60 per cent of defendants' sales that plaintiff is entitled to get loss of profit; as on 40 per cent it is to be paid a royalty which is not affected by the reduction in prices. Now 60 per cent of $6,252.94 is $3,751.76 and 25 per cent of $3,751.76 is $937.94 for which defendant is responsible regarding its own sales and 25 per cent of $8,718.49 is $2,179.62 *re* plaintiff's sales, making a total of $3,117.56 which I find plaintiff is entitled to recover from the defendants as damages resulting from the said forced reduction in price.

With reference to fasteners made on the two machines, affected by the second cut, if it is found these are to be considered as infringements, then they must be reduced in the same proportion as figures given for the admitted infringements.

The only losses claimed to have been suffered by reason of the third cut have reference to fasteners made on the "divided machines" and have been found not to be infringements. These are numbers 3(*a*), 6(*a*) and 7(*a*) of the claim, and would fail for reasons aforesaid. If, however, it is found that the fasteners made on the divided machines are to be considered as infringements, then the reasons and remarks above respecting the second cut would apply and only part of these sums should be allowed as stated in reference to the second cut.

Special reference should be made to the claim for loss due to being forced to grant free delivery, item 9 above, because separate argument was made on the point. Plaintiff stated

that defendant, Colonial Fastener Co., had reduced its price by offering to make free delivery. This is not proved; the only free delivery by defendants was in their own city (Montreal) and this had existed from the beginning. Plaintiff in argument went further claiming that because of defendants' free delivery in Montreal it was forced to give free delivery not only in Montreal, but to other points as well, because of competition between customers.

It was natural and necessary that defendant give free delivery in Montreal, and in this there is no unlawful act of the defendant to injure plaintiff. To find anything unlawful one must go back a step or two to the infringement and say, you infringed and because your infringement was in Montreal, and because you there gave free delivery, therefore we were forced to do so, not only in Montreal but to all our customers, because of the jealousy which would otherwise exist between them. This is too remote to hold defendant responsible in damages, it is not the direct and natural consequence of any unlawful act of defendants. This claim is for $7,980.58 and was really part of the first reduction of June 18, 1931, as appears from Ex. A. For these reasons as well as those given in respect to the loss generally from the first reduction I find that this sum must be refused.

Now in reference to the claim for $18,079.76 Ex. 7, the cost of maintaining an office in Montreal during a certain period. The plaintiff says that by reason of defendant, Colonial Fastener Co., selling the infringing fastener in Montreal, and by giving free delivery and by reducing prices and otherwise dislocating the trade, it was forced to establish an office in Montreal. That if the said defendant had not entered the field, it (the plaintiff) could have controlled the market from St. Catharines and, therefore, the claim. In argument counsel claimed that in order to refuse this claim I must find that the witnesses so testifying perjured themselves. I do not think it is necessary to do this to arrive at such conclusion. True, it is a statement made by witness, but based on certain facts which witness believed to be facts. If these alleged facts are disproved, or if it is shown that the plaintiff was wrong in its assumption, then the claim fails without any finding that the witness perjured himself. Moreover, even if plaintiff really

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believed that the acts of the defendant, Colonial Fastener Co., made it necessary for it to establish an office in Montreal in order to meet its competition, and it is proved that there was other serious competition, it is not necessary to find that the plaintiff's witnesses perjured themselves, to reject the claim. It is only necessary to find that its belief was unfounded. Then, again, there is the question of law, even if what the witness said or presumed were justified. Is such damage or claim the "natural and direct" consequence of the defendant's acts?

First, as to the amount of this claim, it is proved that Logan, referred to in Ex. 7, had always spent most of his time in Montreal, before the office was established and doubtless his expenses before were just as high as after the office was opened, and his salary would exist before. In fact, I am of the opinion, that even if allowable at all, the only items of Ex. 7 which could be allowed would be office rent, $1,180, and part of the taxes, $998.50, to wit: Business and water taxes and perhaps the profits tax.

Then as to the second point. It was proved that the only free delivery given by defendants was in Montreal. The price reductions have already been discussed and it is proved by Kahane and Beddoe that there was a very large importation from Europe, selling at lower price, and that it was good business, if not essential, to have an office in Montreal, to meet this competition. I find that this is not the direct and natural consequence of the defendants' acts but that it was really the condition of the market which suggested it.

I would again in this connection refer to what I consider a rather significant piece of evidence given by Mr. Fox at p. 182, which tends to show that the defendants are not responsible for as much interference to plaintiff's business as plaintiff tried to make out. This evidence is to the effect that plaintiff's output of No. 5 units steadily increased from 32·625 per cent of their total output in 1928 to over 87½ per cent in 1933. And it must be noted that defendants only manufactured and sold No. 5 unit.

In view of the fact that Montreal is the largest clothing and manufacturing centre in Canada, that there was a very large importation there, and that it was good business to have the office there in any event, I do not think it can be

justly said that the plaintiff's move was the "natural and direct consequence" of the defendants' acts. I fancy it might very well have been an asset. I would therefore refuse this claim.

In any event this claim overlaps with that for loss due to having to give free delivery, for if this one were allowed then, being in Montreal they would not even of counsel's submission (see p. 828) be forced to give free delivery outside and to that extent this claim would have to be reduced. However, in view of my decision on the claim as a whole this need not be stressed further.

To recapitulate I would respectfully report as follows:

1. I reserve to defendant the right to apply to the Court for the appointment of an accountant to go over plaintiff's books and verify the figures in the exhibits filed.

2. In view of the judgments finding that "defendants" have infringed, etc. I do not see how I could now consider whether Prentice Company has infringed by reason of its coming under section 47, ss. 6, of the Patent Act. However, I reserve this question of law for the decision of the Court.

3. I find that the fasteners manufactured on what has been called the divided or two machines are not infringements and that in consequence the item of $84,049.14 in the claim as formulated by plaintiff should be dismissed.

4. I find that the general principle followed by plaintiff of basing its loss of profits on the loss of the sale of the completed fastener, is the proper one save as to selling costs.

5. I find plaintiff's claim for loss due to the establishment of a Montreal office should be dismissed.

6. I find under the head, loss of profits, the claim for the sum of $87,593.72 (1) that 40 per cent of defendants' sales would not have been made by the plaintiff in any event; (2) that the fair profit on the sale of each fastener is 10 cents, and that a fair royalty per fastener is 1 cent, and that in consequence the plaintiff is entitled to recover the sum of $2,971.60 by way of royalty and $44,574.10 by way of loss of profits or a total of $47,545.70.

7. I find that the defendants are not responsible for loss due to the first cut in prices, but that in regard to the second cut they must bear part of such losses, in the proportion fixed above, which amounts to the sum of $3,117.56.

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8. I find that in regard to the third cut, as these fasteners involved were made on non-infringing machines, this amount should be refused; but, if found by the Court to be infringements, then the amount should be reduced as explained regarding the second cut.

9. I therefore humbly recommend that judgment be rendered for the plaintiff either against the two defendants jointly and severally, or against the Colonial Fastener Co. alone in the sum of $50,663.26, subject to the reserve aforesaid.

As regards *interest*. In view of the fact that damages are assessed up to date, the interest should be calculated only from the date of the report herein. With regard to the *costs* of the reference, in view of the fact that the defendant was successful in having a very large amount deducted from the claim, I was inclined to allow the plaintiff only part of its costs, but the defendants having contested every item, and having made no offer whatever, I feel that it is only just that the plaintiff in the circumstances should have the costs of the reference and I would respectfully so recommend to this Honourable Court.

OMER H. PATRICK ..... APPELLANT;

AND

THE MINISTER OF NATIONAL REVENUE ..... } RESPONDENT.

Revenue—Income—Family Corporation—Jurisdiction—Decision of the Minister final on matters of fact only—Income War Tax Amendment Act, 20-21 Geo. V, c. 24, s. 22, ss. 1.

The Income War Tax Act, as amended by 20-21 Geo. V, c. 24, s. 5, provided that:—

> 22 (1) The shareholders of a family corporation may elect any time within thirty days after the date on which returns of income by corporations are to be made that in lieu of the corporation being assessed as a corporation, the income of the corporation be dealt with under this Act as if such corporation were a partnership, and each shareholder resident in Canada shall then be deemed to be a partner and shall be taxable in respect of the income of the corporation according to his interest as a shareholder: Provided however that the corporation, notwithstanding any such election, shall continue to be liable in respect of the interest of any non-resident shareholder in the income of the corporation.

This enactment was made applicable to the year 1930.

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Appellant, his wife, and four other members of his family held in equal parts the shares of Atlas Coal Company Limited, a family corporation for purposes of income tax. The Minister of National Revenue assessed all of the income of Atlas Coal Company Limited against four of the shareholders, assessing appellant for 31·22 per cent and his wife for 2·12 per cent of said income. Appellant contends that the assessment is erroneous and that he should have been assessed only for one-sixth of the income of Atlas Coal Company Limited.

Held: That s. 22 of the Income War Tax Act is complete in itself and must be interpreted independently of sections 30 and 31 of the Act, dealing with partnerships.

2. That the shareholders of a family corporation having elected that the income of the corporation be dealt with as if the corporation were a partnership, each shareholder shall be deemed to be a partner and shall be taxable in respect of the income of the corporation *according to his interest as a shareholder.* The assessment herein is, therefore, illegal.

3. That ss. 4 of s. 22 renders the decision of the Minister final and conclusive solely in matters involving questions of fact; it does not vest the Minister with the power to adjudicate finally on questions of law, to the exclusion of the courts.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Calgary.

H. S. Patterson, K.C., and *A. W. Hobbs* for appellant.

J. W. Crawford for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (June 22, 1935) delivered the following judgment:

This is an appeal, under the provisions of sections 58 and following of the Income War Tax Act, 1917, and amendments thereto, from the assessment of the appellant for the year 1930 in respect of his share of profits in Atlas Coal Company Limited for the said year.

The facts are briefly as follows:

National Securities Limited was incorporated in 1914; in the early part of the year 1925 the appellant, Dr. Omer H. Patrick, was the principal shareholder of the company.

In 1925, the shares were divided among the members of the appellant's family and allotted as follows: 625 to the appellant, 625 to his wife (Lulu F. Patrick), 625 to his son (Lorraine Patrick), and 625 to his daughter (Frances L. Eaton).

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From that time National Securities Limited was assessed, for income tax purposes, as a personal corporation, under Section 21 of the Act.

For some years prior to 1930 the Minister of National Revenue assessed 97·88 per cent of the income of the company to the appellant and 2·12 per cent to his wife, Lulu F. Patrick. National Securities Limited was essentially a holding company; its assets consisted mainly of bonds and real estate.

In and previous to 1925 the appellant was also a shareholder in a company known as Atlas Coal Company Limited, incorporated by virtue of letters patent of the Province of Alberta.

This company, in 1925, held, among other assets, leases of certain mining properties in Alberta, described as the Murray leases, having acquired the same from one Isabella Augusta Murray. In the early part of that year, Atlas Coal Company Limited was in financial difficulties and some time in April it assigned and transferred unto National Securities Limited all its right, title and interest in and to the said leases for certain considerations which have no materiality herein and which accordingly I need not relate.

By an agreement dated the 20th of July, 1929, National Securities Limited sublet the mine, which in the sublease is called the East Coulee Coal Mine, and its equipment to the appellant, his wife (Lulu F. Patrick), his son (Lorraine Patrick), his daughter-in-law (Gertrude U. Patrick), his daughter (Frances L. Eaton), and his son-in-law (George E. Eaton) for a term of five years from the first of July, 1929, for and in consideration of a rental of $10,000 a year and a royalty of ten cents per ton on all coal mined.

A company was incorporated by virtue of federal letters patent under the name of Atlas Coal Company Limited. The evidence discloses that the incorporation was somewhat delayed due to the fact that the provincial corporation bearing the same name had not been definitely wound up.

On August 18, 1930, the original subtenants, namely, the appellant, his wife, his son, his daughter-in-law, his daughter and his son-in-law, transferred their interest in the sublease to Atlas Coal Company Limited in consideration of shares in the company, to be allotted as follows:

to appellant 83 shares; to appellant's wife, 82 shares; to Lorraine Patrick, 83 shares; to Gertrude U. Patrick (Mrs. Lorraine Patrick), 83 shares; to George E. Eaton, 82 shares, and to Frances L. Eaton, 82 shares.

In addition to the shares allotted as above mentioned one share each was acquired by Dr. Patrick, his wife, his son, his daughter and his son-in-law, and so during the taxation period with which we are concerned, i.e. the year ending December 31, 1930, the shares of Atlas Coal Company Limited were distributed as follows:

	Shares
Dr. Patrick (the appellant).....	84
Lulu F. Patrick (the appellant's wife).....	83
Lorraine Patrick (the appellant's son).....	84
Gertrude U. Patrick (the appellant's daughter-in-law)	83
Frances L. Eaton (the appellant's daughter)..	83
George E. Eaton (the appellant's son-in-law)..	83

Atlas Coal Company Limited elected to be assessed as a family corporation under section 22 of the Act.

Before the enactment of the statute 20-21 George V, chapter 24, intituled "An Act to amend the Income War Tax Act," section 22 was thus worded:—

22. The shareholders of a family corporation may elect that, in lieu of the corporation being assessed as a corporation, the income of the corporation be dealt with under this Act as if such corporation were a partnership, and each shareholder shall then be deemed to be a partner and shall be taxable in respect of the income of the corporation according to his interest as a shareholder.

2. In order that the provisions of this section shall be applicable to any corporation and the shareholders thereof, a notice in writing of the election of the shareholders to have the same applied shall be mailed to the Minister by registered post by the secretary or other duly authorized officer of the corporation and such notice shall have attached thereto a duly certified copy of a resolution of the shareholders electing that the provision apply.

3. Dividends of a family corporation shall be subject to taxation only to the extent that the dividends are in excess of the amount of the income of the corporation which, following upon election, has been taxed under the provisions of this section.

4. The decision of the Minister upon any question arising under this section, including any question as to the application of the term "family," shall be final and conclusive.

By section 5 of chapter 24, of the statute 20-21 George V, assented to on the 30th of May, 1930, subsection one of

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section 22 of the Income War Tax Act was repealed and the following substituted therefor, to wit:—

(1) The shareholders of a family corporation may elect any time within thirty days after the date on which returns of income by corporations are to be made that in lieu of the corporation being assessed as a corporation, the income of the corporation be dealt with under this Act as if such corporation were a partnership, and each shareholder resident in Canada shall then be deemed to be a partner and shall be taxable in respect of the income of the corporation according to his interest as a shareholder: Provided however that the corporation, notwithstanding any such election, shall continue to be liable in respect of the interest of any non-resident shareholder in the income of the corporation.

By section 7 of chapter 24 of 20-21 George V, the Act was given a retroactive effect; section 7 reads as follows:—

This Act shall be deemed to have come into force at the commencement of the 1929 taxation period and to be applicable thereto and to fiscal periods ending therein and to subsequent periods, except section four hereof which shall be deemed to have come into force at the commencement of the 1930 taxation period and to be applicable thereto and to fiscal periods ending therein and to all subsequent periods.

The amendment is not material in the present instance: the validity of the election made by the company is not disputed and, on the other hand, all its shareholders are residents of Canada.

Before going into the merit of the appeal, it seems convenient and logical to dispose at first of an objection raised by the respondent against the right of the taxpayer to appeal from the decision of the Minister in a case of this nature. Counsel for the respondent submitted that, in view of subsection 4 of section 22, no appeal lies, the decision of the Minister being final and conclusive. I must say that, after considering the matter carefully, I cannot agree with this contention. I do not think that subsection 4 has the meaning and import which the respondent wishes to ascribe to it. In my opinion, subsection 4 renders the decision of the Minister final and conclusive solely in matters involving questions of fact; it does not vest the Minister with the power to adjudicate finally on questions of law, to the exclusion of the courts. In support of this proposition, the following decisions, although not in *pari materia,* may be profitably consulted: *The King* v. *Board of Education* (1); *Board of Education* v. *Rice* (2); *In re Weir Hospital* (3); *Wilford* v. *Yorkshire (West Riding)*

(1) (1910) 2 K.B., 165 at 173 (in fine) and 178.
(2) (1911) A.C. 179, at 182.
(3) (1910) L.J. Ch., 723 at 732.

County Council (1); *In re Hardy's Crown Brewery Limited* (2); *In re Campden Charities* (3); *Dyson* v. *Attorney-General* (4).

Having reached the conclusion that, notwithstanding subsection 4 of section 22, the Court has jurisdiction to take cognizance of the case at Bar, it is unnecessary for me to deal with the appellant's argument that the respondent, in submitting himself to the jurisdiction of the Court, waived the right to challenge it.

The taxable income of Atlas Coal Company Limited for the year 1930 amounted to $137,906.95. The Minister of National Revenue assessed all of the said income against four of the shareholders in the proportion respectively set opposite their names, to wit:—

Dr. O. H. Patrick (the appellant).....	31·22%
Lulu F. Patrick (the appellant's wife).....	2·12%
Lorraine Patrick (the appellant's son).....	33·33%
Frances L. Eaton (the appellant's daughter)	33·33%

The appellant contends that the assessment made by the Minister is erroneous and that the shares of Atlas Coal Company Limited being held in sixths he should have been assessed only for one-sixth.

It has been argued on behalf of the appellant that section 22 is complete in itself and that accordingly it must be interpreted independently of sections 30 and 31 of the Act dealing with partnerships. I feel inclined to agree with this view. Subsection 1 of section 22, after stating, as we have seen, that the shareholders of a family corporation—a definition of a family corporation is contained in subsection (*d*) of section 2—may elect that the income of the corporation be dealt with as if the corporation were a partnership, goes on to say that each shareholder shall be deemed to be a partner and that he shall be taxable in respect of the income of the corporation *according to his interest as a shareholder.* Nothing is said about sections 30 and 31. If the legislators had wished to have the first subsection of section 22 read in conjunction with sections

(1) (1908) 77 L.J.K.B., 436 at 445.
(2) (1910) 79 L.J.K.B., 806 at 809.
(3) (1881) 50 L.J. Ch. 646.
(4) (1911) 80 L.J.K.B. 531.

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30 and 31, it seems to me that they would have said so; it would have been a simple thing indeed to add at the end of subsection 1 the words "subject however to the provisions of sections 30 and 31" or other words to the same effect. The absence of reference to sections 30 and 31 indicates, to my mind, the intention of the legislators to have the status of family corporations with regard to income tax governed exclusively by the stipulations of section 22.

If there were any doubt as to the meaning of subsection 1 of section 22, this doubt would disappear upon reading subsection 1 of section 31, the only one which might be liable to have any bearing on the question at issue and the one under which the Minister is in fact endeavouring to bring the case of the appellant. Section 30, in my opinion, has no relevancy in the case now pending and there is accordingly no need to discuss it.

Subsection 1 of section 31 is in the following words:—

> Where a husband and wife are partners in any business the total income from the business may in the discretion of the Minister be treated as income of the husband or the wife and taxed accordingly.

The words "*total income* from the business" seem to me to apply that subsection 1 of section 31 applies only to cases where the partnership is composed solely of the husband and wife, exclusive of any other member. I may repeat here what I have said in connection with the interpretation of section 22, viz., that it would have been a simple matter for the legislators to draft subsection 1 differently had they intended to have it apply to all partnerships having among their members a husband and his wife. Surely if the legislators had in view partnerships in which there were members other than a husband and his wife, they would not have used the expression "the total income from the business," but would rather have said "the total income (or "the combined income") of the husband and of the wife from the business," or other words having a similar meaning. As it is drafted, I am unable to give to subsection 1 the meaning which the respondent is seeking to attribute to it.

The motive of the legislators in being more drastic toward a partnership consisting solely of a man and his wife than toward a partnership comprising one or more members in addition to a husband and his wife is indifferent, but, as

was suggested by counsel for the appellant, it may be that the legislators thought that in the first case it would be easier to defeat the aim and purpose of the Act than in the second one. Be that as it may, the words "total income from the business" are not apt to describe income received by some of the members of a partnership.

Even if I adopted the respondent's view that section 22 must be read with section 31 and that the first is not complete without the second, I would still think that the assessment made by the Minister is incorrect. The Minister had two alternatives: 1° of assessing the appellant proportionately to his interest in the Atlas Coal Company Limited, namely one sixth, or 2° of assessing him or his wife for one third, representing the appellant's share and that of his wife. The Minister did neither; he assessed the appellant for 31·22 per cent and the appellant's wife for 2·12 per cent. The assessment is, in my opinion, illegal.

"A Taxing Act must be construed strictly," as Lord Cairns said in *Cox* v. *Rabbits* (1); he added that one "must find words to impose the tax, and if words are not found which impose the tax, it is not to be imposed."

The same learned judge expressed a similar opinion in the case of *Partington* v. *The Attorney-General* (2), where he said:

> If the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise appear to be. In other words, if there be admissible, in any statute, what is called an equitable construction, certainly such a construction is not admissible in a taxing statute, where you can simply adhere to the words of the statute.

See also: *Tennant* v. *Smith* (3); *Coltness Iron Co.* v. *Black* (4); *Secretary of State in Council of India* v. *Scoble* (5); *Gould* v. *Gould* (6).

In *Tennant* v. *Smith* (loc. cit.) Lord Halsbury expressed himself as follows, at p. 13:

> In various cases the principle of construction of a Taxing Act has been referred to in various forms; but I believe they may be all reduced

(1) (1877-78) 3 A.C. 473 at 478.
(2) (1869-70) L.R., 4 H.L., 100 at 122.
(3) (1892) 61 L.J. Prob. 11 at 13.
(4) (1881-82) 45 L.T., 145 at 148.
(5) (1903) A.C., 299 at 302.
(6) 245 U.S., 151 at 153.

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to this: that, inasmuch as you have no right to assume that there is any governing object which a Taxing Act is intended to attain other than that which it has expressed by making such and such objects the intended subjects for taxation, you must see whether a tax is expressly imposed.

Cases, therefore, under the Taxing Acts always resolve themselves into a question whether or not the words of the Act have reached the alleged subject of taxation. Lord Wensleydale said, *In re Micklethwaite* (11 Exch. Rep. 456; 25 Law. J. Rep. Exch. 19): "It is a well-established rule that the subject is not to be taxed without clear words for that purpose, and also that every Act of Parliament must be read according to the natural construction of its words."

I do not think that section 31 is applicable to the question at issue; the case comes exclusively within the ambit of section 22; the appellant, in my opinion, can only be assessed according to his interest in the Atlas Coal Company Limited.

The appeal must therefore be maintained, and the assessment and the decision of the Minister confirming it must be set aside.

The respondent, at the opening of the trial, moved to amend his statement of defence by adding a paragraph thereto, viz. paragraph 3(*a*), setting forth that the Court had no jurisdiction to hear the appeal, inasmuch as the decision of the Minister having been made under subsection 4 of section 22 of the Act, was final and conclusive. I reserved judgment on this motion. I think the respondent was entitled to amend his statement of defence so as to plead explicitly the lack of jurisdiction. Although the matter may not be of great importance, seeing the conclusion I have reached concerning the merits of the appeal, I must dispose of the motion; it is granted, with costs against the respondent.

The appellant will be entitled to his costs of the appeal against the respondent.

Judgment accordingly.

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July 3, 4, & 5.
July 18.

BETWEEN:

UNDERWRITERS SURVEY BUREAU LIMITED, ET AL. ..... } PLAINTIFFS;

AND

No. 16246.

WILLIS, FABER AND COMPANY OF CANADA LIMITED ..... } DEFENDANT.

AND

UNDERWRITERS SURVEY BUREAU LIMITED, ET AL. ..... } PLAINTIFFS;

AND

No. 16245.

MASSIE & RENWICK LIMITED ..... DEFENDANTS.

AND

UNDERWRITERS SURVEY BUREAU LIMITED, ET AL. ..... } PLAINTIFFS;

AND

No. 16247.

J. E. CLEMENT INCORPORATED ..... DEFENDANT.

AND

UNDERWRITERS SURVEY BUREAU LIMITED, ET AL. ..... } PLAINTIFFS;

AND

No. 16248.

SHAW & BEGG LIMITED ..... DEFENDANT.

Copyright—Practice—Delay in applying for interlocutory injunction—No substantial injury caused plaintiffs by awaiting trial.

Held: That since the acts complained of by plaintiffs as constituting an infringement of their copyright had continued for a number of years, and there was evidence that plaintiffs were aware of such, interlocutory injunctions should not be granted as no substantial injury would be done plaintiffs by causing them to await the final disposition of the several actions.

MOTIONS by plaintiffs for interlocutory injunctions restraining defendants from infringing plaintiffs' copyright in certain plans and other documents as set out in the statements of claim.

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The motions were heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

Charles Morse, K.C., J. A. Mann, K.C., and *A. M. Boulton* for plaintiffs.

O. M. Biggar, K.C., and *Hamilton Cassels* for defendant Massie & Renwick Limited.

O. M. Biggar, K.C., for defendant Shaw & Begg Limited.

W. B. Scott, K.C., for defendants Willis, Faber and Company of Canada Limited, and J. E. Clement Incorporated.

The facts are stated in the reasons for judgment (1).

THE PRESIDENT, now (July 18, 1935) delivered the following judgment:—

(1) At the hearing the following authorities were cited:

By Mr. Mann, K.C.

Dickens v. *Hawksley* (1935) W.N. 3; (1935) 152 L.T.R. 375; (1935) 104 L.J. Ch. 174.

Falcon v. *Famous Players* (1926) 2 K.B. 474.

R.S.C. 1927, c. 32. 21-22 Geo. V, c. 8.

Tanguay v. *Laing* (1929) 35 La Rev. de Jur. 444.

Statutes at Large, Vol. 4, 8 Anne, c. 19.

By Dr. Morse, K.C.

Exchequer Court Rule 242.

Grafton v. *Watson* (1884-5), 51 L.T.R. 141.

Bonnella v. *Espir* (1926), 43 R.P.C. 159.

Challender v. *Royle* (1887), 36 Ch. D. 425; (1887) 4 R.P.C. 363.

Cheeseworth v. *City of Toronto* (1921) 49 O.L.R. 68.

Aslatt v. *Corp. of Southampton* (1880) 16 Ch. D. 143.

Annual Practice 1934, p. 904.

Kerr on Injunctions, 6 ed. 390-391.

MacMillan v. *Dent* (1907) 1 Ch. D. 107.

Perf. Rt. Soc. v. *Mitchell & Booker,* McGillivray's Copyright Cas. 1923-1928, p. 39.

Waters v. *M. Alen Huygen & Co.,* McGillivray's Copyright Cas. 1923-1928, p. 17.

Chambers Enc. of 1923, 134.

Copinger, 6 ed. p. 1 (footnote).

Hogg v. *Scott* (1874) L.R. 18 Eq. 444; L.J. 43 Eq. 705.

Halsbury's Laws of England, 2nd ed., Vol. 7, 536.

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By Mr. Biggar, K.C.

Spottiswoode v. *Clarke* (1846) 41 Eng. Reprints 900; 2 Phillips 154.

Saunders v. *Smith* (1838) 7 L.J. Ch. 227; (1838) 3 My. & Cr. 711.

Copinger, 6 ed. p. 167.

Combines Investigation Act, R.S.C. 1927, c. 26.

By Mr. Scott, K.C.

Kerr on Injunctions, 6 ed. 167, 642.

Rundell v. *Murray* (1821) Jac. Ch. Rep. 311.

Lewis v. *Chapman* (1840) 3 Bevan's Rep. 133.

Robl et al v. *Palace Theatre* (1911) T.L.R. 69.

Delorme v. *Cusson* (1897) 28 S.C.R. 66.

In these four actions interim injunctions were granted against the defendants restraining them, their agents and servants, from using, or dealing in, certain plans or volumes of plans, commonly known as Goad's fire insurance plans, and certain insurance rating schedules, rating and tariff books, rate cards and underwriting rules, and from using or dealing in information derived therefrom, or of reproductions or copies thereof. By these several orders of injunction it was further ordered that in each case the injunction, the plaintiffs' statements of claim, and a notice of motion for an interlocutory order of injunction, be served upon the defendant, within a period of five days from the date of the interim injunction, and after hearing these four motions I have now to decide whether an interlocutory injunction shall be granted or refused. The four motions may be considered together.

On the hearing of these motions the plaintiffs abandoned any claims to injunctions in respect of any original plans, insurance schedules, etc., the defendants, or any of them, may have acquired as their own property and restricted their claims to interlocutory injunctions restraining the defendants from using, or dealing in, any copies, reproductions and negatives of any such plans, insurance rating schedules, etc., or using, or dealing in any information derived from the same.

The plaintiff "Bureau" is a Canadian corporation, incorporated in 1917. The other plaintiffs, to be designated

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as Members, are all corporate bodies licensed to carry on the business of fire insurance in Canada and all are members of the Canadian Fire Underwriters' Association hereinafter called the "Association." The Association is an unincorporated body existing since the year 1883, and all the assets and property, including copyrights, vested in the name of the Association, or in its custody, belong, it is said, to the Members who support and maintain the Association, the affairs of which are administered by officers elected annually by the Members.

Prior to the incorporation of the Bureau, the capital stock of which is held in trust for the Association and its Members, there was what was known as the Plan Department of the Association, and the Bureau, after its incorporation, became the Plan Department of the Association, and, I think, is frequently referred to as such to-day. The operations of the Plan Department, and of the Bureau after 1917, related to the compilation, preparation, revision and issuing of plans of cities, towns, villages and districts, and other related printed matter, which were found necessary or convenient in fire insurance underwriting by the Members; these plans and printed matter were not sold or offered for sale to fire insurance companies not members of the Association, it being intended that the only persons entitled to receive such plans and printed matter were the Members, and in some cases affiliated associations.

Before proceeding further this might be a convenient stage at which to state as briefly and accurately as I can some of the history relating to the origin of the matters which are at the bottom of this controversy. As far back as 1880, and perhaps earlier, one Charles Edward Goad of Montreal, began to prepare and issue what has since been known as Goad's Plans, that is, plans of cities, towns and villages in Canada, whereon were indicated streets, lots, buildings, and also key-plans, signs, symbols and fire risk references; these plans would appear in various sheets according to the size of the area surveyed and so plotted. As I understand it, Goad sold these plans to all fire insurance companies doing business in Canada, or their agents, without discrimination. Goad died in 1910, and by his last will and testament he vested his plan business in the

Toronto General Trusts Corporation Ltd. to be sold for the benefit of his estate, and in 1911 the same was sold to his three sons who carried on the plan business as partners under the name of C. E. Goad Company. In 1911, C. E. Goad Company entered into an agreement with the Association to compile, make, and revise insurance plans for the Members of the Association only, and this agreement expired on December 31, 1916. In October, 1917, the Bureau acquired the right to reprint and revise the Goad's insurance plans on payment of certain royalties, as I understand it, to Charles E. Goad Company, which company shortly afterwards went out of business after selling, it was stated, whatever plans they still had in stock, whether indiscriminately to all fire insurance companies I am not quite sure. In March, 1931, the Bureau acquired by purchase all the right, title and interest of three Goad Brothers, and the late Charles Edward Goad, in the Goad's plans and any copyright therein, and the Bureau has registered the copyright in such plans since, I think, 1917. The plaintiffs claim copyright in all of the plans, and sheets of plans, of the several cities, towns, and villages set forth in schedule no. 1 attached to the statements of claim herein, and all such plans, it is said, were produced, or revised, either by the original Plan Department of the Association, or the Bureau, or by Charles Edward Goad deceased, or by Charles E. Goad Company. That is the way I understand the matter, but if I am not strictly correct in my narrative of the facts it is not, I think, of any serious consequence.

For some years, and until recently, the Commercial Reproducing Company Ltd., Montreal, was engaged in reprinting or reproducing Goad's plans and selling them to any person or fire insurance company requesting them. In this way a great number of copies of Goad's plans inevitably got into circulation among fire insurance companies not Members of the Association. That company was a few months ago perpetually restrained from reproducing and selling such plans by a judgment of this Court in an action brought by the Bureau; in this action the Bureau also recovered damages against the Commercial Reproducing Company for infringement of the plaintiffs' copyright in such plans. All the defendants herein, it is alleged,

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obtained by purchase from the Commercial Reproducing Company, copies of these plans.

It is only fire insurance companies, or their agents, who are concerned in this litigation. It appears that the fire insurance business in Canada is divided between Members of the Association, and what are known as "non-board" fire insurance companies, that is to say, fire insurance companies who are not members of the Association. The latter comprise, as I recall it, some fifty-three different fire insurance companies duly licensed to carry on fire insurance business in Canada. It appears also that some fire insurance agents will represent insurance companies who are Members of the Association, and also at the same time non-board fire insurance companies. It follows that such fire insurance agents, representing companies who are Members of the Association, would become entitled to copies of plans from the Bureau which they would use in their fire underwriting business done through non-board companies. Some non-board companies have acquired plans by purchase from either Charles E. Goad, or Charles E. Goad Company, or by purchase from companies rightfully in possession of them, but who had ceased to carry on fire insurance business. Then, many Members of the Association withdrew from time to time therefrom and became non-board fire insurance underwriters. In fact, one of the defendants herein was a Member of the Association from 1911 until March, 1935, when it withdrew from the Association, and it has retained the plans which it obtained as a Member, and it claims to enjoy the right to dispose of them as they see fit. In these different ways a great number of plans came into the hands of non-board fire underwriters, such as the defendants.

It is alleged by the plaintiffs that all the plans in the possession of the defendants have printed thereon the names of the producer or author, either the Association, the Plan Department, the Bureau, or Goad's, and that the defendants were always aware that copyright in the same was vested in such owners or authors, or the plaintiffs. The plaintiffs claim that each of the defendants herein have, for a period in excess of nine years up to the month of May, 1935, infringed the plaintiffs' copyright in the

plans with full knowledge that the copyright therein was and is vested in the plaintiffs. It is claimed that the defendants have caused such plans to be produced and reproduced, and negative and positive prints to be made therefrom, and have sold, loaned or distributed the same to other persons or corporations who had no right thereto, or to the use thereof. It is alleged by the plaintiffs that the Plan Department of the Association, the Association and its Members, and the Bureau, have expended in the acquisition, production and revision of such plans, for the use of Members, sums of money aggregating nearly one and a half million dollars, from March, 1917, to December 31, 1934.

The several defendants oppose the granting of the interlocutory injunction upon many grounds, which I shall attempt to mention, though not in their order of importance. They urge that the issues here are very involved and substantial and do not afford proper grounds for the granting of interlocutory injunctions and that the same should await the final determination of the several actions. Then it is urged that the practices complained of have been engaged in by the defendants, and other non-board fire insurance companies or their representatives, for about twenty-five years, to the knowledge of the plaintiffs and without their protest or obstruction, and that such laches and acquiescence should at least constitute a bar to an interlocutory injunction at this stage. Then it is said that many plans and copies of plans in question are lawfully in the possession of the defendants; that some of the plans in which copyright is claimed by the plaintiffs were never published and some were never registered; that the plans in question, and particularly the insurance rating schedules, etc., do not constitute subject matter for copyright and that there has been no infringement of the same by the defendants; that the plaintiffs' title to many of the plans are questionable and are to be seriously contested; that there are altogether about fifty other non-board fire insurance companies doing business in Canada whose position is almost precisely the same as that of the defendants in these four actions and that an injunction directed against the defendants herein would leave the other non-board fire insurance companies free to continue the practices sought to be restrained as

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against the defendants in these actions; that the business of the defendants herein would in many ways be seriously injured and impeded if interlocutory injunctions issued, for example, by newspaper publicity given the injunctions, and that on the other hand the business of the plaintiffs would not be injuriously affected if matters proceed as they have for years and until the final determination of the issues arising in these actions, and that in any event the balance of convenience should be decided in favour of the defendants. It is further contended that all or most of the plans and reproductions thereof which are in the possession of the defendants were acquired by purchase from the Commercial Reproducing Company, and that the plaintiffs have already secured by a judgment of this Court a permanent injunction (and a finding in damages) against the Commercial Reproducing Company restraining the sale and reproduction of such plans, and that, in any event, damages cannot again be recovered by the plaintiffs against the defendants on account of any use or trafficking in such plans. It is urged also that the claims and rights which the plaintiffs seek here to enforce constitute a violation of the Combines Act but just how I have not been quite able to appreciate. And finally the defendants contend that any action for infringement of copyright must be brought within three years of the date of the infringement which would be a bar to many of the infringements here alleged to be committed by the defendants.

The motions for interlocutory injunctions apparently involve some difficulties, and the facts are rather complicated. The defendants, it will be seen, have raised many objections to the granting of interlocutory injunctions, and I cannot undertake to say that some of them at least are not arguable or without merit, and I gather that some of the points mentioned are to be seriously pursued. The infringements complained of have, it will be seen, been going on for quite a number of years. The defendants claim that the plaintiffs have been well aware of this, and very strong affidavits in support of this contention were produced on behalf of the defendants. The plaintiffs say that while they suspected such practices were going on they had no definite proof of the same until they acquired information of this in the action of the Bureau against the Commercial Repro-

ducing Company. I find it difficult to believe that the plaintiffs were not fully aware that the acts complained of had been going on for many years, and, at the moment, I do not see why proof of such facts might not have been found. This is rather an important point in my view of the matter in so far as the granting of interlocutory injunctions are concerned. In the end it may transpire to be of no substance whatever. I am not expressing any definite opinion as to the weight to be attached to the defendants' contentions as to laches and acquiescence, either in fact or in law. That can only be determined after the trial of these actions, but I am impressed by the fact that what is now claimed to be infringement has been going on for a long number of years, and there is some evidence that the plaintiffs were aware of this, and I am not convinced that any great injury will be done the plaintiffs in refusing the interlocutory injunctions and causing them to await final judgment in these actions, which should be heard and disposed of within the next three or four months. This is not a case such as where infringement is claimed of a copyrighted song, or a piece of music, which may go out of public favour in a few days or a few months. The plans here said to be infringed will have a continuing value to the plaintiffs if they ultimately succeed in sustaining their claim to copyright therein, and when the use of any reproduced plans may be restrained. If interlocutory injunctions were granted it possibly would operate as a very serious injury to the defendants, while on the other hand the refusal to grant the injunctions only means continuing a little longer a situation that has existed for years. It is now more than three months since the plaintiffs, according to their own affidavits, came into possession of the facts upon which these several actions are said to be based. On the whole it seems to me that to grant the interlocutory injunctions would, in the circumstances here, appear too much like attempting a final determination of the matters at issue, some of which may turn out to be quite controversial. I therefore think the motions should be refused.

Clearly this is a case which should go to trial as quickly as possible. Counsel for the defendants suggested that very extensive inquiries and investigations would be required on their part before going to trial, but I am unable

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to appreciate this view. The relevant facts, it seems to me, must be now largely within the knowledge of the defendants, and those that are not may easily be acquired. The defendants, I should say, ought to be in a position to know from whom and when they acquired any plans or copies of plans, and other works, now in their possession, or now being used by them. Whether they infringe any copyright which the plaintiffs may own is, I apprehend, largely one of law.

The matter of the costs of these several motions may present some difficulties and for the present the same is reserved.

Judgment accordingly.

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Feb. 11 & 12.
May 29.

AKTIENGESELLSCHAFT FUER STICKSTOFFDUENGER ..... } PLAINTIFF;

AND

SHAWINIGAN CHEMICALS LIMITED... DEFENDANT.

Patents—Conflict—Abandonment at trial of application by one party—Disposition of matter.

Held: That the defendant in a conflict action having abandoned his application for a patent at trial, and consequently there then being no conflict in the claims of rival applicants to consider, the proper disposition of the matter is to declare that the plaintiff is entitled to a patent or refer the matter back to be disposed of by the Commissioner of Patents.

ACTION brought before this Court, under Section 22 of The Patent Act, for a declaration as to who, as between plaintiff and defendant, was the first inventor of the subject matter of their applications for patent, in respect of which the Commissioner of Patents had declared a conflict.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C. and *R. S. Smart, K.C.* for plaintiff.

E. G. Gowling and *D. K. MacTavish* for defendant.

The facts are stated in the reasons for judgment.

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AKTIEN-GESELL-SCHAFT FUER STICKSTOFF-DUENGER v. SHAWINIGAN CHEMICALS LIMITED.

THE PRESIDENT, now (May 29, 1935) delivered the following judgment:

The plaintiff corporation, which may be abbreviated to "Aktien," has its chief office at Cologne, Germany, while that of the defendant is at Shawinigan Falls, in the Province of Quebec. The plaintiff is the assignee of Ernst Winter and Fridolin Hartman, hereinafter to be referred to as Winter only, who, on January 19, 1931, made application for a patent in Canada on a certain invention relating to improvements in "Pressed Calcium Oxide Powder and Calcium Hydroxide Powder." Prior to the issue of any patent on the said application, one Williams, the defendant's assignor, on June 27, 1933, filed an application for a patent of an invention designated as a "Process of Making Calcium Carbide."

The Commissioner of Patents, being of the opinion that each application would be allowed if each did not contain claims nearly identical, notified the respective applicants, pursuant to sec. 22 (1) of the Patent Act, of an apparent conflict of claims, and subsequently affidavits were filed pursuant to sec. 22 (2) of the Act by Winter and Williams. Winter, in his affidavit, alleged that the idea of the invention, the subject matter of his application, was conceived on March 31, 1926, and first experimentally practised in the same year; and Williams, in his affidavit, alleged that he conceived the idea of his invention, the subject matter of his application, prior to the month of July, 1926, and first experimentally practised the said invention in the said month, and again in the period between July, 1920, and November, 1921. On May 23, 1934, the Commissioner of Patents notified the plaintiff that, on the facts appearing in the said affidavits, the claims in conflict would be allowed to Williams, unless proceedings as required by sec. 22 (4) of the Patent Act were instituted within two months, and accordingly the plaintiff commenced this action.

Thereupon the Commissioner of Patents suspended further proceedings on both applications until it was determined either, (1) that there is no conflict between the claims in question, or (2) that neither of the applicants is entitled to the issue of a patent containing the claims in conflict as applied for by him, or (3) that a patent or patents, including substitute claims approved by the Court,

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may issue to one or other of the applicants, or (4) that one of the applicants is entitled as against the other to the issue of a patent including the claims in conflict as applied for by him. The defendant now concedes that it is not entitled to the issue of a patent, but it contends that neither is the plaintiff entitled to the issue of a patent, on grounds later to be mentioned, but if so, then with certain limitations as to claims.

Before proceeding further it might be useful to explain, as accurately as I can, just what was the alleged invention claimed by the respective parties at the date of the filing of their applications, and what was the problem for solution to which was directed the efforts of the respective applicants. In order to produce acetylene gas, a business in which both the plaintiff and the defendant were engaged at the times material here, it is necessary to add water to what is known as calcium carbide,—the latter being produced by fusing together lump lime, calcium oxide, with carbon in the form of coke, in a carbide furnace—and this causes a degree of heat which produces acetylene gas, there resulting therefrom a solid residue or waste product, calcium hydroxide, which is still calcium, and which is described as a wet mud-like sludge. If calcium hydroxide be heated there will be driven off the free water that made it sludge, but there will still remain calcium hydroxide, but when such of the water or moisture as is chemically combined with the calcium is driven off what remains is calcium oxide, and this, under certain conditions, may be used in a high temperature electrical furnace with carbon to produce again calcium carbide; what occurs is that the heat of the furnace drives off the oxygen and there remains calcium carbide from which there is produced acetylene gas with the resultant waste, calcium hydroxide, and this process may be repeated again and again.

But this process, prior to the times material here, apparently, was never successfully accomplished in practice. Attempts had been made to recover for re-use the lime from the waste product, calcium hydroxide, and such efforts took two different forms, first, to mix with the calcium hydroxide some form of binder, and then to briquette the same; the second method was to briquette the wet calcium hydroxide sludge. The latter method does not

seem to have been practically successful because the briquettes being porous would not stand up in the furnace and would crumble into dust, which, I understand, is an unfavourable form for successful use in the production of calcium carbide and acetylene gas. If a binder is used this makes the recovery of the lime from the waste product too expensive, and it is less costly and more satisfactory to purchase and use fresh lime in the process of producing calcium carbide and acetylene gas. The problem therefore was how best to reclaim the lime from the waste product, calcium hydroxide, for use in making calcium carbide for the manufacture of acetylene gas.

In these circumstances, it is alleged, Winter directed his attention to the employment of a waste material, calcium hydroxide, which came from a carbide furnace in a practically dry form, and, it is claimed, he experimented with the use of a practically dry calcium hydroxide obtained according to a process described in a patent owned by the plaintiff, and known as the dry generation process, and this waste material, calcium hydroxide, was found to be substantially free of water or moisture, and in the form of a white powder; this waste material would have a slight amount of free moisture, and this with the chemically combined moisture made it calcium hydroxide, but it was quite a dry material.

Now, Winter, being enabled to obtain, through the dry generation process, waste material in the form of a practically dry powder, proceeded to experiment with the same in order to ascertain how best it could be made into briquettes, or shaped bodies as it is called in Winter's specification, for use in the making of calcium carbide. He first experimented with the use of a lesser quantity of binder material than was ordinarily used for such purposes, but, it is said, it was found that the briquettes made in this way were too soft, or lacked sufficient resistance, for use in a high-temperature furnace, and also that they were found to be too expensive for commercial use. Unexpectedly, it is said, Winter discovered that he could obtain a more satisfactory briquette by merely compressing the practically dry waste material into a shaped body, without a binder. Here, says the plaintiff, was a waste material in the form of a wet sludge which if pressed into

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briquettes did not have sufficient resistance, or was too expensive, for successful use in a carbide furnace, but if that waste material was recovered in the form of a practically dry powder, but yet containing a small quantity of moisture, and to it was applied sufficient pressure the result was you got a briquette possessing sufficient resistance so that it could be handled and piled into a furnace; used in a carbide furnace with carbon, in order to make calcium carbide, the briquettes were found to have sufficient rigidity to stand up in the furnace. You could not use, it was said, calcium oxide in the form of dust or dry powder, and so Winter states he found the way to make a suitable briquette out of dry powder, either in the form of a dry calcium oxide powder, or a calcium hydroxide powder, practically without any moisture. The calcium hydroxide could be converted into calcium oxide by driving off the water or moisture with heat, and, as I understand it, it had to be got in the form of calcium oxide in order to get chemical action producing calcium carbide. By adding carbon to calcium oxide in a high temperature electrical furnace the oxygen would be driven off and the result would be calcium carbide. It is the product made by this method or process for which Winter has applied for a patent, and, it is said, that this constitutes invention, and that Winter was the first to conceive and complete the method or process of producing such a product.

Winter's alleged invention, as described in his application, and which may usefully be quoted in full, is as follows:

> The present invention relates to shaped bodies of calcium oxide powder and calcium hydroxide powder and a process of preparing them and a process of preparing calcium carbide from the shaped bodies.
>
> It is known to press moulded articles while applying pressure from calcium hydrate sludge which may previously be partially dehydrated and to calcinate the moulded articles so as to obtain solid calcium hydroxide. Lime sludge which has been well dried by causing it to deposit for a prolonged time or by centrifuging it is generally designated as "cut lime"; it still contains more than 50 per cent of free water which is retained in the colloidal lime. As in all the hardening processes hitherto known the separation of water of the gel masses is of decisive importance (see for instance "Zeitschrift fur angewandte Chemie" 42, page 1087, 1929) it has to be presumed in the case of more or less dehydrated lime sludge that the stability of the shape of the pressed bodies prepared therefrom is based upon a strengthening due to the separation of water of the gel mass, when stored and calcinated. A process based upon this knowledge could not introduce itself in the carbide works.
>
> We have now found that dry lime powder, i.e., practically anhydrous calcium hydrate and also quicklime powder, i.e., calcium oxide, and mix-

tures of these two dust-like powders, can be pressed without any addition so as to obtain moulded articles which are as hard as stone.

For pressing purposes, there may be used, for instance, the practically dry calcium hydroxide which is obtained during the gasification of calcium carbide according to the process described in Canadian Patent No. 298,173, and the calcium oxide produced from this calcium hydroxide.

Contrary to the above-named known process there is pressed, according to the present invention, a dust-dry practically anhydrous powder. It could not be foreseen that a starting material of this kind would show such an effect of sticking together and at the same time a very distinct after-hardening which would act for many weeks. The pressed moulded bodies can be calcinated if they are prepared from calcium hydrate without reducing their resistance.

The material may be pressed at ordinary or at a raised temperature. The upper limit of the temperature is not dependent on the material which is to be pressed, it is obvious from the mechanical resistance of the material from which the press is made.

The pressure depends upon the kind of the press used, the size of the pressed bodies and the nature of the material to be pressed. The lowest limit results from the desired resistance of the pressed bodies and may hardly be below 100 kilos per square centimeter. The resistance of the pressed bodies increases with the pressure. An upper limit of the pressure can, therefore, not be given.

In all known processes of briquetting for instance fine ores, dust from throat of furnace, purple ores, dust coal and the like there is worked with the addition of a binding agent, such as tar-like substances, bitumen, water and sometimes also with the addition of aqueous lime sludge. The capability of briquetting lignite is likewise based upon its content of bitumen and water, whereas it is new to use dry lime powder without any addition for preparing moulded bodies which are as hard as stone.

The progress of the invention is based upon the fact that for instance valuable products can be made from the waste products hitherto technically not utilizable of the manufacture of acetylene prepared on a large scale. The attempts which have hitherto been made with calcium hydrate sludge have not been successful, because the drying operation of the hydrous sludge was uneconomical. The dry lime powder itself is not utilizable instead of lump lime, for instance for the carbide furnace, but by treating it according to the present invention it is likewise rendered utilizable for these purposes. We have furthermore found that calcium carbide can be prepared in a particularly advantageous manner if there is used dry calcium oxide or calcium hydroxide which has been pressed into shaped bodies as above described instead of the lime calcinated from natural limestone. Calcium oxide powder obtained from calcium hydroxide powder is particularly capable of reacting. The powder itself cannot be used in the carbide furnace, but the shaped bodies obtained by pressing the powder are a very useful starting material for the manufacture of calcium carbide.

The natural lime always contains pieces of various granular size besides a certain amount of powder. Whereas the dust is blown away by the gases in the carbide furnace, variations in the optimum composition of the reaction mixture in the furnace are caused by the unregularities in the granular size of the material, a not uniform melting operation and disturbances in the working of the furnace thus taking place.

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Contrary thereto there is guaranteed by the shaped bodies artificially prepared from powder a considerably increased regularity in the feeding of the furnace and a better structure desired for the working of the furnace.

For the heat balance of the carbide furnace the thermal conductivity of the material is of importance. Whereas the thermal conductivity of the natural lime is given, that of the pressed powder can be regulated according to pressure and granular size so that the feeding acts in a heat isolating manner and thus reduces the noxious heat loss by radiation and conduction.

A further industrial progress obtained by the use of the artificially pressed lime for the preparation of carbide resides in the possibility to remove noxious impurities from the dust-like lime before the pressing operation by sieving or sifting it or by a magnetic separation and other known processes.

The following examples serve to illustrate the invention, but they are not intended to limit it thereto, the parts being by weight:—

(1) One ton of anhydrous lime powder is calcinated at a temperature of between 500° C-1,000° C and the 750 kilos of pulverized calcium hydroxide obtained are pressed, by means of an extrusion press or a hydraulic press under a pressure of between 700-1,000 kilos per square centimeter and at a temperature of between 20° C to 400° C. The material obtained possesses the resistance of calcinated lump lime.

(2) One ton of lime powder is pressed without a previous calcination while applying a pressure of 700-1,200 kilos per square centimeter. The briquettes obtained are calcinated in the shaft furnace; 750 kilos of quicklime are obtained.

When carrying out the process of the following claims 1 and 2, calcium oxide has to be regarded as equivalent of calcium hydroxide.

The following claims of Winter may be mentioned:

(1) The process which comprises pressing practically dry calcium hydroxide powder into a shaped body by applying a pressure of between 700-1,200 kilos per square centimeter.

(5) As a new article of manufacture a strongly coherent shaped body consisting of calcium oxide powder manufactured by pressing practically dry calcium hydroxide powder into a shaped body by applying a pressure of between 700-1,200 kilos per square centimeter, and by subsequently calcinating the shaped body.

It was urged on behalf of the plaintiff that the prior practice had been to use calcium hydroxide sludge with somewhere around 40 to 50 per cent of free water, and that the expression "practically dry" meant the use of a material which was substantially a dry material in comparison with the material previously used. And it was contended on behalf of the defendant, that the waste calcium hydroxide resulting from a dry generation process would normally contain between 3 and 5 per cent of moisture.

We may now conveniently refer to the affidavit filed by Winter and Hartman, as required by sec. 22 (2) of the Patent Act, and which is in part as follows:

We, Ernst Winter and Fridolin Hartman, being the applicants of the application Serial No. 373,424, filed January 19, 1931, which said application is threatened with conflict with an application Serial No. 400,558 Egbert R. Williams, pursuant to a letter from the Commissioner of Patents dated March 17, 1934, do hereby severally solemnly and conscientiously declare and say:—

1. That we first conceived the idea of pressing practically dry calcium hydroxide powder into a shaped body and thereupon subjecting the shaped bodies thus obtained to the action of carbon to form calcium carbide, on March 30, 1926.

2. That we first pressed in a laboratory scale practically dry calcium hydroxide powder into a shaped body and first made written notes thereof on the same date.

3. That we first made written notes of the idea of subjecting the said shaped bodies to the action of carbon to form calcium carbide on April 17, 1926, by recording the analysis showing that practically dry calcium hydroxide powder being the waste product of acetylene gas manufacture is free from impurities which would prevent it from being used, in the form of shaped bodies, in the carbide furnace.

4. That we first disclosed the idea of pressing practically dry calcium hydroxide powder into a shaped body to "Zeitzer Eisengiesserei und Maschinenbau Aktiengesellschaft, Zeitz" (Germany) in June, 1926.

5. The dates and nature of the subsequent steps taken by us to develop and perfect the said invention were as follows:—

(*a*) In June, 1926, we sent a barrel containing practically dry calcium hydroxide powder being the waste product of acetylene gas manufacture to "Zeitzer Eisengiesserei und Maschinenbau Aktiengesellschaft, Zeitz" asking them to press the said calcium hydroxide powder in a technical scale in June, 1926.

(*b*) From November, 1926, to March, 1927, we pressed about 350 tons (German tons) of practically dry calcium hydroxide powder into shaped bodies part of which has been used in the carbide furnace on March 10 to 16, 1927.

Patents for Winter's alleged invention were applied for and obtained in many European countries, that in Germany issued in May, 1931, and that in France having been granted on May 19, 1931. It will be seen therefor that patents were granted to Winter more than two years prior to the filing of the application of Williams, which would be a bar to a patent issuing to Williams in Canada.

At this stage reference perhaps would be made to the fact that an application for a patent for a "Method of Making Calcium Oxide in Lump Form," was made by one Kaufman, in October, 1932; Kaufman's application was made at the instance of the defendant, in whose employ, I think, he was at the time; and the application of Kaufman was, I think, assigned to the defendant but this is perhaps not clear. Certain claims in the application of Kaufman were declared to be in conflict with those of Winter. In an affidavit filed with the Commis-

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sioner of Patents, pursuant to sec. 22 (2) of the Patent Act, Kaufman placed the date of his invention to be in the early part of August, 1929. Kaufman essentially claimed the same thing as Winter; in the end the Commissioner of Patents awarded priority to Winter in respect of the claims which were in conflict, and Kaufman's application apparently was then abandoned.

Thereupon there followed, in June, 1933, the application of Williams, who was then also in the service of the defendant, and this application was made apparently at the instance and with the knowledge of the defendant. While Kaufman is no longer before us, yet the plaintiff's counsel comments upon the fact that the defendant having promoted the application of Kaufman, and that having been refused as against Winter, it then promoted the application of Williams which is substantially the same as Kaufman, except that the former claims a date of invention much earlier than that of Winter, in fact it goes back as far as 1916. It is quite apparent, I think, that the application of Williams was made because priority had been awarded to Winter as to date of invention as between Winter and Kaufman, and it was expected, through Williams, to establish a date of invention earlier than that of Winter. We may now turn to a consideration of the application of Williams which is here in conflict with Winter.

I do not think it is necessary to quote from the specification of Williams because in so far as the invention there described and claimed is in conflict with Winter, it may be regarded, for our purposes here, as being the same invention as that claimed by Winter. As already mentioned the application of Williams for a patent has been abandoned, and it is now contended on behalf of the defendant that the claims of Winter should be refused because, *inter alia,* Williams, at a date anterior to Winter, had conceived and put into use the method of producing the same product for which Winter claims invention and a monopoly; the defendant now also claims that in any event there is no invention in Winter, and that the same was anticipated by the prior art. It becomes necessary therefore to inquire what it was Williams conceived or practised in this particular art prior to Winter's alleged date of invention, and which at this stage in the application of Winter would

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justify the Commissioner of Patents in refusing the same; this, I think, may be done without particular reference to the specification of Williams.

We may first turn our attention to the affidavit of Williams, dated May 14, 1934, and deposited with the Commissioner of Patents pursuant to sec. 22 (2) of the Patent Act, and after certain of the claims of Winter and Williams were declared to be in conflict. That affidavit is as follows:

I, the undersigned, Egbert R. Williams, of the City of Shawinigan Falls, in the Province of Quebec, and Dominion of Canada, being sworn, depose and say:—

(1) That I am that Egbert R. Williams whose application for Letters Patent for Process of Making Calcium Carbide was filed in the Canadian Patent Office the 27th day of June, 1933, under Serial Number 400,558.

(2) That, at a date prior to July, 1916, I conceived the invention set forth in my said application, being essentially the briquetting of pulverulent calcium hydrate (obtained as a waste product from the manufacture of acetylene gas by slaking calcium carbide with water), calcining the briquettes and employing the calcined briquettes as a furnace charge in the manufacture of calcium carbide.

(3) That I made verbal disclosure of my said invention to others, including the late J. C. King, who was at that time an executive officer of Canada Carbide Company, Limited.

(4) That, on the instructions of the late Mr. J. C. King, a series of tests were conducted at McGill University, Montreal, to determine the feasibility of briquetting and calcining the calcium hydrate waste for re-use in a carbide furnace, a report of which tests was rendered by the university under date of July 16, 1916.

(5) That the earliest written descriptions of my said invention have been mislaid or destroyed.

(6) That, in the year 1920, mechanical equipment suitable for semi-plant scale tests was obtained and that, between July 22, 1920, and November, 1921, I conducted at the plant of Canada Carbide Company, Limited, Shawinigan Falls, a long series of experiments in the briquetting of calcium hydrate waste from acetylene gas manufacture and the calcining of the briquettes.

(7) That, in the months of December, 1920, and January, 1921, I designed the necessary equipment for carrying out my invention on a commercial scale.

(8) That, on the 24th November, 1921, one of the carbide furnaces of Canada Carbide Company, Limited, at Shawinigan Falls, was operated for a period of approximately twelve hours, during which approximately thirteen tons of briquettes according to my invention were used as part of the furnace charge. The calcium carbide produced was of satisfactory quality and a higher than usual yield of carbide per unit of energy consumed was obtained. The results of this experiment indicated the desirability of improvement.

(9) That memoranda of the foregoing tests are found in the records of Canada Carbide Company, Limited.

(10) That, from the 24th November, 1921, to the month of May, 1930, experimental work was carried on at the plant of Canada Carbide

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Company, Limited, directed chiefly to perfecting the briquetting and calcining practice, but including the fusing of a number of small lots of calcium oxide briquettes with carbon in an electric furnace, with production of good grades of calcium carbide.

(11) That, from the month of May, 1930, until the month of May, 1931, approximately two hundred tons of calcium oxide briquettes were produced according to my said invention and that these briquettes were accumulated and fused with carbon in a large electric furnace as a plant size operation, commencing on or about the 19th May, 1931, and finishing on or about the 22nd May, 1931, and produced a good grade of calcium carbide.

(12) That, as a result of the test of May, 1931, it was decided the invention had advanced to a practical conclusion and machinery was installed for the manufacture of calcium oxide briquettes according to my said invention on a commercial scale.

From this affidavit it will be observed that Williams claims to have conceived his invention prior to July, 1916, and that in 1920 and 1921 he, experimentally, briquetted calcium hydrate waste from acetylene gas manufacture and the calcining of the briquettes. The last three paragraphs of the affidavit would rather indicate that Williams' experimental work was not concluded till May, 1931.

I am inclined to think that anything alleged to have been done by Williams prior to 1920 must be regarded as inconclusive experimental work. We may direct our attention next to certain correspondence passing between the defendant and various manufacturers of machines designed for the briquetting of such material as the waste product derived from the manufacture of acetylene gas, in order to ascertain, if possible, the stage of development reached by Williams, in the years 1920 and 1921, in respect of the problem then engaging his attention, the problem which he claims to have solved at least earlier than Winter. I should perhaps observe that prior to 1917 Williams was in the employ of the Canada Carbide Company, Ltd., at Shawinigan Falls; in 1917 he went overseas with the military forces of Canada, and in 1920 he returned to the company, the predecessor of the defendant company.

In 1920, Williams began a series of letters directed to the manufacturers of briquetting machinery and hydraulic presses; these letters were written by Williams on behalf of his employer, then The Canada Carbide Co. Ltd. In July, 1920, he wrote The Chas. F. Elmes Engineering Works, of Chicago, as follows:

We have been working on the problem of agglomerating a partially dehydrated Lime Sludge.

Experimental work on briquetting, using an improvised press, has shown very promising results.

We would like to enlist your aid and experimental facilities to help us in this work.

A sample of the material is going forward to-day. Will you please examine this and bear in mind that about 75 tons are to be agglomerated per day?

Perhaps some of your machines are adapted to this work and if so could we have some preliminary work and later a commercial scale test carried out?

Your comments and descriptive literature would be appreciated.

A letter to the American Process Company, of New York, in August, 1920, is partly as follows:

We are sending you under separate cover a sample of dehydrated lime sludge just as it leaves our filter. In this condition the sludge contains about 30 to 40% Ca 0 and 60 to 70% free and combined water.

We wish to dehydrate this material as thoroughly as possible by mechanical means before any attempt is made to use a drier.

In a letter addressed to Smidth & Co. of New York, dated August 16, 1920, he writes: "You are right in presuming that a powdery lime would be a useless product for our purposes." This would rather indicate that Williams did not then have in mind that a dry powder lime was capable of being made into a briquette that could be used in a carbide furnace; in the same letter he suggests that "to enable you to form solid strong agglomerates we would suggest the addition of up to 5 per cent Fluor Spar or up to 3 per cent calcium chloride." Then, in another letter written by Williams to Smidth & Co., dated September 16, 1920, he states that two drums (about 150 pounds) of Lime Sludge had been shipped, and the second paragraph of that letter states:

Only two probable agents suggest themselves to us, which might strengthen the clinker. These are, Calcium Chloride of Fluor Spar. Silica and Magnesia are certainly unsuitable from the furnace standpoint.

It is apparent from these two letters that what Williams had in contemplation was a briquette with a binder of some kind.

In a letter of November 17, 1920, from the F. J. Stokes Machine Company, Philadelphia, to whom had been sent a quantity of sludge, that company in reply states:

The moisture content of this material is not carried very low as the dry material will not briquette.

This would indicate that this company was also of the opinion that a dry powdered lime could not be briquetted.

Then Williams made two written reports to his principal which should be considered. On November 24, 1921, in a

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report on the ultilization of lime sludge as a briquetted furnace charge, Williams states:

In order to test the idea of briquetting our gas plant sludge with fine coke or coal a large number of tests were made with a view to finding a suitable bonding agent and a working process for the recovery of the values now being disposed of into the flat below the Magnesium Plant.

With a small improvised hand press briquettes were made using pure sludge and sludge with additions of coke, pitch, gas coal and water.

None of these mixtures gave promise of holding together unless subjected to a careful baking after pressing and drying.

Various bonds were used to avoid the baking step if possible. Those tried included salt, calcium chloride, sugar, magnesium chloride, starch, dextrine, tar and pitch. Attention was only paid to additions of small quantities of bond as large proportions would have precluded the possibility of a commercial process.

In all cases it was found that the briquettes became soft or crumbled on preliminary heating. This meant that in the furnace operation they would disintegrate and seriously interfere with furnace operation.

Therefore the work of making a live hydrate brick was discontinued and attention paid to the more promising "coked" brick of sludge, coke and pitch.

Fresh gas plant sludge was dried to about 10% of free water. This powdered material was then mixed with fine coke and pitch, this material pressed into very strong briquettes which were coked by heating to about 600-700° C in an iron box covered with sand.

The mechanical qualities of these bricks after baking were satisfactory.

It is evident from this report that Williams then had in mind only the use of a binder with a wet sludge.

Some five years later, on February 16, 1926, while still engaged in the problem, Williams directed a report to the Vice-President and General Manager of the Canada Carbide Company Limited, in regard to the utilization of carbide sludge, and therein he states:

Of the various proposals made for the reclaiming of the lime value of our sludge, three, at least, have shown great promise.

In view of the increasing value and tonnage of sludge produced, it seems advisable to protect ourselves by patents in Canada and the U.S.A.

Briefly, the three lines of experimental work have had for their goal the agglomeration of the sludge into suitable solid masses, mechanically strong enough to stand charging into the carbide furnaces. This means that the lime recovered from the sludge would be returned to the furnaces in such condition that calcium carbide would be again formed and only the lime necessary to make up losses would be added to the process.

The first scheme is to classify, filter and partially dry the sludge to about 10% free water content. This almost dry powder is then mixed with from 15% to 30% of pitch, with or without coke or coal screenings, the mixture pulverized and briquetted in any standard type of press. These briquettes are allowed to air-dry and set hard, or may be calcined at such a temperature that the lime-hydrate is decomposed, leaving only lime and coke, or the air-hardened briquettes may be fed directly into the carbide furnaces.

During 1920 and 1921, we made about 40 tons of this type of briquette and calcined them at the plant of the Can. Electrode Co. The result of this trial proved the practicability of the scheme and only the large capital outlay necessary prevented our putting in a plant at that time.

Another line of experimental work was also followed. This was the mixing of partly-dried sludge with coke fines, Welsh anthracite Buckwheat and pitch and tar. The mixture was then coked in a reducing atmosphere to produce an agglomerate, which while considerably less strong and dense than the briquettes, yet gave a satisfactory product for furnacing.

The third method which promises to give us a fair recovery of our lime sludge is to mix with the sludge sufficient coking coal to give a mass dry enough to be charged into a standard coke retort of any type. The product obtained by low temperature coking is quite strong enough for our work here. However a very large proportion of coal (2 to 4 parts of coal to 1 of sludge) must be used, so that the coked product by itself is not suitable for the carbide manufacture. It is necessary to add considerable lime to the charge along with the sludge agglomerate.

Any one of these proposals if acted upon will enable us to recover about 90% of the sludge which is at present going to waste.

As long as we are "bleeding-out" of the system about 40% of our daily production, there is little danger of the lime impurities "building-up" to serious proportions.

It will be observed from this report that while Williams had in mind drying the sludge so that it would have only about 10 per cent free water content, he yet had in mind mixing with this dry powdered lime 15 to 30 per cent of pitch as a binder, with or without coke or coal screenings. It is therefore evident, I think, that on February 16, 1926, Williams did not know, or had not demonstrated, that powdered calcium hydroxide, or calcium oxide, could be briquetted, without a binder, with sufficient resistance or strength so as to be successfully utilized in a carbide furnace, which was what Winter discovered in 1926, and for which he now claims invention.

The foregoing correspondence and the written reports of Williams to his principal, fail to establish in my opinion that prior to March 30, 1926, Williams had conceived and demonstrated that practically dry powdered calcium hydroxide, or calcium oxide, or both, could be briquetted so as to be practically useful in a carbide furnace for the production of calcium carbide.

Now upon the facts disclosed, and considering the abandonment by the defendant of any claim to a patent, what is the proper disposition to be made of this matter? It is conceded that Williams is not entitled to a patent, and Mr. Gowling stated he had no objection, as between the plaintiff and defendant, to a patent issuing to the plaintiff providing the claims were limited to the product made by

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briquetting practically dry material only, and not from material containing a substantial percentage of moisture; it was suggested that the product now made by the defendant is not made of practically dry material, but of a material which contains a considerable percentage of moisture. Had the defendant earlier advised the Commissioner of Patents, that Williams' application was abandoned, I think it may be fairly assumed that he would have allowed the plaintiff's application, and he would not have declared the claims of the respective applicants to be in conflict; in fact there could not in that case have been any conflict. Therefore, Williams being no longer an applicant for a patent, and there now being no conflict in the claims of rival applicants to consider, and the Commissioner of Patents being of the opinion that he would have allowed Winter's application had there been no conflict, it would seem that the proper disposition of the matter now is to declare that the plaintiff is entitled to a patent, or, that the matter should be referred back to the Commissioner of Patents to dispose of as he saw fit, there being no longer any claims in conflict. Possibly I should have directed this proceeding to be remitted to the Commissioner immediately it was conceded that the defendant was not entitled to a patent.

When one comes to analyse carefully sec. 22 of the Patent Act it does not seem to be quite clear just what one is called upon to decide. As between the plaintiff and the defendant it is my opinion that the plaintiff is entitled to a patent and I would so decide even if the defendant had not disclaimed any right to a patent; beyond that I do not think I am required to go for the present, and I am not of course deciding whether or not the defendant is infringing the alleged invention described by Winter. The true construction of Winter's specification may possibly involve some difficulties, but that will have to be disposed of when and if the question arises. I should perhaps observe that none of the prior art cited seem to me to be relevant here. The exact formulation of the claims in Winter's application may be left to the Patent Office, but of course, they must be limited precisely to what is described in the specification. The plaintiff is entitled to its costs of this proceeding.

Judgment accordingly.

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Sep. 23.

Nov. 29.

BETWEEN:

HIS MAJESTY THE KING ON THE INFORMATION OF THE ATTORNEY-GENERAL OF CANADA ..... PLAINTIFF;

AND

B. C. BRICK & TILE COMPANY LIMITED ..... DEFENDANT.

Revenue—Special War Revenue Act—Sales tax—Limited companies controlled by same person dealing with each other—Agency.

S. 86 of c. 179, R.S.C. 1927, the Special War Revenue Act, reads in part as follows:—

In addition to any duty or tax that may be payable under this Act or any other statute or law, there shall be imposed, levied and collected a consumption or sales tax of four per cent on the sale price of all goods.

(*a*) produced or manufactured in Canada, payable by the producer or manufacturer at the time of the sale thereof by him; * * *

Defendant company manufactured bricks and sold its entire output to the Victoria Tile and Brick Supply Company Limited, paying the sales tax on the sale price of such bricks. The Victoria Company sold these bricks by retail together with other builders' supplies, and bricks purchased from other manufacturers. For all practical purposes the control of both companies was in one J. A. Wickson and his wife.

The Crown contends that the Victoria company was merely the agent of the defendant company in the sale of its bricks and that defendant company was therefore taxable on the sales price of the Victoria company.

Held: That the two companies are separate entities even though controlled by the same persons, and though the officers and shareholders of the two companies are much the same and the companies have business relations with each other those facts alone do not constitute the one company the agent of the other.

INFORMATION exhibited by the Attorney-General of Canada to recover from the defendant sales tax and penalties alleged to be due the Crown under the provisions of the Special War Revenue Act, c. 179, R.S.C. 1927, and amendments thereto.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Vancouver, B.C.

L. C. Ford for the plaintiff.

A. R. Creagh and *J. A. MacInnes* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

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THE PRESIDENT, now (November 29,1935) delivered the following judgment:—

This is an information exhibited by the Attorney-General of Canada, whereby it is sought to recover from the defendant, under the provisions of the Special War Revenue Act, 1915, chap. 179, R.S.C. 1927, and amendments thereto, a sales or consumption tax upon certain goods produced or manufactured by it, namely, building bricks, and which were sold throughout the period commencing August 1, 1927, and ending December 31, 1933. The amount sued upon is for an alleged balance of $1,443.34 due and owing as sales tax by the defendant to the plaintiff, together with penalty interest calculated to the 30th day of June, 1935, amounting altogether to the sum of $1,940.95. The precise provision of the Special War Revenue Act applicable here is sec. 86 which in part reads as follows:—

> In addition to any duty or tax that may be payable under this Act or any other statute or law, there shall be imposed, levied and collected a consumption or sales tax of four per cent on the sale price of all goods.
>
> (*a*) produced or manufactured in Canada, payable by the producer or manufacturer at the time of the sale thereof by him; * * *

The Vancouver Brick and Tile Company Ltd., was incorporated under the laws of the Province of British Columbia in May, 1927, and in May, 1935, its name was changed to the B.C. Brick and Tile Company Ltd., now the defendant herein. The defendant company manufactures common building bricks at Sullivan, some 20 miles distant from Vancouver, B.C. Its entire production of bricks during the period in question was sold annually to the Victoria Tile and Brick Supply Company Ltd., a company incorporated in 1923 and since that date carrying on the business of selling, by retail usually, builders' supplies such as lime, mortar, gravel, sand, tiles, bricks, and other material, and which would be purchased by the Victoria Tile & Brick Company usually in wholesale quantities; it will be convenient hereafter to refer to this company as the "Victoria company." In addition to the annual output of bricks produced by the defendant company, the Victoria company purchased similar bricks and bricks of other types, from other manufacturers. The total annual sales of the Victoria company would amount to $200,000 and over;

the value of the bricks manufactured annually by the defendant company and sold to the Victoria company amounted to somewhere between $8,000 and $9,000. The defendant company has paid the sales tax on the sale price of the bricks which it sold to the Victoria company, but the Crown now contends that the tax should be calculated on the sale price of the Victoria company.

Mr. J. A. Wickson, during the period in question, was the president of the defendant company and also of the Victoria company. His holding in the capital stock of the defendant company was 71 shares out of a total issue of 165 shares, and in the Victoria company he held 51 shares out of a capital stock issue of 112 shares. His wife was also a shareholder in both companies and was as well a director of both companies. When the defendant company was organized the Victoria company made advances to the former company for the purchase of machinery and equipment, taking shares, as I understand it, in such company for such advances; at any rate the Victoria company was a shareholder in the defendant company at the time material here. A Mr. Ayling, manager of the defendant company's plant was also a shareholder in that company, but he was not a shareholder in the Victoria company. The shareholders in the defendant company were therefore J. A. Wickson, his wife, the Victoria company, and Ayling. The deceased father of J. A. Wickson was a shareholder in the Victoria company and his share holdings are presently registered in the name of his executors; a brother of J. A. Wickson was also a shareholder in the Victoria company, but in 1933 his shares were acquired by J. A. Wickson. I think it may fairly be conceded that for all practical purposes the control of both companies was in J. A. Wickson and his wife.

The books of account of the defendant company, during the period in question, were kept by the Victoria company at its office in Vancouver for which service an annual allowance was made by the former company; it seems that presently the offices of both companies are at Sullivan, B.C. Neither company's business operations were financed in any way by the other. The defendant company's annual manufacturing operations were largely financed by means of advances made by some bank under sec. 88 of the Bank Act.

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The Crown contends that the Victoria company was merely the agent of the defendant company in the sale of its bricks, and was therefore taxable on the sales price of the Victoria company; this contention cannot, I think, be maintained. While the same persons may control the two companies yet they are separate entities, and even the shareholders are not precisely the same; their respective business operations are really quite distinct and were intended, I think, so to be. Each company finances and conducts its own operations, each hires and pays its own employees, and their business records are separately maintained; there is no division of profits or sharing of losses between the two companions. During the period in question the defendant company sold its annual production of bricks to the Victoria company at the current wholesale price just as other manufacturers of bricks would sell their product to similar business concerns. There is no evidence to show that the business of the Victoria company was in fact influenced, controlled or directed, by the defendant company, and in all the circumstances here that would seem improbable. That the defendant company sells its entire annual output of bricks to the Victoria company does not appear to me to be an irregular or unusual thing, or of itself suggestive of a concealed effort to defeat the revenue; in all the circumstances it was not unnatural to find the Victoria company a willing customer of the defendant company. It would be going to dangerous limits to say, that because the officers and shareholders of the two companies were much the same, and because the companies had business relations the one with the other, that therefore the one was the mere agent of the other; there must, in my opinion, be a state of facts established outside that disclosed here, to make the defendant company liable for the sales tax on the basis of the price received by the Victoria company, and not upon the price at which in fact the defendant company sold its bricks to the Victoria company.

Counsel for both parties referred me to the judgment of the Supreme Court of Canada in the Palmolive case, (1). The important facts of that case are to be found very fully and concisely set forth in the judgment of Cannon J., par-

(1) (1933) C.L.R. 131.

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ticularly at pages 135 and 136, and I need not repeat them here. It will be seen, I think, that the principal or controlling facts appearing in that case are not at all similar to the facts in the case presently under consideration. It was held by the Supreme Court of Canada, in the Palmolive case, that upon all the facts disclosed, and upon the authorities mentioned, the manufacturing company was merely the agent of the selling company, and that it was the latter that was liable for the sales tax. In the case under consideration I am unable to see how, upon the facts disclosed, it could be held that the Victoria company was the agent of the defendant company, and to make the Palmolive case applicable here some such agency would have to be established. Conceivably it might be argued that the defendant company was the agent of the Victoria company, and that it was that company that was liable for the sales tax, but that company is not a party to this action. It seems to me that there is nothing in the facts appearing in this case that would support the contention that the Victoria company was the agent of the defendant company. The facts in the Palmolive case are so dissimilar that I really do not think any assistance is to be gained from it one way or the other.

It is my opinion therefore that the contention of the Crown cannot prevail and that the information must be dismissed with costs. Other defences were raised but in view of the conclusion which I have just expressed it is not necessary to discuss them.

Judgment accordingly.

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Jan. 15, 16, 17, 18, 19 & 21.

Apr. 25.

NORTHERN ELECTRIC COMPANY, LIMITED, and WESTERN ELECTRIC COMPANY, INC. ..... PLAINTIFFS;

AND

PHOTO SOUND CORPORATION and GEORGE PERKINS ..... DEFENDANTS.

Patents—Infringement—Anticipation—Invention—Reissue patent not restricted to invention claimed in original patent—Patent Act 1906, section 24.

The patent in suit has to do with the amplification of electric signals by means of a thermionic amplifier consisting of a number of audions connected in cascade whereby the original signal impressed upon the

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input of the first audion is successively amplified and reproduced in the output of the last audion, in a substantially undistorted but highly magnified or strengthened form. The patent was a re-issue of an earlier patent. The Court found that the original patent lacked invention, and further that the re-issue patent is not confined to the invention described in the original specification, there being introduced additional descriptive matter, new subject-matter, and many of the new claims in the re-issue being based on the new subject-matter described in the specification of the re-issue patent.

Held: That the re-issue patent must be confined to the invention which the patentee attempted to describe and claim in his original specification, but which owing to "inadvertence, error or mistake," he failed to do perfectly; he is not to be granted a new patent but an amended patent.

2. That no patent is "defective or inoperative" within the meaning of the Act, by reason of its failure to describe and claim subject-matter outside the limits of that invention, as conceived or perceived by the inventor, at the time of his invention.

ACTION for infringement of two patents, one of which was a re-issue of an earlier patent.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C. and *R. S. Smart, K.C.* for the plaintiffs.

H. N. Chauvin, K.C. and *F. B. Chauvin* for the defendants.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (April 25, 1935) delivered the following judgment:

This action was taken against the defendants for the infringement of two patents. The first to be mentioned is patent no. 226,704, which issued on November 28, 1922, to International Western Electric Company, Inc.; this patent was a re-issue of patent no. 179,709, which issued to Harold de Forest Arnold, the original patentee, on October 9, 1917, on an application dated May 18, 1916. This re-issue patent is attacked, first, on the grounds of lack of subject matter and anticipation, and again on the ground that it is invalid because it was not restricted to the same invention described and claimed in the original patent; while I am of the opinion, as will later appear, that the last-mentioned contention must prevail, yet, I feel that I should also express my opinion upon the question as to whether this patent contains subject matter.

This patent has to do with the amplification of electric signals by means of a thermionic amplifier consisting of a number of audions connected in cascade whereby the original signal impressed upon the input of the first audion is successively amplified and reproduced in the output of the last audion, in a substantially undistorted but highly magnified or strengthened form. The audion amplifier as such, was old in the art, and this patent has to do with details of the arrangement of the audions, capacities, inductances and resistances, whereby, it is alleged, improved results and improved reproduction are secured in the resulting amplified signal.

The patent describes a complete radio receiving apparatus consisting of a radio antenna connected to the input of a high frequency amplifying audion. This audion feeds into a second audion which serves as a detector to rectify the incoming radio signals. Following the detector there are shown two stages of audion frequency amplification employing one audion in each, the last of which, no. 38, feeds into two audions, 49 and 50, connected in what is referred to as a "push-pull" or "back-to-back" arrangement. The combined output of the push-pull audions is finally fed into a loud speaker or translating device, the amplified signals thereby becoming distinguishable to the senses.

The alleged infringing circuit is shown in two drawings, Exhibit 6. It consists of a three-stage amplifier, the signals being fed into the output of the first audion V1 through a transformer T1, the output of V1 is similarly fed to the input of audion V2 through a transformer T2 across the secondary of which is connected a resistance with a variable tap used for controlling the volume of the input to the audion V2. Audion V2, in turn, feeds through a transformer T3 into two audions V3 and V4, connected in push-pull arrangement; and across the secondary of the transformer T3 is connected a resistance R2. Associated with the plate battery circuit of audion V1, there is shown a condenser C2 and a resistance R4, and in the plate circuit of audion V2 there is shown a condenser C4 and a resistance R6.

Comparing Exhibit 6 with Arnold we find the following: condenser 33 corresponds identically with C2. Condenser

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40 corresponds identically with C4. Inductance 35 is in the same relative position in the circuit as resistance R4. Inductance 42 and condenser 40 in the plate circuit of audion 38 appear to be, in some respects, differently connected, but, generally speaking, I think correspond to resistance R6 and condenser C4 in audion V2. The resistance with variable tap or potentiometer 37 is identical with potentiometer R1. And resistance 46 and negative battery 47 correspond with resistance R2 and negative battery C13.

The claims of Arnold which are said to be infringed may be grouped and summarized as follows: (1) The combination of a single audion feeding into two audions connected in push-pull, in the diagram, the output of audion 38 feeding through transformer 44 into the input of audions 49 and 50; (2) The use of a resistance across the secondary of a transformer when such transformer is used to connect the output of one audion of an amplifier to the input of the next, 37 and 46, and a variable connection 37′ to this resistance 37 whereby the voltage impressed upon the grid of audion may be controlled; (3) The combination of a negative bias through a resistance to the grid of an audion, by battery 39 to resistance 37 and by battery 47 to resistance 46; and (4) The use of condensers and choke coils for the purpose of by-passing the alternating or signal currents around a common battery, namely, condensers 33, 40, etc., in conjunction with choke coils 35, 42, etc.

Referring now to the first group of claims said to be infringed, and which relate to the combination of a single audion feeding into two audions in push-pull connection. Amplifiers employing a number of single audions connected in cascade through intermediate transformers, were old in the art, the same being disclosed by Von Lieben and de Forest. The special "push-pull" connection of two audions was also old, having been disclosed by Colpitts, while a cascade arrangement of several stages of audions in "push-pull" relation was also old, this being attributable to Alexanderson. Accordingly we have only to consider whether invention lies in Arnold's arrangement of a single audion connected in cascade to two audions in "push-pull" relation.

It was, I think, early appreciated in the art that as a signal progressed from stage to stage in an amplifier the

amount of electrical energy which the successive audions had to convey became increasingly greater, and that there was inherent in any given audion a finite amount of energy which it could handle without overloading, and without resultant distortion of the signal. This I think was obvious to Von Lieben, and to de Forest, and they appreciated that once this point of amplification had been reached, further output without distortion could not be secured unless an audion of larger capacity was used.

The "back-to-back" or "push-pull" arrangement of Colpitts, I think, met this difficulty. He sets out an arrangement whereby two normal sized audions were connected in push-pull relation thereby securing the equivalent of a single audion of twice the capacity. It was known that a lightly loaded audion was less liable to give distortion than an audion loaded to capacity and it seems to me, that for Arnold, at the time material here, to use one audion feeding into two, instead of the same audion feeding into a larger one, would be an obvious arrangement to one trained in the art, and I do not think that invention can be claimed for this feature of Arnold's arrangement.

Coming now to the second and third group of claims said to be infringed and which have to do with the use of a resistance across the input of an audion or the secondary of the transformer feeding such audion, the use of a variable tap on this resistance for the purpose of controlling the volume of the output, and the use of such a resistance in combination with a negative bias on the grid of the associated audion. It was suggested that the resistances 37 and 46 were intended by Arnold to give uniformity of amplification, because, as already stated, it was known that weak signals were amplified proportionately greater than were strong signals, and the inclusion of the resistance was expected to rectify this undesirable condition. It was contended on behalf of the defendants that this condition was rectified by the negative bias given to the grid, the negative C battery, 39 and 47, which was the invention of Lowenstein, and that the function of the resistance was to provide a leakage path and not to give uniformity of amplification. Lowenstein states that by repeated tests he had found—though he did not clearly understand why—that the negative grid bias added to the strength and clarity of speech as heard in the receiver.

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Arnold himself recognized the advantage of the negative bias in improving the uniformity of magnification because in his note book, under date of March 4, 1914, he remarks:

> Note the advantage of using a high negative C voltage in audion in improving the uniformity of magnification over ranges of output, and also in improving exactness of reproduction.

Again, in his note book, he states:

> In audion put shunt across input so that cross talk will be lessened, for since resistance of input is great at low input voltage, the shunt will take a larger share of low voltage input than it will of high voltage input.

It was pointed out by Mr. Chauvin that the shunt referred to in this note of Arnold was not associated with the secondary of the transformer, as is claimed in the re-issue patent, and he suggested that at that time Arnold had in mind leaving out the transformer and using the resistance alone, this suggestion being based on the fact that in Arnold's United States patent, of May 28, 1914, he suggests the elimination of transformers; the note is as consistent with that idea as with the idea put forth in the re-issue patent here.

It was in effect contended that the groups of claims relative to the resistance, the negative bias to the grid, and the variable tap involved two inventive conceptions by Arnold, that is to say, he was the first to discover that weak signals received a greater amplification proportionately than strong signals, and, that he was the first to observe that an audion worked at a fraction of its capacity gave less distortion. But Arnold was not, I think, the first to discover the remedy for this condition then known to prevail in radio communication. Lowenstein in his patent, applied for in the United States in April, 1912, states:—

> The object of my invention is to provide a relay by means of which the relation of the potential differences of the complex incoming speech currents is well maintained in the telephone receiver so that the sound reproduced by the receiver diaphragm will be composed of waves of practically the same frequencies as impinge upon the transmitter diaphragm . . . these various frequencies will have about the same relative amplitudes as in the original sound waves actuating the transmitter. As a result of this the reproduced sound in intelligible.

It is evident, I think, that Lowenstein had in mind the provision of uniformity of amplification so that all signals, weak and strong, would receive the same relative magnification, and the means which he provides to achieve this end is by the negative bias to the grid, which is the means

which Arnold suggests and which he now claims as part of his invention.

Nor do I think that Arnold was the first to perceive that there was less distortion when an audion was not working to its full capacity. Richards disclosed this in his memorandum of November 21, 1912, which by the way was witnessed by Arnold, and in his patent specification he states:—

> It has been found by experiment that relays of the general type in which a gaseous conductor is included in the amplifying circuit will operate satisfactorily only on small amounts of incoming energy. When large amounts of incoming energy such, for instance, as are encountered in ordinary telephone systems, are impressed on such relays, the relay becomes inert and ceases to operate.

That means that the relay is overloaded and choked; it would seem therefore to have been generally known at that time that audions would not operate satisfactorily if they were called upon to handle more than a certain amount of incoming energy, and Richards speaks of it in that way, and not as a discovery of his own. Richards suggested the following means to meet the difficulty:—

> In the specific embodiment of the invention disclosed, the leakage path or shunt comprises a high resistance 14, preferably in the neighbourhood of one megohn. This resistance, which may be either inductive or noninductive, is connected between the grid element 3 and the plate 4.

While claim 6 reads:—

> In an electric relay, the combination with an audion, of a circuit including a resistance in shunt of two of the elements of said audion.

Richards' purpose in putting a resistance between the grid and the plate, that is between the input and the output circuits, was to relieve the audion from some part of the load when the same became too great. Claim 6 covers not only a resistance between the grid and the plate, but also between the grid and the cathode, which is the manner in which Arnold uses the resistance and for which he claims invention.

It does not therefore appear to me that Arnold was the first to observe that weak signals were amplified to a greater extent than strong signals, nor was he the first to provide a remedy; further, it seems to me that it is the negative bias to the grid that provides the means of uniform amplification, and that Arnold in suggesting a resistance across the input had as one of his aims, the provision of a by-pass across the input of audion 38, whereby the

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possibility of overloading this audion would be reduced; in other words, he followed the suggestion of Richards that the use of a resistance across the electrodes of an audion would perform a useful purpose. In addition, the manally adjustable connection 37′ to resistance 37, provides a still further control of the load to be passed on to the input of audion 38.

I should observe that a resistance with a variable tap, such as 37 and 37′, is called a potentiometer, a device long known in the electrical art, and is employed for the purpose of subdividing a voltage, which is the purpose, or at least one of the purposes, it serves in the structure of Arnold where it is said to subdivide the voltage across transformer 36 thereby acting as a volume control. The use of a potentiometer to effect a subdivision of the voltage, and its use as a volume control, does not, I think, constitute invention. It was a principle well known to the art. For example, we find the general idea disclosed in Langmuir's United States patent no. 1,273,627.

I now come to the use of a common battery, and of choke coils and condensers, to prevent objectionable singing, etc., and it is to those features of Arnold that the fourth group of claims said to be infringed refer. These instrumentalities were old in the art, it being well known that a condenser offers little or no resistance to alternating currents such as those which the amplifier is repeating, while a choke coil or inductance presents a high resistance to such currents. Once it was understood that the singing was caused by alternating currents passing through the battery, then well known means were readily at hand to by-pass these currents and thereby overcome the difficulty. It was stated in evidence that the problem resembled that at an earlier date confronting telephone engineers, when, to avoid cross-talk, it was found necessary to by-pass the alternating voice currents appertaining to the different telephone instruments, around the battery. The problem in the case of the amplifier, was perhaps more acute than that of the ordinary telephone, in that in the case of the former small currents were re-amplified and became thereby that much more harmful. I should think however that to one skilled in the telephone art, such as Arnold, the analogy was

reasonably obvious, and that he, in applying the general practice of the telephone art to the problem of the amplifier battery, would at once perceive that by by-passing the voice currents around the battery that the difficulty would be overcome. I do not think, however, that this could be construed as invention. It might also be observed that the defendants do not use choke coils and that the resistances they employ have different characteristics when used with alternating currents such as those under discussion.

I do not think there is invention in Arnold. Many features of this patent for which invention is claimed are discussed in the United States case of *Western Electric Co.* v. *Wallerstein* (1), and to which I would refer.

The validity of the re-issue patent to Arnold was strenuously attacked by counsel for the defendants on the further ground that what is described and claimed therein as invention, is not the invention described and claimed in the original patent, and that therefore there was no statutory authority for granting the re-issue patent. It becomes necessary therefore to refer to the original patent with some care and probably at some length.

The patentee describing his invention in the original specification states:

"This invention relates in general to receiving systems for radio communication, particularly to devices for limiting the electrical power which may be transmitted to a receiving instrument in such a system, and more particularly to devices in which such limiting action is obtained by employing electric currents in an evacuated vessel.

Its object is to provide rapidly responsive means by which a definite upper limit is set upon the amount of power which may be communicated to a receiving circuit or apparatus, while amounts of power below said limit may be transmitted without selective interference.

The ability to secure such limitation is desirable, in a radio receiving system for example, because foreign disturbances, which in the wireless art are often of large magnitude compared with that of the received signals, may be reduced to a value not exceeding that of the signals, thus securing higher intelligibility in reception.

This object is accomplished by making use of the fact that unilaterally conducting elements, placed in opposition in a circuit, limit the current which may flow in either direction around that circuit, and in this respect this invention is similar to that which forms the subject of my previous application No. 192,176 for a Protective Device for Electric Circuits, filed December 28, 1914. It differs from that, however, in that additional elements are associated with the unilateral devices and elsewhere, to secure certain improvements in operation, as explained later

(1) (1932) 60 Fed. Rep. 2nd Series 723 at pages 730 and 731.

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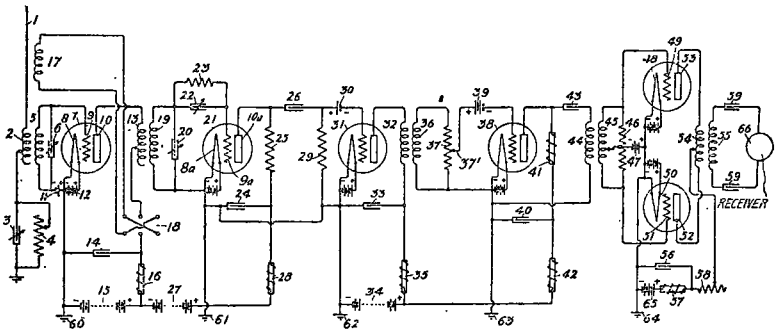
in this specification, and also in that an amplifying effect is obtained which makes this device particularly applicable in radio communication.

In the preferred form of this device the unilateral conductivity is secured by causing part of the circuit to lie in the paths of thermionic currents between hot cathodes and cold anodes, said thermionic currents being oppositely directed with respect to said circuit. These thermionic currents are caused to flow by impressing upon their limiting electrodes, in multiple, an electromotive force operating through a high impedance, said high impedance being essential to the operation of the device for the purpose specified, by preventing unbalanced currents in the two halves of the device. This high impedance serves to differentiate this power limiting device from the repeating device described in U.S. patent No. 1,128,292, to E. H. Colpitts for an Electric Wave Amplifier, as will be apparent from the further explanation of its function given later.

The nature of this invention will be more fully understood by reference to the drawing, which represents a receiving system for radio communicative embodying this invention. . . .

The drawing referred to is hereunder reproduced.



The specification then proceeds to describe the receiving system which embodies the invention and that paragraph concludes thus:

The apparatus to the right of 44 comprises the power-limiting device and the receiving circuit.

The specification then proceeds:

In this device coil 45 is coupled to coil 44. 46 is a resistance. 48, 49 and 53 are the filament, grid and plate, respectively, of a structure of the audion type, as are also 50, 51, 52, respectively. 47 is a battery common to the input circuits of the two structures, which structures may be in the same vessel or in separate vessels. 54 is a transformer winding connecting plates 52 and 53 and having a connection brought out at its middle point. The secondary winding 55 of this transformer leads to a receiving instrument 66, preferably through the condensers 59.

Current is supplied to the output circuits of the last-mentioned structures of the audion type by battery 65 connected through coil 57, and the variable resistance 58 to the middle point of coil 54 and to the common point of the two filaments 48 and 50. The receiving set is grounded at the points 60, 61, 63 and 64.

The operation of this system is as follows: Power received by the antenna is transferred to the circuit 5, 6, augmented by amplifier 7, com-

municated to circuit 19, 20 transformed into low frequency form by detection in element 21, augmented by amplifiers 31 and 38, and passed to the receiving instrument through the power limiting device whose operation will now be explained.

The thermionic repeater being unilaterally conducting, the repeater element 48, 49, 53 can transmit positive current due to battery 65, only in the direction from 53 to 48. Also, element 50, 51, 52 can transmit positive direct current only in the direction from 52 to 50. If these currents are approximately equal, it follows that the maximum variation in current around the circuit 48, 53, 54, 52, 50 can never exceed the magnitude of the normal current in either element, provided none of this varied current can pass through the battery 65. To prevent such passage, choke coil 57 is used.

The variations in the normal currents in the winding 55 which variations constitute the signals to be received, are produced in the usual way by the action of the grids, 49 and 51, across which the signal voltage is impressed, so that it is obvious that an impressed voltage of large value, tending to produce a large variation of current in the power limiting device, cannot cause an alternating or varying current in winding 55 larger than the normal space current of the elements. This normal space current is adjusted until its value is just greater than the amplitude of the signals to be received.

The resistance 58 prevents serious unbalance of currents in the two halves of winding 54, when a large electro-motive force is impressed, by lowering the effective potential difference between plate and filament by the amount of the voltage drop in the said resistance, and consequently decreasing the current which can flow in the output circuit of either repeater element, this effect being a fundamental one in the operation of the thermionic repeater.

Owing to the fact that the vacuum tube repeaters can only transmit current in one direction, it is impossible to do more by any impulse than to decrease the current in one vacuum tube repeater to zero. The current in the other tends to increase according to the increase of potential on the grid.

On account of this rise of current the resistance of the tube decreases, and since the output circuit contains a very high resistance 58, the voltage across the tube decreases. The circuit is so arranged by adjusting the resistance 58 that the fall of potential finally becomes so great as to prevent the rise of current above a certain amount.

If this amount is made approximately equal to the current required to transmit the talk, the interfering sounds, due to accidental causes, cannot possibly be of greater intensity than the speech.

It will therefore be seen that the sole object of Arnold's alleged invention was to provide a power-limiting device, which when connected up to the particular radio receiving set shown in his diagram, was capable of automatically reducing any interfering or unwanted signal, no matter what its strength, to the same strength as the signal it was desired to receive. And on reference to the diagram it will be found that the power-limiting device is to the right of 44, as Arnold takes care to state in his specification, and nothing that precedes it is embraced in the invention. On

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any construction of the patent it would appear to me that nothing more is claimed as invention than the power-limiting device. In his corresponding United States patent Arnold names his invention as a " Power Limiting Amplifying Device."

In the re-issue patent Arnold claims not only the power-limiting feature but also the invention of improvements in the preceding amplifier network, that is to the left of 44, which further improvements have nothing to do with the power-limiting device since they come into action before the signal reaches that device. No evidence was given before me that Arnold's power-limiting device, as described in his original patent, was an operative device or not, but if it were the same device is to be found in the structure of the defendants. However, in this action there is no claim for infringement of this power-limiting device but rather for infringement of other features claimed as invention, and which appear in the re-issue only, and which, as I understand it, have solely to do with improvements in the amplifier structure or network, whereby better quality of reproduction would be secured in the output, an object not mentioned in the original patent.

Schedule B in the defendant's particulars of objections, sets forth in detail the many alterations and additions to be found in the specification of the re-issue patent, as compared with the original patent, but they are too extensive for me to repeat fully here. The specification of the re-issue patent departs very substantially in form, and, I think, in subject matter, from that of the original. At one point in the descriptive portion of the re-issue specification seven new paragraphs are added, at another four new paragraphs are added, at still another four new paragraphs are added, and the last two paragraphs of the original specification are replaced by six new paragraphs; besides these there are many other departures from the text of the original specification. The original patent contained but 14 claims while the re-issue has 87 claims; the first 14 claims are those of the original patent though modified somewhat but the remaining claims are practically all new. The claims covering the grid and negative bias, the potentiometer, and the common battery, are found in the re-issue for the first time. The adjustable connection 37'

is numbered in the drawing of the re-issue for the first time and this adjustable connection is now claimed as part of the invention. Arnold, after filing his original application, amended his specification, but still he kept within his alleged invention of a power-limiting device, as he did in his corresponding United States patent. The fact that the diagrams in the re-issue and the original patents are identical is not an indication to me that what Arnold had in mind, in his original application, was what his assignee had in mind when the specification of the re-issue patent was drafted, and in fact it leaves me with the very opposite impression. It is incomprehensible that with the diagram before him, Arnold, or his attorney, would deliberately say that the power-limiting device was to the right of 44 and would omit to claim as part of the invention anything to the left of that numeral if he then believed the same to embrace a part of the invention.

Some significance is to be attached to the letter of the International Western Electric Company, addressed to the Commissioner of Patents. In applying for the re-issue patent this letter attempts to explain the reason for the delay in the application to amend the original patent. The letter in part states:

> As is well known, the development of the thermionic discharge devices was greatly accelerated during the war. The energies of the inventors and engineers were devoted to producing apparatus of this type suitable for use in connection with war activities. It was in many cases difficult to accurately determine the patentable scope of the improvements made, and the inventors responsible therefor. Information on these points was to some extent confidential. It was not therefore, always possible to determine accurately the proper scope of the claims in various applications that were filed in the Canadian and other Patent Offices.

The war might have been the cause of delays in promoting patent applications in Patent Offices, but it could hardly be responsible for Arnold not fully understanding an invention which he claims to have made in 1912, and for which he applied for a patent in the United States in 1915, and in Canada in 1916. This letter is rather suggestive to me of the fact that Arnold's assignee, found, or thought he found, more in Arnold's specification than Arnold at the time believed to be invention.

Earlier, in the other branch of the case relating to this patent, I mentioned the four main features in Arnold's structure which are said to be infringed by the defendants'

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structure, and I need not repeat them. So far as I can see not one of those four features of Arnold was claimed in the original patent, and, as I have already stated, claims relating to the power-limiting device are not sued upon here notwithstanding the same are to be found in the defendant's structure, and notwithstanding it constituted the only alleged invention in the original patent. I think it is quite plain that the re-issue patent is not confined to the invention which Arnold described in his original specification; there is introduced additional descriptive matter, new subject-matter, and many of the new claims in the re-issue are based on the new subject-matter described in the specification of the re-issue patent.

A re-issue of patents was authorized by sec. 24 of the Patent Act, 1906, that being the Act in force at the time of the re-issue in question. The material part of that section is as follows:—

24. (1) Whenever any patent is deemed defective or inoperative by reason of insufficient description or specification, or by reason of the patentee claiming more than he had a right to claim as new, but at the same time it appears that the error arose from inadvertence, accident or mistake, without any fraudulent or deceptive intention, the Commissioner may, upon the surrender of such patent * * * cause a new patent, in accordance with an amended description and specification made by such patentee, to be issued to him for the same invention, for any part or for the whole of the then unexpired residue of the term for which the original patent was, or might have been, granted.

(2) In the event of the death of the original patentee or of his having assigned the patent, a like right shall vest in his assignee or his legal representatives.

This provision of the Act, it will be seen, is designedly rigid, and the reason is obvious. It would look as if the original patent must be invalid before an amended patent can issue, because the words "whenever any patent is deemed defective or inoperative" must imply I think invalidity, that is to say, if the patent is inoperative it is invalid, and if the description or specification is insufficient it is again invalid, but in the absence of argument by counsel, precisely on this point, I do not propose pronouncing any definite opinion thereon. If the patentee claimed more (or less, under the present Act) than he had a right to claim as new, the situation would be different. The provisions of the Canadian Patent Act in respect of the re-issue of patents is much the same as in the United States Patent Act, and probably that was the source of the pro-

visions of the Canadian Act. The United States Patent Act uses the words "inoperative or invalid," and in that jurisdiction it has been held time and again that those words imply that the original patent was invalid. See Walker on Patents, 6th Ed. Chap. 11. However, it is quite clear that the amended patent must be for the same invention and cannot embrace any new invention.

In the vast majority of cases in which a patent is defective or inoperative, its defects must be found to reside in the description given of the invention in the specification or drawings, or in both, and it was to cure such defects that relief was provided by statute. Hence, in most cases, the purpose of a re-issue is to amend an imperfect patent, defects of statement or drawings, and not subject-matter, so that it may disclose and protect the patentable subject-matter which it was the purpose of that patent to secure to its inventor. Therefore the re-issue patent must be confined to the invention which the patentee attempted to describe and claim in his original specification, but which owing to "inadvertence, error or mistake," he failed to do perfectly; he is not to be granted a new patent but an amended patent. An intolerable situation would be created if anything else were permissible. It logically follows of course, that no patent is "defective or inoperative" within the meaning of the Act, by reason of its failure to describe and claim subject-matter outside the limits of that invention, as conceived or perceived by the inventor, at the time of his invention. Robinson on Patents, Vol. 2, page 318, discusses very effectively, I think, what a re-issue may or may not embrace. That author states:—

> If the idea of means had possibilities of further development or application, which the inventor did not then perceive, these did not enter into his actual invention. If his idea, as already conceived and apprehended, was divisible into other ideas of means, only a part of which had been reduced to practice, the latter alone could have constituted his invention. If his idea presented different aspects, capable of embodiment in essentially distinct inventions, each of which would have formed matter for an independent patent, the one selected by him as the subject of the patent whose amendment is in question is the sole invention which that patent could, if perfect, have secured. The limits of this invention thus exclude all new developments of the idea of means which have taken place since the original patent issued, all ideas which were not reduced to practice before the application for the original patent, and all distinct and independent parts or forms of the invention which were not embraced within the subject-matter of the patent already issued; and therefore no

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> defect or insufficiency of statement concerning these can render the original patent inoperative or invalid, or furnish an occasion for its amendment. All that it can be made to cover, by any degree or species of correction is that completely conceived, perceived, and practically operative means for which the inventor then sought and the government then bestowed protection. Intervening inventions, whether wholly distinct or consisting in substantial variations in or improvements on the old, subsequently discovered attributes of the invention or any of its parts, independent arts or instruments though tracing their origin to the same fundamental idea, and new matters of any kind, are equally beyond the scope of the original patent and of any correction or enlargement of its terms by a re-issue.

That, I think, is a correct exposition of the law in respect of the re-issue of patents, and, I think, is applicable here.

It seems impossible to believe that, owing to "inadvertence, accident or mistake," Arnold failed to describe or claim in his original specification the device he claims to have invented, a power-limiting device. He seems to have done so. I have no reason for believing that the device was imperfectly described, or that more (or even less) was claimed than was described, and it has not been shown that the device as described was inoperative. I think it is imposing too much on human credulity to be asked to believe, that at the date of his original application, Arnold had in mind more than the power-limiting device, or that he then had in mind all the additional subject-matter described and claimed in the re-issue patent, as part of his invention. If subsequently there came to Arnold, or his assignee, further developments of his idea of means and ends, that would not furnish occasion for the amendment of the patent because it could not be said that there was insufficiency of description or specification in respect of such new developments. I am of the opinion therefore that there was no statutory authority for the granting of the re-issue patent, and that is invalid, for the reason that it embraces more than the invention described and claimed in the original patent.

Turning now to the Kendall patent, no. 230,335, the second patent here sued upon. The point at issue here has to do with the earthing or grounding of a certain part, or parts, of the audions and electrical circuits, as disclosed by Kendall, and which he describes as "a low impedance path to ground," and by "ground" it is agreed that "earth" is meant. The effect of this grounding in Kendall, it is

claimed, is to eliminate the effect of the capacity between the different components of the network, and also between the network as a whole and outside conductors. I am not satisfied that Kendall, dealing as it does with duplex cables involving balancing and other complex conditions, is altogether applicable to an amplifier circuit of the nature of that used by the defendants. It would seem to me that Kendall's grounds 31 and 28 would of necessity have to be to earth because his cables were grounded to earth, and his particular grounding was for one purpose while the defendants' was for another. This, however, is not the determining factor in my mind.

In the defendants' apparatus, a portable one, the amplifier for certain purposes or reasons is covered with a metal sheath, which is referred to as a chassis, that is, I presume, the apparatus is enclosed in a metal box, and the so-called ground connections made in the structure are not ground connections to earth, but connections to this sheath, where it ends; the sheath itself is not connected to earth but on the contrary is insulated therefrom and whatever virtue the form of grounding used in the defendants' apparatus may have, it is not due to any direct connection with the earth, which apparently is all that is claimed for Kendall. I, therefore, do not think that the method of grounding used in the defendants' apparatus infringes Kendall; if any one wishes to adopt a method, other than that suggested by Kendall, of securing the effects of grounding a circuit, they are free to do so, and Kendall is limited to his own selected method of grounding. It is not necessary for me to decide whether or not there is invention in the claims of Kendall which are sued upon, because, in any event, there is not, in my opinion, any infringement of Kendall by the defendants.

In the result therefore, the action of the plaintiffs is dismissed with costs. In any event, I see no reason for the joinder of the defendant Perkins in the action.

Judgment accordingly.

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Jan. 3, 17.
Feb. 18-20.
May 23.

BRITISH COLUMBIA ADMIRALTY DISTRICT

HIS MAJESTY THE KING.....PLAINTIFF;

AND

THE SHIP *EMMA* K.....DEFENDANT.

Shipping—Merchant Shipping Act, 1894, 57 & 58 Vict., c. 60, s. 67 (2), s. 69 and s. 76—False declaration touching owner's qualification to own ship—Unlawfully cause the ship to fly the British flag and assume a British character—Matters occurring "on board a ship"—Bona fide mortgage of ship—Transfer of mortgage—Right of transferee to intervene—Disposition of proceeds of sale of ship to protect interest of mortgagee and transferee.

The ship *Emma K,* having been seized by the Collector of Customs for infringement of the Merchant Shipping Act and on the same day arrested by the marshal at the instance of certain seamen for wages, was sold on the 25th April, 1934, by order of the Court, and after the wage claims were satisfied, the balance of the proceeds of the sale, deposited in Court, was claimed by the Crown as forfeited because the owner had made a false declaration touching his qualification to own the said ship contrary to s. 67, ss. 2, of the Merchant Shipping Act, 1894, 57 & 58 Vict., c. 60, and further because the owner "did unlawfully cause the ship to fly the British flag and assume a British character contrary to s. 69" of the said Act.

One Barrett was given leave to come in as a defendant as being a "person interested" as the unregistered transferee on December 10, 1934, of a registered mortgage to secure $5,000, given on the 23rd March, 1933, by the owner to one Allender, Barrett being given leave, as transferee and agent representing in British Columbia the interest of Allender of San Francisco in the ship, to be heard in support of his principal's alleged interest.

The Court found that the owner had wilfully made a false declaration of ownership contrary to s. 67 (2) but that the mortgage of which Barrett was the transferee was a *bona fide* transaction entered into without knowledge of the offence.

Held: That the mortgagee and transferee are, as regards this forfeiture, in as favourable a position under ss. 2 which states that the "ship or share shall be subject to forfeiture under this Act to the extent of the interest therein of the declarant," as though they were in possession of the ship and therefore that interest should be protested in the order that should be made under s. 76, and the balance of the proceeds of the sale of the ship should be paid to the intervener to be applied in reduction of the mortgage.

2. That the owner procuring registration of himself as a British owner by fraudulent means under ss. 2 of s. 67 is not sufficient to establish a use and assumption of flag and character for the prohibited purpose since ss. 2 is obviously directed to matters occurring "on board a ship" and of such a kind as to "make the ship appear to be a British ship" as the result of something done "on board" of her in the course of her use as a ship and not something done in a registry in relation to the "Procedure for Registration" of her and the claim for forfeiture under s. 69 must be dismissed.

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ACTION under section 76 of the Merchant Shipping Act for the forfeiture of the ship *Emma K* for alleged infractions of s. 67 (2) and s. 69 of the Merchant Shipping Act.

The action was tried before the Honourable Mr. Justice Martin, District Judge in Admiralty, at Victoria, B.C.

W. C. Thomson for the intervener John Barrett.

H. W. R. Moore for the Crown.

The facts and questions of law raised are stated in the reasons for judgment.

MARTIN D.J.A., now (May 23, 1935) delivered the following judgment:

This action, raising a new and very important question, is brought under section 76 of the Merchant Shipping Act, 1894, for the forfeiture of the defendant ship on the ground that the owner thereof, Manuel Purdy, did wilfully make a false declaration touching his qualification to own the said ship, being a British one, contrary to section 67 (2) of the said Act, viz.:—

> If any person wilfully makes a false declaration touching the qualification of himself or of any other person or of any corporation to own a British ship or any share therein, he shall for each offence be guilty of a misdemeanor, and that ship or share shall be subject to forfeiture under this Act, to the extent of the interest therein of the declarant, and also, unless it is proved that the declaration was made without authority, of any person or corporation on behalf of whom the declaration is made.

The ship was originally seized by the Collector of Customs at Vancouver on the 19th of April, 1934, and later in the same day was arrested by the Marshal at the instance of certain seamen, for wages, and on the 25th of that month the Collector, who had remained in possession under his seizure, handed her over to the Marshal to be sold by order of this Court (12th June) to satisfy the said wage claims, and, after satisfying, with the Crown's consent, those claims from the proceeds of that sale duly paid into Court, there remains a balance of about $2,500, which the Crown claims as being forfeitable, in lieu of the ship, for the reason aforesaid, and for the further reason, pursuant to amendment granted, that "the said Manuel Purdy did unlawfully cause the (said) ship to fly the

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British flag and assume a British character contrary to section 69" of said Act, which added ground will be considered later.

Upon the case coming on for hearing a motion was made, under Rule 30, on behalf of John Barrett, for leave to "come in * * * as a defendant" as being a "person interested" as the unregistered transferee, on December 10, 1934, of a registered mortgage to secure $5,000 and interest, given on the 23rd of March, 1933, by the said Manuel Purdy, as owner, to Percy J. Allender, and after a lengthy hearing and strong opposition the motion was granted and leave given to Barrett as transferee and agent representing in this Province the interest of Allender (of San Francisco) in the ship to be heard in support of his principal's alleged interest: *The Two Ellens* (1); *The St. George* (2); *The Cathcart* (3); McLachlan on Merchant Shipping (7th ed.) 33, 37, 39; sec. 57 Merchant Shipping Act, 1894, and sec. 37-cf., Temperley's Merchant Shipping Acts (4th ed.), 33.

Apart from Barrett's claim the case presents no real difficulty because the evidence adduced for the Crown clearly establishes the said charge against Purdy of making a false declaration of British ownership under said section 67 (2) and therefore the usual judgment of forfeiture of the entire ship (or the proceeds of its sale in lieu thereof) would follow, he being the sole owner. But it is submitted on behalf of Barrett that, as the transferee of said mortgagee and standing in his shoes, he is entitled to retain and protect his individual "interest" in the ship as mortgagee and that said interest is not subject to forfeiture because ss. (2) declares that the ship or share shall be subject "to forfeiture under this Act to the extent of the interest therein of the declarant," and that such interest does not "extend" to include that portion of it which he has parted with under said mortgage, and consequently that no judgment can be pronounced which does not recognize and protect that interest.

The question that falls to be determined, therefore, is, what is the meaning of the expression "subject to for-

(1) (1871) L.R. 3 Ad. & E. 345, 354-5.
(2) (1926) P. 217, 221, 230.
(3) (1867) L.R. 1 Ad. & E. 314.

feiture * * * to the extent of the interest therein of the declarant"? as used in the section, and its history, and that of cognate sections, is of assistance in answering it. In the Merchant Shipping Act of 1854, cap. 104, the 4th subsection of section 103 corresponds in general to the present subsection (2) the main difference being in its conclusion, as follows:—

> * * * and the ship or share in respect of which such declaration is made * * * shall to the extent of the interest therein of the person making the declaration, unless it is shown he had no authority to make the same * * * be forfeited to Her Majesty.

So the only change, effected by subsection (2), is that the ship or share shall be "subject to forfeiture" instead of being absolutely "forfeited," and the procedure to secure that forfeiture is provided by said section 76 under which this ship is "brought for adjudication."

It was submitted that this change conferred a discretionary power upon the Court to protect innocent purchasers and mortgagees and the effect of the decision of the Court of Appeal in the *Annandale* case (1) was relied upon, wherein it was decided, not on said subsection (4) of section 100 of the Act of 1854, but on a distinct offence under subsection (2) of that Act (viz: concealment of the British character of the ship or assumption of a false character, etc., now in part section 70) that the forfeiture of the ship became complete and immediate upon the commission of the prescribed offence because the said subsection declared that "such ship shall be forfeited to Her Majesty" and therefore it was immediately divested from its former owner and vested in the Crown, and the result was that the claim to the ship of a *bona fide* purchaser thereof for valuable consideration on the 6th of July, 1876, and without knowledge of the commission of the prior offence on the 18th of July, 1874, was rejected, James L.J., saying, p. 220:—

> According to the view of the law which has been taken upon the cases I have referred to, the property of the rightful owner may be divested the moment a person has committed the offence for which it is to be forfeited, and being divested he cannot vest it in anybody unless there be a statutory provision to that effect, a provision like our law with regard to the sale of stolen goods in market overt, where a person who has no title does give a title to a purchaser. Without such a provision

(1) (1877) 2 P.D. 179, 218; 3 Asp. 383, 489.

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the person whose title is divested cannot give a title to any other person, however innocent that person may be. However, if there is any case of hardship, no doubt the Crown will always take that into its merciful consideration.

And Baggally L.J., said, p. 220:—

It appears to me that the opposite construction of the second subsection of the 103rd section of the Act would substantially render that section a dead letter; for the claim for protection is based upon this, that there is no actual forfeiture until adjudication, or at any rate until seizure; and if that were the true construction of the Act no distinction could be drawn in the case of a purchaser for value with or without notice. If that be the case, as in almost every instance where any act is done, which is made punishable under the second subsection, it is done in secret, it would not be impossible to make a sale of the ship before the time when any seizure could be made, or before the time when an adjudication could be brought about.

And he went on to say, p. 221:—

Reliance has been placed on the provision in the latter part of the section in which directions are given as to the process by which the ship is seized, and by which adjudication is obtained, but it appears to me those provisions are for the benefit of the shipowner, in order to afford him the opportunity to shew that the seizure was improper. If he can shew that the vessel was not liable to forfeiture at the time, then it could not be treated as a forfeiture, and in that case if the officer of the customs had not good ground for making the seizure, the officer is to be subjected to make amends as the Court may think fit to direct.

And Cotton L.J., said, p. 221:—

That second subsection is to the effect that if a master shall so offend the ship shall be forfeited, and not as has been contended, that it shall on adjudication be forfeited. The forfeiture results immediately on the offence being committed, and if there is any argument raised as to the construction of the words, "the ship which has become subject to forfeiture," then I say those words are not sufficient to alter what in my opinion is the true construction of the second subsection of the 103rd clause, which is that the forfeiture takes place when the act is committed.

These reasons affirmed the view of Phillimore J. very clearly expressed at p. 185:—

* * * the demurrer must be sustained on the ground that the forfeiture accrued at the time when the illegal act was done, and that the seizure of the *Annandale* related back to the time of the wrongful act committed by the then owners.

Now while this decision is, as already noted, on a different section of the old Act of 1854, yet it is of much assistance on the present one because its *ratio decidendi* is that the absolute forfeiture brought about an immediate divesting of ownership and vesting in the Crown which necessarily excluded the consideration of all subsequent transactions, and it is to my mind fairly clear that if the forfeiture had not occurred "until adjudication, or at any rate until seizure" (pp. 185, 220) then, the claim of the

innocent purchaser would have been allowed, and this is important because the said subsection 2 has been altered by said section 70 of 1894 to declare that "the ship shall be subject to forfeiture under this Act" instead of "shall be forfeited" as theretofore, and the following opinion on the effect of that change was expressed by the Supreme Court of China and Corea at Shanghai (per Sir Haviland de Sausmarez) in *The* ss. *Maori King* (1) viz:—

> For the defendants it is urged that the change of the words in the Act from "shall be forfeited" to "shall be subject to forfeiture" must indicate an intention of the Legislature that the Court should exercise its discretion as to whether it would give weight to questions of hardship which under the Act of 1854 could, as James L.J. points out in *The Annandale* (*supra*), be taken into the merciful consideration of the Crown.. I am bound to say that this consideration weighed heavily with me, but on mature consideration I have come to the conclusion that the object of the change in the Act is to defer the forfeiture until judgment so that a possibly unwitting breach of the law may not imperil valuable property in a ship, or that an innocent *bona fide* purchaser may not lose his property, because the ownership has been divested by operation of law. *The Annandale* was decided on the words of the statute of 1854; this case must be decided on the words of the statute of 1894. There have been no cases under section 76, but a consideration of the words of that section has led me to the conclusion that I must make the order prayed for by the Crown.

It appears from this citation, and from the pages above cited in *Aspinall* and *The Law Times* (i.e., 250 and 789) that the learned Judge decided that he had no discretion to relieve from hardship, but that the statute itself operated to protect "innocent *bona fide* purchasers" and this opinion stands because the Privy Council did not upset his judgment on that opinion or give it consideration because it held that his court had no jurisdiction to entertain a suit for forfeiture for breach of section 76 of the said Act of 1894.

It is passing strange that apart from this judgment there is no other judicial decision (that I, at least, have been able to find after a long and diligent search) on a question of such great and far-reaching importance, but that some change at least in the law has been effected by said change in the language is recognized by all the leading text books on the subject, *e.g.*, Mayers Admiralty Law and Practice (1916) 197; Williams & Bruce Admiralty Practice (3rd

(1) (1909) A.C. 562 at 565; 11 Asp. 249, 250; 100 L.T. 787, 789.

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ed.) 223-4; I Hals. (2nd ed.) 105; Maclachlan on Merchant Shipping (7th ed.) 55; Temperley's Merchant Shipping Acts (4th ed.) 51; and Abbott on Shipping (14th ed.) 112-3; in which last and high authority it is said, note (o):

> The wording of the corresponding section 70 in the Act of 1894 may be construed to mean that the forfeiture will not operate until condemnation and that the offence would therefore impose no such disability on a purchaser taking before condemnation.

That it was the settled intention of Parliament in the new consolidated Act of 1894 to depart in general from the peremptory and absolute forfeitures imposed by the old Act of 1854 is further shown by the use of the new expression "subject to forfeiture" in sections 16, 28 (4), 67 (2), 69 and 71 as well as in said section 70, in substitution for the imperative expressions in the old corresponding sections 52, 64, and subsections (3) and (4) of 103 of 1854, as well as in subsection (2) thereof, and after a very long and careful consideration of all the relevant sections of the Act, I am impelled to the opinion that if the *Annandale* case were now being decided the said change in the Act would compel the Court to come to the same conclusion as that of the Supreme Court of China in the *Maori King* case, i.e., that the right of the innocent purchaser would be upheld because "there is no actual forfeiture until adjudication, or at any rate until seizure."

That the principle embodied in such a decision under present section 70, in favour of a *bona fide* purchaser without notice, should extend to such a purchaser under subsection (2) of 67, now in question, there seems no good reason to doubt, and so if the present intervening claimant were such a purchaser he would be entitled to judgment in his favour because he had acquired "the interest of the declarant" in the ship to the full "extent" thereof. I can see no good reason why such a purchaser is not just as fully entitled to protection where he buys from an owner (who derives title from a lawful registered owner) who has got on the register by deception under section 67 as where he buys from one who after getting on the register rightfully has resorted wrongfully to deceptions concerning the "National character and Flag" under section 70: the offences to my mind are *pari passu*, though it might ponderably be argued that the latter is the more serious.

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This intervener, however, is not a purchaser but the transferee of a mortgage, covering the sole owner's entire interest, and upon the evidence I find that the objections taken to said mortgage as being a sham proceeding were not sustained, and it must be regarded as a *bona fide* transaction entered into without knowledge of any offence against section 67 and overdue both as to principal and interest, and that the intervener stands in the said mortgagee's shoes and is entitled to assert his interest. Such being the case, the second difficult question arises as to whether or no he is entitled to the same protection as an innocent purchaser?

The former position of a mortgagee is well explained in Abbott on Shipping, (*supra*) pp. 41, 85 and 101 *et sec:*

> It seems proper in this place to take notice of what was formerly an important question, and on which persons of eminent talents differed in opinion, viz., whether the mortgagee of a ship was to be deemed in law the owner of it, entitled to the benefits and liable to the burthens, which belong to that character before he took possession of the ship. It will, however, be sufficient briefly to refer to the cases in which decisions have taken place on the subject, as by recent Acts of Parliament, when a transfer is made only as a security for the payment of debts by way of mortgage, or of assignment to trustees for sale, on a statement being made in the book of registry, and in the indorsement on the certificate of registry to that effect, the person to whom the transfer is made, or any other claiming under him, *is not to be deemed the owner* nor is the person making such transfer to be deemed to have ceased to be an owner, except so far as may be necessary for the purpose of rendering the ship transferred available, by sale or otherwise, for the payment of those debts, to secure the payment of which the transfer was made.

This refers to section 34, viz:—

> Except as far as may be necessary for making a mortgaged ship or share available as a security for the mortgage debt, the mortgagee shall not by reason of the mortgage be deemed the owner of the ship or share nor shall the mortgagor be deemed to have ceased to be owner thereof.

Abbott then proceeds at p. 42:—

> When the fifth edition of this work was published there was no provision for registering mortgages as such, and as no rights in a ship could then be acquired except on registration, mortgages were usually effected by means of an absolute transfer of the ship or shares mortgaged, with the indorsement above mentioned. The Act of 1894 now provides for the registration of mortgages of ships and shares in ships, and a mortgagee is still protected as he is not by reason of his mortgage to be deemed owner, nor is the mortgagor to be deemed to have ceased to be owner. Nevertheless, as a mortgagee may by the act of taking possession, whether of a ship or shares as will be seen hereafter, put himself into the position of the legal owner, it becomes necessary to deal more fully with the relative positions of mortgagor and mortgagee.

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And at p. 102:—

> The effect of this provision, coupled with other provisions of the Act, is, shortly, that whilst a registered mortgagee has rights in priority to all other persons not registered before him, unregistered mortgages may be enforced as between their holders and a mortgagor.

It flows from this that, in my opinion, if an innocent mortgagee has taken possession of his security then he is in just as strong a position, whatever his exact status may be (whether he is regarded as a "beneficial title" under section 5 (iii) or "beneficial interest" under section 57, or otherwise) to resist a forfeiture as if he were an innocent purchaser and therefore it is "necessary" to "deem" him to be the owner *ad hoc* in order to "make (the) mortgaged ship or share available as a security for the mortgage debt."

And in *Liverpool Marine Credit Co.* v. *Wilson* (1) James L.J., in delivering the judgment of the Court said, p. 512, respecting the right of "a legal first mortgagee in possession" of a ship:—

> He has the paramount legal title, there is nothing to affect his conscience, and we are unable to find either on principle or authority any sound distinction between his case and that of the legal mortgagee of any other kind of property who has made farther advances on the property itself, or on the timber of growing crops, without notice of intervening equitable charges or interests.

Then why is a mortgagee not in possession in a worse position as regards forfeiture of this kind? Having regard to the language and operation of the section I find it very difficult to hold that he is, because the section does not require him to take any step in order to become entitled to its benefits, but simply says, in effect, that when it is necessary to make the mortgaged ship "available as a security" then he is to be deemed to be the owner thereof, and it is in practice more necessary for that purpose to "deem" him to be an owner when out of possession than in it.

This view is supported in an instructive case on the section in *Kitchen* v. *Irvine* (2) wherein it was held by the Court of Appeal that a creditor who has got judgment against the registered owner of a mortgaged ship could not take the ship into execution because that would defeat the right of the mortgagee to make the ship available as

(1) (1872) 7 Ch. App. 507. (2) (1858) 28 L.J.Q.B. 46.

a security under the section, even though the mortgagee had not taken possession, Lord Campbell C.J., saying, p. 47:—

I am of opinion that the ship, under those circumstances, cannot be taken in execution as against the mortgagee. It is his property *prima facie*, unless his rights are restrained by the act of parliament. Now, by section 70 of the Merchant Shipping Act the mortgagee is not to be deemed owner of the ship, nor is the mortgagor deemed to have ceased to be owner of the mortgaged ship, "except in so far as may be necessary for making such ship available as a security for the mortgage debt." It cannot be said to be consistent with that provision that the ship should be taken in execution at the suit of a creditor of the mortgagor. Section 70 protects the mortgagee in everything necessary to make the mortgage available.

And Crompton J. said:—

I think the word "mortgagee" passes the legal property. That does not appear to me to be affected by the provision that he shall not be deemed owner, for that means, I take it, that he shall not be affected by the debts of the ship. We cannot alter the position of the parties and make the creditor a trustee for the mortgagee against his will. The mortgagee has the property in the ship for all the purposes of rendering it available as a security for his debt.

This clear reasoning is specially applicable to the present case, and there is nothing in it which conflicts with the decision in *The St. George* (1) that the same section does not

* * * extinguish the powers of a ship's master to bottomry a distressed ship in case of need, or to subject a damaged ship to a possessory lien in order that she might be repaired. The language used is not apt for the purpose if it was meant to deprive masters of ships of powers which they notoriously had. Acts in the exercise of those powers seem to me not to be dealings by the mortgagor. Nor is it obvious that they impair, or are calculated to impair, the security of the mortgagee. They are perhaps rather calculated to preserve it.

In *The Blanche* (2), also on this section, Butt J. said at p. 273:—

I am prepared to hold that the mortgagee was not entitled to take possession before the money secured by the mortgage is due. True the property in the ship is his, but the equities interfere and prevent his taking possession. If, however, I saw any attempt to impair the security, so that it would not be available, I should say he was justified in doing what he has done.

In support of the forfeiture the Crown cited the decision of this Court in *The King* v. *The Sunrise* (3) and of the Supreme Court of Canada in *The King* v. *Krakowec* (4); but they are on different statutes, the latter being one wherein the expression is "shall be forfeited to the Crown"

(1) (1926) P. 217 at 231.
(2) (1887) 6 Asp. 272.
(3) (1930) 43 B.C. 494.
(4) (1932) S.C.R. 134.

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(p. 141) and therefore on all fours with *The Annandale* case (*supra*); and as to *The Marie Glaeser* (1), that is a Prize case: *The Polzeath* (2) is on section 51 of the Shipping Act of 1906, and throws no light upon the present question because it did not arise therein, nor was *The Annandale* case considered (p. 254), and Bankes L.J. said (p. 255) that the only question that arose for decision was one of fact, *viz.*, what was the principal place of business of the company that owned the ship?

It was submitted that since the ship had got upon the register unlawfully by the fraud of her then owner the original taint of that registration is carried into all subsequent transactions, but the consequences of that fraud are only those which are prescribed by the statute imposing specific penalties of forfeiture and for personal misdemeanour, which brings the question back to the effect of the change in the law since the *Annandale* case. There might, possibly, be more to be said in favour of this submission if the ship had been unlawfully put upon the register the first time, under section 10, but as that is not the case here I refrain from expressing any opinion upon it.

It is worthy of note that a similar submission of a taint of piracy was, under circumstances largely involving the same principle, rejected by the Privy Council in the instructive case of *The Queen* v. *McCleverty—The Telegrafo* or *Restauracion* (3) at p. 688, viz:—

> There is no authority, their Lordships think, to be derived either from principle or from precedent for the position that a ship duly sold, before any proceedings have been take on the part of the Crown against her, by public auction to a *bona fide* and innocent purchaser can be afterwards arrested and condemned, on account of former piratical acts, to the Crown. The consequences flowing from an opposite doctrine are very alarming. In this case, six months have elapsed between the sale and the arrest; but, upon the principle contended for, six or any number of years and any number of *bona fide* sales and purchases, would leave the vessel liable to condemnation on account of her original sin. Their Lordships are of opinion that the taint of piracy does not, in the absence of conviction or condemnation, continue, like a maritime lien, to travel with the ship through her transfers to various owners.

And after assuming that the ship had been "piratically navigated" previous to her transfer the report proceeds:—

> * * * their Lordships have arrived at the conclusion, that the Court ought not to have arrested the ship, which for many months had been in

(1) (1914) P. 218.
(2) (1916) P. 241, 243, 254.
(3) (1871) L.R. 3 P.C. 673.

the undisputed possession of a *bona fide* purchaser by public auction, on account of piratical acts alleged to have been committed from on board of her before the sale took place.

The "taint of piracy" is one requiring a thorough purge, it might well be thought, because, as Blackstone says, Vol. 4, Lewis's ed., 71:—

> The crime of *piracy*, or robbery and depredation upon the high seas, is an offence against the universal law of society; a pirate being, according to Sir Edward Coke, *hostis humani generis*. As therefore he has renounced all the benefits of society and government, and has reduced himself afresh to the savage state of nature by declaring war against all mankind, all mankind must declare war against him: so that every community hath a right, by the rule of self-defence, to inflict that punishment upon him which every individual would in a state of nature have been otherwise entitled to do, for any invasion of his person or personal property.

It is significant that there is still one offence against the "National Character and Flag" for which Parliament has departed from its general intention above noted and continued unchanged the penalty of immediate and absolute forfeiture imposed by the Act of 1854, section 106, the present corresponding section in the Act of 1894 being 73 (3), which declares that certain specified officers

> may board any ship or boat on which any colours or pendant are hoisted contrary to this Act, and seize and take away the colours or pendant, and the colours or pendant shall be forfeited to Her Majesty.

And the same absolute penalty is also imposed upon emigrant ships for violation of section 319, which preserves the original provision of the Passengers Act Amendment Act 1863, cap. 51, sec. 13, and it is to be observed that a mitigating power is by subsection (2) conferred upon the Board of Trade to "release, if they think fit, any such forfeited ship on payment to the use of the Crown" of a sum not exceeding £2,000.

After giving very careful and prolonged consideration to this exceptionally difficult question in all its aspects and having special regard to the principles laid down in *Kitchen's* case (*supra*), I find myself unable to reach any other conclusion than that the present mortgagee and transferee are, as regards this forfeiture, in just as favourable a position under said subsection (2) as though they were in possession of the ship and therefore that interest should be protected in the order that should be made under section 76.

If the ship were before the Court that order would, under present circumstances, take the form that she should be

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"adjudged with her tackle, apparel, and furniture to be forfeited to His Majesty" to the extent of the interest therein of said Manuel Purdy, but with the necessary addition (in pursuance of the subsequent and further power to "make such order in the case as to the Court seems just") of a declaratory order that the forfeited interest of said Manuel Purdy does not extend to include the interest that he as mortgagor has transferred to said Allender as mortgagee, and which is now lawfully asserted by the intervener on Allender's behalf, to the amount and extent of the principal and interest now due under the mortgage.

Though the result of such an adjudication in the present case would be that the declaration of forfeiture would be an empty formality, yet if this ship had sold for a larger sum, or the mortgage been for a less one, the result would have been of substantial difference.

As the matter now stands, the only order that can appropriately be made is that the balance of the proceeds of the sale of the ship, now in Court in lieu of her, be paid out to the intervener to be applied in reduction of said mortgage.

There only remains for consideration the said claim for forfeiture under section 69 because Purdy "used the British flag and assumed the British national character on board a ship owned" by him "for the purpose of making the ship appear to be a British ship," though he was "not qualified to own" her. No evidence was given in support of this charge other than the bare fact that Purdy had got himself registered as a British owner by fraudulent means under said subsection (2), but it was submitted that this is sufficient to establish a contructive use and assumption of flag and character for the prohibited purpose.

These submissions extend the section to great, and, I think, in the absence of any authority, unwarranted length, because it is directed obviously, to my mind, to matters occurring "on board a ship" and of such a kind as to "make the ship appear to be a British ship" as the result of something done "on board" of her in the course of her use as a ship, and not something done in a registry in relation to the "Procedure for Registration" for her—section 4 *et seq.*—and confirmation for this practical view is

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to be found in the section itself, in the proviso justifying the use for another "purpose" viz:—

unless the assumption has been made for the purpose of escaping capture by an enemy or by a foreign ship of war in the exercise of some belligerent right.

The only case I have found of a forfeiture on this section is *The Queen* v. *Schooner S. G. Marshall* (1) but no exposition of the section was there attempted because it was unnecessary to do so since the ship was seized at sea after she had "hoisted the British ensign"—(p. 318).

It follows that this charge must be dismissed.

With respect to costs, leave is given to speak to them, and also to the exact form in which this judgment should be entered.

Judgment accordingly.

BETWEEN:

HIS MAJESTY THE KING.....PLAINTIFF;

AND

THE SMITH INCUBATOR COMPANY AND THE BUCKEYE INCUBATOR COMPANY .....} DEFENDANTS.

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Oct. 22 & 23

1936

Jan. 29

Patents—Action to impeach—Patent Act—Exchequer Court Act—Exchequer Court Rule 11—Anticipation— Prior art—Prior user—Validity —Subject matter—Invention—Burden of proof.

Held: That the present action to impeach and annul a patent of invention instituted in this Court by Information in the name of the Attorney-General of Canada was properly instituted under s. 60 of The Patent Act, 25-26 Geo. V. c. 32, and rule 11 of The General Rules and Orders of this Court.

2. That the grant of letters patent is *prima facie* evidence that the patentee invented the device or process covered by the patent, and the burden of proof rests upon the person seeking to destroy the patent. The plaintiff herein did not succeed in proving beyond a doubt anticipation of the patent in suit.

3. That narrowness and simplicity of invention will not invalidate a patent. Here there was that scintilla of invention which is sufficient to render the patent valid.

INFORMATION by the Attorney-General of Canada to set aside certain letters patent for invention granted to one Samuel B. Smith and later transferred to defendant, The Smith Incubator Company.

(1) (1870) 1 P.E.I. 316.

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The action was tried before the Honourable Mr. Justice Angers, at Ottawa.

E. G. Gowling for the Plaintiff.

R. S. Smart, K.C. and *O. M. Biggar, K.C.* for Defendants.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (January 29, 1936) delivered the following judgment:

This is an action instituted in the name of the Attorney-General of Canada to impeach a patent of invention number 217,777 issued to Samuel B. Smith on April 18, 1922, for an alleged new and useful improvement in incubators.

The defendant Smith Incubator Company is the owner of said patent as assignee of said Samuel B. Smith and the defendant The Buckeye Incubator Company is a licensee.

The action seems to me properly instituted under section 37 of the Patent Act, R.S.C. 1927, chap. 150 (now section 60 of The Patent Act, 1935, 25-26 Geo. V, chap. 32) and subsection (*b*) of section 22 and subsection (*b*) of section 30 of the Exchequer Court Act; the mode of procedure is regulated by rule 11 of the General Rules and Orders of this Court.

The grounds of invalidity raised in the particulars of objection may be briefly stated as follows:

the invention set forth in the patent, if any, was not invented by the alleged inventor thereof but by one or other of the patentees or inventors referred to in the patents and publications mentioned in schedule 1;

the alleged invention was not new; it was known and used by others before the date on which it is alleged to have been made as appears from (*a*) the common knowledge in the art at the said date; (*b*) the prior knowledge of the patentees or inventors named in the patents and publications set forth in schedule 1; (*c*) the use of the devices described in the patents and publications aforesaid;

the alleged invention was patented and described in publications and was in public use prior to the application for the said patent for a longer period than was allowed by the Patent Act;

the letters patent claim more than the applicant invented, if he invented anything, in that they embrace devices described in the patents and publications referred to in schedule 1;

the specification of said letters patent is ambiguous and does not correctly describe the invention and its use in that it incorrectly states the temperature at which the incubator must operate and the air currents do not travel through the incubator in the manner indicated;

the defendants imported the subject matter of said patent into Canada for more than one year subsequent to the date of the issue thereof;

the alleged invention described in the specification is analogous to the device described in United States patent No. 553,723 issued on January 28, 1896, to one Proctor and used for the purposes therein described.

Schedule 1 above mentioned contains a list of 19 American patents and one German patent as well as a list of various publications and it refers to prior user, particularly that of Milo M. Hastings, of Muskogee, Oklahoma, commenced in 1912.

[The learned Judge referred to the specifications and certain evidence adduced respecting artificial incubation and continued.]

In order to establish anticipation the plaintiff relied on eight patents, certain publications and the testimony of William R. Graham, professor of poultry at the Ontario Agricultural College of Guelph, and of one Milo Hastings.

The Guerin patent, number 3019, dated March 30, 1843, is for a method of rearing the chickens, after the hatching of the eggs, in an oven. A perusal of Guerin's patent shows that it does not resemble that of Smith, except perhaps in some unimportant details. Moreover it is not in the same art: it has much more to do with the rearing of chickens than with the hatching of eggs.

Winkler's patent, number 286,756, dated October 16, 1883, is for " certain new and useful improvements in the class of incubators employing an endless travelling conveyer for receiving and advancing the eggs." It has no analogy with the patent in suit; it applies to a conveyer, in an incubator, for receiving eggs, consisting of spaced slats between which the eggs lie and to the means of advancing the conveyer periodically in combination with heating devices arranged to give the heat requisite at all points during the progress of incubation of the eggs.

The Proctor patent, issued on January 28, 1896, bearing number 553,723, is for an apparatus for ordering tobacco. The tobacco is placed in a closed chamber and humidified air is circulated around it so as to keep it in a moistened condition which will permit of its handling without danger of crushing the leaf. Structurally the apparatus is to a large extent similar to the Smith incubator; it is, however, in an entirely different class and is too remote from the problem of hatching eggs to even suggest a comparison.

The Scott patent, number 709,650, dated September 23, 1902, the Boyd patent, number 828,181, dated August 7, 1906, and the Koons patent, number 916,454, dated March 30, 1909, show different types of incubators in which there

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is no forced circulation of air. The circulation is obtained by convection currents. The machines provide outlets for heated air and inlets for fresh air. The purpose of these outlets and inlets is not solely ventilation but also, and perhaps chiefly, air circulation. It is hardly necessary to state that the circulation is obtained by reason of the difference of density and weight of the heated air and of the cold air. Furthermore, the apparatus covered by these three patents do not appear from a perusal of the specifications and drawings to be suitable for multiple superimposed tiers of egg trays.

The Fullington patent, number 1,205,445, dated November 21, 1916, relates to incubators and has particular reference to an attachment for the purpose of automatically regulating the temperature at which the incubator must be kept. After examining the specifications and drawings, I do not think that the Fullington device has much in common with the Smith incubator. True it is that the Fullington machine has a forced circulation of heated air by means of a fan intermittently actuated, but the circulation is materially different from that in the Smith incubator.

The German patent, number 155,917, to Stulik, dated November 7, 1901, also relates to an incubator. It deals with staged incubation, which is perhaps the only point of similarity with the patent in suit. There is in the Stulik incubator no forced circulation of air. The heated air is drawn in from the bottom of the egg chamber and it ascends by convection through the trays of eggs and goes out through the openings at the top of the chamber.

I do not think that any of the patents above referred to constitute an anticipation of the patent in suit.

The publications on which the plantiff relied to prove anticipation and common knowledge are the following:

The Dollar Hen, a book written by Milo Hastings and published in New York in 1909, pages 103 to 107, the chapter entitled "Incubation—The future method of incubation";

Poultry Culture, published in Topeka, Kansas, issue of February 1912, pages 7, 14 and 15, containing an article by Ralph H. Searle, associate editor, bearing the title "The Mammoth Incubator out-mammothed" and the sub-title

"How Milo Hastings, a Kansas product, is startling the world with his big chick factory" (included in binder exhibit 2);

Technical World, of April 1913, pages 248 and 249, on which appears an article by George F. Paul, intituled "Hatching chickens by wholesale" (included in binder exhibit 2);

Artificial Incubating and Brooding, published by The Reliable Poultry Journal Publishing Company, November 5, 1898, at Quincy, Ill., pages 108, 109 and 110, containing an article under the caption "The origin of the Cyphers incubator" (included in binder exhibit 2);

An article entitled "Humidity in relation to incubation" written by Wm. H. Day, professor in physics, published in the Bulletin of the Ontario Department of Agriculture, Ontario Agricultural College, Guelph, Ont.;

Various articles and photographs dealing with the incubator built by Milo Hastings at Muskogee, Oklahoma, in the fall of 1911 and spring of 1912.

In his article "The Dollar Hen" Milo Hastings foresees the possibility of large hatcheries and describes summarily the plan of a new type of incubator. The description, which is rather indefinite, refers particularly to a process for maintaining an even temperature and for regulating the air moisture in the different parts of the hatching room. Concerning temperature the description merely says that its regulation is by means of air heated (or cooled as the case may be) outside of the egg rooms and forced into the egg room by a motor driven cone fan, maintaining a steady current of air, the rate of movement of which may be varied at will.

Further on, with regard to air moisture, the article says: The means by which the air moisture is regulated is similar to that used in up-to-date cold storage plants where the air is made moist by sprinkling and dried with deliquescent salts. The regulation of vapour pressure, like that of temperature, may be electrically moved dampers which switch a greater or less proportion of the incoming current to the sprinkler or dryer as the case may be.

It seems obvious to me that, although Hastings had, at the time he wrote his book, realized the necessity of regulating the temperature and the moisture in the incubator, he only had a vague notion of the manner in which this end could be attained. I think that Hastings' book, in so far as common knowledge of the art is concerned, may be disregarded.

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The definition of the Hastings incubator contained in the article of Poultry Culture, viz. "The Mammoth Incubator out-mammothed," although somewhat more detailed and accurate than that found in the chapter of The Dollar Hen dealing with incubation, is not definite nor specific enough to permit one skilled in the art to reproduce the incubator in question. Besides the process of air circulation as well as the method of turning the eggs differ materially from those used in the Smith incubator. I do not think that the article in question can be considered as anticipatory of the patent in suit.

The same remarks apply to the article which appeared in the Technical World of April 1913 under the heading "Hatching chickens by wholesale." As the previous one it refers to a current or draft of air driven by a centrifugal fan through the egg chamber, the purpose of which is to keep it at an even temperature throughout. The article alludes to an improvement by which "compartments holding 10,000 eggs are swung on a pivot and the eggs turned by inverting the entire compartment," but the manner in which this so-called improvement is operated is not clearly disclosed; whether it resembles the method used in the Smith incubator is impossible to say.

Next is the article published in Artificial Incubating and Brooding, dealing with the Origin of the Cyphers Incubator.

Cyphers, in the fall of 1895 and the winter and spring of 1896 built on the farm of one Truslow, at Stroudsburg, Pa., the incubator which is described in the above article. This incubator had a capacity of 20,000 eggs; it was, according to Professor Graham, the first attempt on this continent to build a room hatchery. The prior use of Cyphers is not pleaded and the description of the Cyphers machine was only brought in evidence by way of illustration. Be that as it may, after perusing carefully the article intituled "The Origin of the Cyphers Incubator" and the deposition of Professor Graham, I am satisfied that the Cyphers incubator cannot be regarded as being an anticipation of the Smith incubator. The method of air circulation in particular was different.

The article by Professor Day on "Humidity in relation to incubation" deals with the method of determining the quantity of moisture in the air and the means of regulating

it. It is indeed interesting and instructive, but it deals with only one of the elements required in an incubator. The necessity of maintaining a sufficient quantity of moisture in the incubator was recognized long prior to 1915. Methods of producing and regulating it, however, differed.

Coming now to the objection based on prior use, I may note forthwith that the evidence adduced in this connection deals exclusively with the alleged prior user of Milo Hastings, commenced in the year 1912.

[The learned Judge considered in detail the evidence of Milo Hastings adduced at trial and then continued.]

After a careful study of Hastings' experiments, I have reached the conclusion that they do not constitute an anticipation of the patent in suit. His apparatus and process differed from Smith's in many particulars. I may say incidentally, however, that I am inclined to believe that Hastings had conceived something involving novelty and in consequence patentable.

Let us now consider the Smith patent with a view to ascertaining whether it contains any subject matter involving invention. I must say from the outset that I have had some difficulty in determining the exact element of patentability in the patent in suit.

As I have already noted, incubation of eggs is an ancient art; to hatch eggs successfully it has been known for years that four conditions are necessary:

to maintain in the incubator a uniform temperature of between 100° and 105° Fahrenheit;

to supply a sufficient degree of moisture so that the eggs will not be dried out;

to provide proper ventilation, particularly in the last stages of incubation;

to turn the eggs once or twice daily from the fourth to the eighteenth day of the period of incubation.

I do not think that there is any element of discovery on the part of Smith in having "restricted openings" for the escape of foul air and the intake of fresh air. This is the ordinary and common process of ventilation; the fact of applying it in an incubator does not change its nature.

Moreover, I do not think that there is any element of discovery in conserving the humidity of the air in the

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incubator by introducing in the column of air therein circulated fresh air through a door or other openings placed near the fan or blower.

The principle of air circulation in a room to maintain uniformity of temperature is not new; it is a law of nature. The method of utilizing it, however, may involve novelty; there is, I believe, invention in the manner in which the air is driven and circulated through the egg chambers in the Smith incubator.

There is also invention, to my mind, perhaps to a lesser degree, in the arrangement of the tilting racks whereby the eggs may be turned conveniently and with a considerable saving of time and labour.

The invention is undoubtedly small and simple, but smallness and simplicity are not necessarily an objection and will not prevent a patent being good; a mere scintilla of invention is sufficient: *Riekmann* v. *Thierry* (1); *Hinks & Son* v. *Safety Lighting Co.* (2); *Vickers, Sons & Co. Ltd.* v. *Siddell* (3); *Boyce* v. *Morris Motors Ltd.* (4); *Samuel Parkes & Co. Ltd.* v. *Cocker Brothers Ltd.* (5); *Giusti Patents and Engineering Works Ltd.* v. *Rees* (6).

It is hardly necessary to state that the burden of proof rested on plantiff. The grant of letters patent is *prima facie* evidence that the patentee invented the device or process covered by the patent. Where it is sought to destroy a patent, the case must be made out in the clearest way possible. Every reasonable doubt must be resolved against the party attacking the patent: *In the Matter of Lowndes' Patent* (7); *Boyce* v. *Morris Motors Ltd.* (8); *W. H. Cords et al* v. *Steelcraft Piston Ring Co. et al* (9); *Cantrell* v. *Wallick* (10); *The Barbed Wire Patent* (11).

The plaintiff has not succeeded in proving beyond doubt anticipation of the patent in suit.

The United States patent No. 1,262,860, which is identical to the patent in suit, was the subject of a considerable amount of litigation in the United States; it was declared valid in, among others, the following cases: *Buckeye Incu-*

(1) (1897) 14 R.P.C. 105 at 115.
(2) (1876-7) 4 Ch.D. 607 at 615 (in fine).
(3) (1890) 7 R.P.C. 292 at 304.
(4) (1927) 44 R.P.C. 105 at 127.
(5) (1929) 46 R.P.C. 241 at 248 and 250.
(6) (1923) 40 R.P.C. 206 at 215.
(7) (1928) 45 R.P.C. 48 at 57.
(8) (1927) 44 R.P.C. 105 at 135.
(9) (1935) Ex. C.R. 38 at 49.
(10) (1885) 117 U.S. 689 at 695.
(11) (1891) 143 U.S. 275 at 284.

bator Co. v. *Wolf* (1), affirmed (2); *Buckeye Incubator Co.* v. *Cooley* (3); *Buckeye Incubator Co.* v. *Petersime* (4); *Buckeye Incubator Co.* v. *Blum* (5), affirmed (6); *Buckeye Incubator Co.* v. *Hillpot* (7), affirmed (8); *Miller Hatcheries Inc.* v. *Buckeye Incubator Co.* (9); *Boling* v. *Buckeye Incubator Co.* (10), reversed on other grounds (11); *Waxham* v. *Smith* (12); *Snow* v. *Smith* (13), reversed on question of infringement (14); *Smith* v. *Jensma* (15).

Although I am not bound by these decisions, I have given them due consideration. As observed by counsel, if these decisions do not constitute precedents, they contain very able reasoning by judges learned in the law. The inconvenience, however, is that it is difficult, not to say impossible, in most of these cases to ascertain what evidence was adduced against the validity of the patent. In some of the cases the endeavours and experiments of Hastings were relied upon, wholly or partly, by the party seeking to impeach the patent, as evidence of the state of the prior art; in other cases they seem to have been ignored or disregarded. Again in some of the cases Hastings was examined as witness and in others he did not appear. It would be difficult and somewhat hazardous in the circumstances to found an opinion upon these decisions. Nevertheless the judgment of the Circuit Court of Appeals, Third Circuit (16), which, on the question of the validity of the United States patent, confirmed the judgment of the District Court of New Jersey (unreported), is of some assistance. It appears from the report that the use by the public relied on included, among others, Hastings' early work in 1908, Davis' hatchery, Hastings' application for a patent, Hastings' Muskogee hatchery and Hastings' Port O'Connor hatchery. Hastings moreover testified. Woolley, J., who delivered the judgment of the Circuit Court of Appeals, made the following observations:

Hastings and Smith, the patentee, no doubt saw the same incubating problems, but Smith pursued a solution directly opposite that of Hastings.

(1) (1923) 291 Fed. 253.
(2) (1924) 296 Fed. 680.
(3) (1927) 17 Fed. (2nd) 453.
(4) (1927) 19 Fed. (2nd) 721.
(5) (1927) 17 Fed. (2nd) 456.
(6) (1928) 27 Fed. (2nd) 333.
(7) (1928) 22 Fed. (2nd) 855.
(8) (1928) 24 Fed. (2nd) 341.
(9) (1930) 41 Fed. (2nd) 619.
(10) (1929) 33 Fed. (2nd) 347.
(11) (1931) 46 Fed. (2nd) 965.
(12) (1934) 70 Fed. (2nd) 457.
(13) (1934) 70 Fed. (2nd) 564.
(14) (1935) 294 U.S., 1.
(15) (1933) 1 Fed. Supp., 999.
(16) (1927) 17 Fed. (2nd) 453.

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THE KING v. SMITH INCUBATOR CO., ET AL.

Angers J.

He, too, set eggs in trays arranged in tiers and enclosed them in a chamber and he also provided artificially heated air by a motor driven fan positioned at the top of the chamber, but he established an air current and regulated its direction by arranging the tiers of trays in two columns parallel with and separated from each other so as to form between them a central corridor and placed partitions or curtains from the top to a short distance from the bottom of the tiers and directed the air current downwardly not through the eggs but through the corridor where it mushroomed on the floor, spread beneath the tiers, ascended through the egg trays and escaped through definitely arranged air outlets. By so controlling the current of heated air Smith claims, and we think correctly, that he is enabled to attain uniformity of temperature in its movement, first, through the old heat radiating eggs, and next, as it ascends, to the newer heat absorbing eggs, it being necessary that the temperature of the former should be maintained at a point not higher than 105° and that of the latter at a point not below 100°. Moreover, instead of drawing out trays to turn the eggs and then shoving them back, the trays are tilted in a fashion and to a degree simulating the egg turning movement of the hen. We think this arrangement involves invention. There is not only a marked but an intelligent difference between Smith's conception and the prior art and it is the difference between success and failure, or at least between success and feeble advances. It is not a great invention, yet it is one that solved a problem and it solved it in a new way and with such utility that it has become a commercial success which, measured by the amount of sales made and royalties paid, is really remarkable.

These remarks appear to me right and appropriate.

However it may be, I have, not unhesitatingly I must admit, reached the conclusion, based on the evidence adduced before me, that the patent in suit is valid.

There will be judgment declaring the patent valid and dismissing the action.

The defendants will have their costs against plaintiff.

Judgment accordingly.

The case of *The Smith Incubator Company* v. *Albert Seiling* was tried before the Honourable Mr. Justice Angers immediately following the case reported. The action was one for infringement and was dismissed by the learned Judge who found that the method used by the defendant for the circulation of heated air in the incubator and the tilting of the eggs was quite different from that disclosed in the Smith patent.

ON APPEAL FROM THE BRITISH COLUMBIA ADMIRALTY DISTRICT

1935
Dec. 9 & 10
1936
Jan. 31

BETWEEN:

THE S.S. *PRINCESS ALICE*, (DEFENDANT) ..... APPELLANT;

AND

THE CORPORATION OF THE DISTRICT OF WEST VANCOUVER (PLAINTIFF) ..... RESPONDENT.

Shipping—Collision—Immoderate speed of both vessels proceeding through dense fog—Joint negligence—Article 16 of the International Rules of the Road.

The collision herein occurred in the First Narrows, at the entrance to Vancouver Harbour. Both vessels were found to have been proceeding at excessive speed through a dense fog.

Held: That since the collision was primarily caused by the joint negligence of both ships in failing to comply with the first part of Article 16 of the International Rules of the Road, and in proceeding through a dense fog at a speed which was immoderate having regard to the existing conditions, they were equally at fault and the total damage occasioned by that joint fault should be borne equally by the parties.

APPEAL from the judgment of the District Judge in Admiralty for the British Columbia Admiralty District, finding both vessels equally to blame for the collision, and adjudging that the total damage occasioned by that joint fault be borne equally by the parties.

The appeal was heard before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

J. E. McMullen, K.C., for the appellant.

W. Martin Griffin, K.C., for the respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (January 31, 1936) delivered the following judgment:

This is an appeal taken by the owners of the steamship *Princess Alice* from a decision of Mr. Justice Martin, District Judge in Admiralty for the British Columbia Admiralty District. I was assisted on the appeal by two nautical assessors, Captain L. A. Demers and Captain L. G. Dixon.

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S.S. *Princess Alice* v. West Vancouver

Maclean J.

The action arose out of a collision occurring on February 4, 1935, in the First Narrows, a narrow channel, at the entrance to Vancouver Harbour, between the *Princess Alice*, a passenger ship of about 1,900 net register tons, on a voyage from Seattle to Vancouver, and the steamship *West Vancouver Ferry No. 5*, hereafter to be referred to as the *Ferry*. The *Ferry*, a small wooden vessel of 48 net register tons, performs a ferry service between the Municipality of West Vancouver and the City of Vancouver, and in doing so must proceed through the First Narrows, West Vancouver being outside and west of the First Narrows.

The learned trial judge was of the opinion that the collision was primarily caused by the joint negligence of both ships in failing to comply with the first part of Article 16 of the International Rules of the Road, and in proceeding through a dense fog at a speed which was immoderate, "having careful regard to the existing conditions," and he pronounced them equally at fault and adjudged that the total damage occasioned by that joint fault be born equally by the parties.

From that judgment the owners of the *Princess Alice* have appealed, and they ask that the judgment below be set aside and that it be decreed that the collision was due solely to the fault or default of the master and crew of the *Ferry*, and that the owners thereof should bear the whole of the damage.

While the *Ferry* was found by the learned trial judge to have been at fault, and from which finding there was no appeal, yet, in discussing the question as to whether the *Princess Alice* was also at fault, or whether she was entirely blameless, it would seem necessary to refer briefly to the movements of the *Ferry* prior to the collision.

The *Ferry* left her pier at Vancouver at 8.30 a.m., and proceeded on her trip to West Vancouver, passing Burnaby Shoal and Brockton Point on her port side, at a safe distance. When off Burnaby Shoal the whistle of the *Princess Alice* was heard and recognized by the master of the *Ferry* and others of her crew, and there is no reason to doubt this. At a position off Brockton Point, the course of the *Ferry* was altered to W. by N. to pass a safe distance off the First Narrows Inner Beacon (Calamity Point), the *Ferry* being all the while at full speed, that is, 9½ knots from the time

of her departure. At 8.42 a.m. her engines were reduced to "slow," which the master stated would be 4 knots over the ground, but there was an ebb tide of two knots, and my assessors advise me that it is very probable that the *Ferry* was steaming 6 knots over the ground. When the First Narrows Inner Beacon was abeam at 8.43 a.m. the course of the *Ferry* was altered to W. by N. ½ N. with the sound of the horn on the First Narrows Beacon right ahead. The master of the *Ferry* testified that he knew when the *Princess Alice* arrived at a position off Prospect Point—the first point reached on the starboard side in the First Narrows by an incoming vessel—by the echo of the whistle of the *Princess Alice*. The distance from a point abeam the First Narrows Inner Beacon to a point abeam Prospect Point is only one-half mile, but the master and other officers of the *Princess Alice* testified they did not hear the fog whistle of the *Ferry*—ordinarily audible at a distance of four miles—until a very short interval before she came into sight and just before the collision. Two employees at the signal station at Prospect Point testified that they heard the fog whistle of the *Ferry* while in the First Narrows, and prior to the collision. I, and my assessors, find it rather difficult to understand why the *Princess Alice* did not earlier hear the fog whistle of the *Ferry* forward of her beam, and did not know of her presence in the First Narrows at the time material here, but the learned trial judge expressed no opinion on this point, and Mr. Griffin, as I understood him, did not press the point on the hearing of the appeal, and I therefore refrain from expressing any opinion upon it.

The *Princess Alice* was on a voyage from Seattle to Vancouver, and according to the abstract log, she encountered dense fog from 5.29 a.m. when off East Point in English Bay, which continued up to the time of the collision, and the abstract log records "Vis. Nil" during all that time, and this no doubt is perfectly true because those on the bridge of the *Princess Alice* would be unable to see much further than her bow. The *Princess Alice* took her departure from a point abeam Point Atkinson at 8.22 a.m., her speed and course prior to that time has no material bearing on the case. From the time of taking her departure from off Point Atkinson at 8.22 a.m.

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until arriving abeam Prospect Point at 8.46 a.m. she steamed a distance of 5 miles in 24 minutes, which would give her an average speed of about 12½ knots. The engine room log records her engine movements as follows:—

8.19¼ a.m. half speed ahead.
8.26 a.m. full speed ahead.
8.27 a.m. stop.
8.28 a.m. full ahead.
8.39 a.m. slow.
8.44 a.m. half speed.
8.47 a.m. stop.
8.48 a.m. full astern (collision).

The "full speed" of the *Princess Alice* was 17 knots, but with the telegraph at "stand by" the understanding with the engine room was that it called for 135 revolutions of the engine, which would mean 15 knots. "Half speed" my assessors advise me would mean about 10 knots with the *Princess Alice*. The master of the *Princess Alice* himself testified that "half speed" meant 10 knots, and "slow" 5 knots. I would point out that the order to "stop" at 8.27 a.m. is of no significance because the ship would lose very little way from "full speed" in one minute. The change in speed from "slow" to "half speed," at 8.44 a.m., just two minutes prior to being abeam Prospect Point, which speed was continued for at least one minute after reaching Prospect Point, rather indicates an intention to continue that speed right through the First Narrows; the order to stop the engine at 8.47 a.m. was only given when the whistle of the *Ferry* was heard, and just before the ships came in sight of each other, one minute before the collision. The *Princess Alice* of course never came to a stop; her speed at the moment of impact no doubt would have been reduced, because her engines were then going astern, otherwise she would have gone completely through the *Ferry,* but even then the injury to the *Ferry* caused her in the end to sink. I perhaps should observe that the master of the *Princess Alice* was of the opinion that his ship, at 8.47 a.m., had not yet worked up to half speed and at that moment was proceeding at not more than seven miles per hour through the water, and he stated that this speed was necessary to avoid losing steerage way on account of the ebbing tide, a contention which I cannot accept and neither do my assessors.

An effort was made by counsel to define the position of the *Princess Alice* at the time of the collision from the courses alleged to have been steered by her between Point Atkinson and Prospect Point, and as recorded in her log, together with the time on each course. My assessors advise me that this could not be relied upon because the courses of the *Princess Alice* might have been frequently changed, owing to the dense fog, or for other reasons, without any notation being made in the log, which I am advised is common practice. Any attempt to ascertain the position of the *Princess Alice* at the time of the collision, and just prior thereto, from her log entries, cannot, I think, be relied upon.

The evidence given on behalf of the *Princess Alice* would place her at all times after reaching Prospect Point well to the south of the centre of the First Narrows channel, her proper side in clear weather, and that same evidence would place the position of the *Ferry* at the same time further still to the south of mid-channel, in fact on the starboard side of the *Princess Alice* and quite close to the south shore. There is also very formidable evidence from independent witnesses on the side of the *Ferry* that both ships were in mid-channel, or to the north of mid-channel, when the collision took place. The distance from mid-channel to either shore would be approximately 600 feet, that is to the three-fathom line. The master of the *Princess Alice* states that he passed Prospect Point at a distance of anywhere from 125 to 150 feet, and the third officer gives the distance as being about 100 feet off; with "visibility nil," this close proximity to Prospect Point in a dense fog could hardly be explained as a position of deliberate selection. The master of the *Princess Alice* states that about this time he altered his course to E. $\frac{3}{4}$ S., because he was too close to Prospect Point. My assessors advise me that it is probable that the *Princess Alice* in attempting to locate her position when off Prospect Point by the echo of her whistle, found it unreliable on account of her close proximity to Prospect Point, and I am also advised that reliable calculations by echo could not be expected if the *Princess Alice* was as close to Prospect Point as was stated by the witnesses called on her behalf.

In some respects I doubt if either side gave the court true evidence, particularly as to the position of the respect-

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ive ships just prior to and at the moment of the collision. I think, and my assessors agree, that neither ship knew her position with accuracy while in the First Narrows and just prior to the collision, on account of the fog; I am of the opinion, and my assessors agree, that just before the collision they were both in mid-channel, which, in the circumstances, my assessors advise me, would hardly be censurable providing they were navigating with that caution required by the rules of the road. The attempt to place the *Ferry* on the starboard side of the *Princess Alice* and close to the south shore is not in my opinion to be believed, and with this my assessors also agree.

I entirely agree with the finding of the learned trial judge that the *Princess Alice,* as well as the *Ferry,* was proceeding at an immoderate speed in view of the prevailing fog, and contrary to the first part of Article 16 of the International Rules of the Road, one of the rules designed for the protection of life and property at sea. In the circumstances, a speed of either seven or ten knots by the *Princess Alice* in passing Prospect Point, and thereafter, cannot be condoned, and with this my assessors agree. I cannot find any difference in the degree of fault in either ship. The speed of both ships was excessive in the circumstances and each was willing to take the risk of collision rather than lose a few minutes in reaching their respective destinations. It is quite plain what the rules of the road required them to do in the circumstances.

The first part of Article 16 of the International Rules of the Road was, in my opinion, violated by the *Princess Alice,* as found by the learned trial judge. The appeal is therefore dismissed with costs.

Judgment accordingly.

1935
Sept. 9 & 10
1936
Feb. 11

BETWEEN:

HIS MAJESTY THE KING,..... PLAINTIFF;

AND

WALTER E. DEAN AND MICHAEL BARONI ..... } DEFENDANTS.

Expropriation—Agreement between owner and another to convey land expropriated to a limited company to be formed, not an option to purchase and does not give an interest in the land to such person.

Land belonging to the defendant Dean was expropriated by the plaintiff on March 6, 1934. Defendant Baroni claimed an interest in the said

land by virtue of an agreement in writing between himself and defendant Dean, and alleged that he sustained damages in a substantial amount by reason of the expropriation. The agreement dated December 9, 1932, described the defendant Dean as vendor and defendant Baroni as purchaser and sets out "that the vendor in consideration of the sum of one dollar, the receipt whereof is hereby acknowledged, hereby offers and agrees to sell to the purchaser who agrees to purchase from the vendor the said property hereinbefore described for the sum of $3,260, said sum to be paid on the terms and conditions hereinafter more fully set out. . ." The agreement further stated that the offer was to remain open until June 9, 1933. On June 5, 1933, this was extended to April 5, 1934, and on March 26, 1934, Baroni, by a letter to Dean, purported to exercise the option, though such letter was not intended to express his ability or intention then to do so.

The chief "terms and conditions" of the agreement provided that the purchaser was to procure the incorporation of a joint stock company for the purpose of constructing and maintaining a hotel and beer parlour, store and lodging cabins on the said land; the vendor to contribute to the company the sum of $3,260, the purchase price of the land and to take in full payment therefor stock in the company, the purchaser agreeing to purchase from the vendor after a certain period and at the request of the vendor, for a price not less than $3,260, the capital stock of the vendor in the company. The purchaser also agreed to put forward an application for a beer licence under the Manitoba Liquor Control Act. The vendor agreed upon the option being exercised to transfer the land to the company.

Held: That the agreement was not an option to purchase the land in question, granted to Baroni by Dean, and did not give to Baroni an estate or interest in the land; the agreement did not mean and was not intended to mean that Baroni was himself to become the purchaser of the land.

2. That the agreement merely expressed an understanding reached on the part of both defendants, to enter contingently into a joint commercial venture, each having different obligations to perform to make the proposed undertaking possible and effective.

INFORMATION by the Crown to have certain property of defendant Dean expropriated for a national park, valued by the Court. Defendant Baroni claimed an interest in the land and asked for damages sustained by him through the expropriation.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Winnipeg.

J. H. Howden, K.C. for the plaintiff.

A. Sullivan, K.C. and *W. A. Cuddy* for defendant Baroni.

G. E. Tritschler for defendant Dean.

The facts and questions of law raised are stated in the reasons for judgment.

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Maclean J.

THE PRESIDENT, now (February 11, 1936) delivered the following judgment:

The lands in question here, were expropriated by the plaintiff, for the purposes of a national park, on March 6, 1934, under the provisions of subsections 3 and 4 of section 6 of The National Parks Act, chap. 33 of the Statutes of Canada 1930, and section 3 of the Expropriation Act, chap. 64 of the Revised Statutes of Canada 1927, and the principal matter for determination is the compensation to be allowed the owner or owners of the lands taken. The lands taken were contiguous to the southern boundary of Riding Mountain National Park and comprised the northeast quarter of section 24, in township 19, range 19, west of the principal meridian in the Province of Manitoba, and which comprised one hundred and sixty-three acres more or less. The plaintiff tendered the defendant Dean, the registered owner of the land, $1,100 in full compensation for the lands taken and for all loss or damage arising therefrom, which amount that defendant refused to accept, and he now claims the sum of $10,000. The information also pleads that the Crown is willing to pay to the defendant, or to whomsoever this Court may adjudge to be entitled thereto, the sum of $1,100.

In the information exhibited on behalf of the Attorney-General of Canada it is pleaded that subsequent to the taking of the lands in question, one Michael Baroni claimed to have had, at the date of the said taking, an interest in the said lands and he subsequently filed a statement of defence in answer to such information claiming an interest in the said lands and for the expropriation of which, and for damages resulting therefrom to him, he now claims the sum of $10,000.

Baroni alleges in his statement of defence that he had at the date of the expropriation, and still has, an estate or interest in the said lands by reason of a written agreement entered into between himself and the defendant Dean, and that in pursuance of the said agreement he, Baroni, had an immediate project on foot relating to the user of the said lands, as a hotel, summer resort, and commercial undertaking by reason of which the said land had a special value to him, and he alleges that the said agreement, and project were frustrated by the expropriation and ouster, and

by reason therefor he has sustained damages to the amount of at least $10,000.

The agreement in writing between Dean and Baroni is dated December 9, 1932. It first recites that the defendant Dean, the vendor, is the owner of the same lands as are here expropriated; that Baroni, described as the purchaser, desires to purchase such lands for purposes later set forth in the agreement; that Dean is willing to dispose of his lands on the terms and conditions later set forth in the agreement; that for the consideration of one dollar Dean agrees to sell to Baroni the lands in question for $3,260, such sum to be paid on the terms and conditions thereafter set out in the agreement. Then follow the terms and conditions of sale and purchase and it is perhaps preferable that the same be fully set forth, even though lengthy, as any attempt to summarize them would probably fail to convey their real sense. They are as follows:—

1. The purchaser agrees and undertakes to arrange to organize a Joint Stock Company under the Laws of the Province of Manitoba the original members of which are to consist of Walter E. Dean, of Sandy Lake, Manitoba, Evelin Dean, wife of the said Walter E. Dean, M. Baroni, of Neepawa, Manitoba, Mrs. M. Baroni, wife of the said M. Baroni and if the necessary arrangements can be made, H. Stead of Neepawa, Manitoba.

2. The objects of the said company shall (but not limiting itself to) be to construct and maintain on the lands hereinbefore described a hotel and beer parlour, general store, lodging cabins and all the necessary buildings and outbuildings in connection therewith for the accommodation and entertainment of tourists, campers, etc.

3. The said company shall be under the supervision and general management of M. Baroni the purchaser herein.

4. The said company shall employ Walter E. Dean the vendor herein in the capacity of resident manager and caretaker at a salary to be mutually agreed upon and consistent with the duties he has to perform and the position he shall occupy the company may also employ Mrs. W. E. Dean, in a capacity it may see fit and at a fair rate of remuneration to be mutually agreed upon and in conformity with the duties she shall be assigned to.

5. The resident manager shall be supplied with a residence or lodging in conformity with his position.

6. The vendor herein being a veteran of the Great War, 1914-18 and being disabled by services overseas and subject to spells of sickness and at times unable to perform duties assigned to him shall nevertheless receive his usual wages during the seasons that the hotel shall be open.

7. The vendors contribution to the stock of the said company shall be the sum of $3,260, being the purchase price of the lands hereinbefore referred to and full payment thereof shall be taken in stock share certificates.

8. At any time after the expiration of two years from the vendor receiving notice as hereinafter provided the purchaser herein agrees and

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undertakes at the request of the vendor to purchase at not less than $3,260 the capital stock of the vendor in said company.

9. Should the said H. Stead hereinbefore referred to supply any material, labour, etc., for the purposes of the said company he shall receive payment for the same in paid-up shares in the said company to the value of the said material, labour, etc.

10. The purchaser herein agrees and undertakes that in the event of taking up this option he shall be personally responsible to see that no workman's or mechanic liens of any sort or description are filed against the said property in connection with the building and equipping of the buildings to be erected on the said premises.

11. The purchaser agrees and undertakes that as soon as possible after the date hereof he shall make the necessary arrangements by the submission of plans and specifications to the Liquor Control Commission of the Province of Manitoba for an hotel and beer parlour and on the approval of said plans and specifications, and the assurance of the said Liquor Control Commission that there are no objections to the issuing of a beer licence in accordance with the terms of the Manitoba Liquor Control Act and that such licence will issue on completion of the said buildings in so far as the said Commission is concerned, work shall be commenced as soon as weather conditions shall permit and the supply of material can be obtained on the clearing of the grounds and construction of the necessary buildings for the purposes of the said company.

12. In the event of this option not being taken up in the time hereinafter stated the purchaser agrees and undertakes to pay to the vendor a further sum of fifty ($50) xx/100 dollars as compensation for any loss of time, solicitor's fees and disbursements, etc., to which the vendor may have been put to by reason of this agreement.

13. On this option being taken up the vendor agrees and undertakes to supply in the name of the company hereinbefore referred to a deed or transfer of land with the usual statutory covenants and free from all encumbrances subject to the conditions and reservations contained in the original grant from the Crown. Said deed or transfer to be prepared by the vendor's solicitors at the expense of the purchaser.

14. The legitimate expenses of the purchaser in arranging the formation of the company shall be chargeable to the company if and when formed but the same shall be paid by the issue of fully paid share certificates of the company.

15. In the event of failure to organize the said company and this option not being taken up the vendor shall not be called upon to meet any expenses in connection therewith and shall receive payment of the monies mentioned in clause 11 hereof.

16. This offer is to remain open until the hour of six p.m. Friday, June 9th, A.D. 1933, and is to be irrevocable until the said mentioned date, and, if accepted in writing and in the manner hereinafter provided, on or before the said date, shall thereupon constitute a binding agreement of purchase and sale subject to the terms and conditions hereinbefore set out. The purchaser shall examine the title at his own expense within five days from the date of the acceptance and shall be deemed to have accepted the title except as to any written objections made within such time.

17. This offer may be accepted by a letter delivered to the vendor, or mailed, postage prepaid and registered, addressed to the vendor at Sandy Lake, Manitoba, and deposited in a post office other than the

Sandy Lake post office so as to reach the Sandy Lake post office not later than 6 p.m. Friday, June 9th, 1933.

18. Time shall be the essence of this agreement.

The time within which Baroni might exercise the right of purchase under the agreement, was, on June 5th, 1933, extended for the period of ten months, or until April 5th, 1934; on March 26th, 1934, Baroni wrote Dean to the effect that he was "ready, willing, and able to carry out the said option agreement." This letter, I understood counsel for Baroni to say, was sent to preserve any legal rights Baroni might have had under the agreement and was not intended to express his ability or intention then to exercise the so-called option, if the expropriation had not taken place.

The agreement, a strange document, is said to be an option of purchase of the lands in question, granted to Baroni by Dean, and it is claimed that while subsisting, it operates to give Baroni an interest in the lands in question. I do not think the agreement is truly open to that construction, nor does it, in my opinion, give to Baroni an estate or interest in the lands. The fact that Baroni happens to be described as "Purchaser" in the agreement and Dean as "Vendor" does not of itself reveal the true meaning of the agreement. The agreement is not in my opinion the case of the ordinary option to purchase lands or property from an owner, nor, are the authorities mentioned in such a case as *Davidson* v. *Norstrant* (1), applicable here; nor is it comparable to the case of a lease containing an agreement by the lessor to convey the land to the lessee at the expiration of the term, upon the payment of a stipulated price, which vests in the lessee a right to purchase which passes with the lease to his administrator, who may assign it, and the assignee may complete the purchase by the payment of the price within the time limited.

In any event Dean did not agree to convey the lands to Baroni, but to a company to be organized upon the performance or occurrence of certain conditions precedent, and further I should think, upon the company agreeing to perform other conditions mentioned in the agreement, in favour of Dean and his wife. The agreement, it seems to me, merely expresses an understanding reached on the part of Dean and Baroni, to enter contingently into a joint commercial venture such as is described

(1) (1920) 61 S.C.R. 493.

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in paragraph 2 of the agreement, each having different obligations to perform to make the proposed undertaking possible and effective; that, I think, is the business sense of the agreement. A condition precedent was that Baroni was to obtain from the Manitoba Liquor Control Commission a beer licence, or an assurance of such, for the hotel premises proposed to be constructed on the lands in question; this Baroni failed to obtain, and the only evidence on this point is the unsupported belief on his part that he might obtain such a licence sometime; up to the commencement of these proceedings he had failed to obtain any dependable assurance that he could obtain it, and I believe the evidence of Mr. Smart that Baroni, who was really the promoter of the project, had stated to him that temporarily at least he had abandoned the idea of proceeding with the project because he could not secure an assurance that the beer licence would be obtained. No witness from the Manitoba Liquor Control Commission was called. Baroni at no time prior to the expropriation was in a position to compel specific performance against Dean, and the proposed company had not then come into existence, and my recollection is that it was never organized. Had the joint venture been advanced as contemplated by the agreement, Dean was to convey his lands to a third party, the proposed incorporated company, and he was to receive in consideration therefor shares in the capital stock of that company in the amount stated in the agreement. Baroni was not in any event to have any interest in the land other than as a shareholder in the company; presumably he was to secure the capital necessary to construct and furnish the hotel and beer parlour, and possibly other buildings, though even that is not clear, and it is not clear that he was obligated to Dean to become a shareholder of the company, other than that he was to be one of the charter members of it, which here means little. If the project became a reality Baroni obligated himself to purchase Dean's shares in the company, for a stated price, after a certain period, and this was the only obligation enforceable by Dean against Baroni. The agreement does not mean, and was not intended to mean, that Baroni was himself to become the purchaser of the land. I do not think therefore that it can be held that the agreement gave Baroni an interest in

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the lands in question and he is therefore not entitled to any compensation from the Crown by reason of the expropriation.

[The learned President considered the evidence adduced respecting the value of the land expropriated and concluded.]

I think if I allow the defendant Dean $2,400 he will be fairly and adequately compensated, and this amount I allow with interest from the date of the expropriation, and he will have his costs of the action. I do not think I can properly decline to direct an order for costs against the defendant Baroni but in the circumstances I trust the same will not be exacted.

Judgment accordingly.

BETWEEN:

1934

Oct. 16, 17 & 18.

HENRI JALBERT .....SUPPLIANT;

AND

1935

June 12.

HIS MAJESTY THE KING.....RESPONDENT;

AND

ATTORNEY-GENERAL OF THE PROVINCE OF QUEBEC.....} INTERVENANT.

Constitutional law—British North America Act—Public domain—"Public Harbour"—Interpretation—Evidence.

Held: That the burden of proving that in 1867 the property in question, now the Port of Chicoutimi, formed part of the public works and domain of the Province of Canada, and was used by the public as a harbour, is upon the respondent.

2. That a public harbour, within the meaning of Article 108 of the B.N.A. Act and schedules thereto, is a harbour which at the date of Confederation formed part of the public works or domain of the province, to which the public had access, and which was in fact used as such by the public. It is not necessary that public moneys should have been spent to improve it to constitute it a "Public Harbour."

3. That the law permits historical works, e.g., Arthur Buies' "Le Saguenay et la Vallée du Lac Saint-Jean," to be referred to as evidence of ancient facts of a public nature.

4. That from the evidence of record the Port of Chicoutimi was a public harbour in 1867 and previous thereto within the meaning of Article 108 of the B.N.A. Act, and the action and intervention were dismissed.

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The suppliant in his Petition of Right alleged that he is the owner, by letters patent from the Province of Quebec, of a certain water lot in the Township of Chicoutimi. That the respondent entered into possession thereof, save for a small strip, for public purposes and he claimed compensation for the land taken and for the damages suffered by such taking, which he fixed at the sum of $43,125. The respondent admitted the erection of a wharf on the property in question for public purposes but alleged that the suppliant was not the owner thereof. That by virtue of Article 108 of the B.N.A. Act it formed part of the public domain of Canada in right of the Dominion, being and having been and forming part of a public harbour of the Port of Chicoutimi in and before 1867. The Province of Quebec intervened to support the letters patent issued by it to the suppliant, claiming that at such time it formed part of the public domain of the province.

THE ACTION was heard before the Honourable Mr. Justice Angers, at Chicoutimi, P.Q.

J. A. Gagne, K.C., for the suppliant.

M. L. Beaulieu, F. Dorion and *A. Talbot* for the respondent.

L. S. St. Laurent, K.C., for the intervenant.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (June 12, 1935) delivered the following judgment:—

Il s'agit d'une pétition de droit par laquelle le pétitionnaire Henri Jalbert, industriel, de la ville de Chicoutimi, province de Québec, réclame de Sa Majesté le Roi, au droit de la Puissance du Canada, la somme de $43,125, avec intérêt sur $18,125, depuis le 25 juin 1929 et sur $25,000, depuis la date de la pétition soit depuis le 24 décembre 1932, et les dépens.

[The learned Judge summarized the pleadings and then proceeded.]

Comme nous l'avons vu, l'intimé, soutient que le lot de grève, auquel le pétitionnaire prétend avoir un titre de

propriété et sur partie duquel les Commissaires du Port de Chicoutimi ont en 1929 et 1930 construit un quai, se trouvait compris dans le port naturel de Chicoutimi tel qu'il existait lors de la confédération et tel qu'il servait effectivement à cette époque, et qu'il est ainsi passé dans le domaine de la Couronne représentée par le Gouvernement du Canada, en vertu des dispositions de l'article 108 de l'Acte de l'Amérique Britannique du Nord, 1867 (30 Vic., cap. 3); cet article est ainsi conçu:

Les travaux et propriétés publics de chaque province, énumérés dans la troisième cédule annexée au présent acte, appartiendront au Canada.

La troisième cédule porte comme titre: "Travaux et propriétés publiques de la province devant appartenir au Canada," et mentionne, entre autres:

2. Havres publics.

Il s'agit de déterminer si le premier juillet 1867, date à laquelle l'Acte de l'Amérique Britannique du Nord est devenu en vigueur, le port de Chicoutimi était un havre public au sens de l'article 108 et de la troisième cédule.

Il me semble à propos de faire ici brièvement une revue des quelques arrêts qui ont eu sinon à définir l'expression "havre public" du moins à en délimiter la portée.

La première cause en date est celle de *Holman et al.* v. *Green* (1), où il a été jugé que la laisse (foreshore) dans le havre de Summerside, Ile du Prince-Edouard, appartient à la Couronne aux droits du Dominion et qu'en conséquence la concession de cette laisse, faite aux appelants au moyen de lettres patentes sous le grand sceau de la province, était nulle et sans effet. La Cour Suprême a rejeté la prétention des appelants que les mots "havres publics" de la troisième cédule ne comprennent point les havres naturels mais seulement ceux aménagés ou améliorés par des travaux payés à même les deniers publics. Je crois opportun de citer les remarques du juge en chef Ritchie et du juge Strong sur le sujet. Le premier, à la page 712, dit ceci:

The words of the B.N.A. Act are, in my opinion, too clear to admit of any doubt. But it was contended that the public harbours referred to in the B.N.A. Act were only such public harbours (if any) as the local governments, as such, had acquired an actual property in, that is to say, artificial harbours constructed by the outlay of moneys and not natural

(1) (1881) 6 S.C.R. 707.

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harbours. But I can find nothing in the Act to justify this restriction being placed on the clear words of the statute, and if we look to the general scope of the Act in relation to matters with which harbours are connected, I think it is apparent that parliament intended the words to be construed in their full plain grammatical sense.

Le juge Strong, de son côté, fait les commentaires suivants (p. 716):

The land in dispute is situate opposite the town of *Summerside* and forms part of the foreshore or the land between ordinary high and low water marks of *Bedeque* or *Summerside* harbour—a harbour of which the public have the common right of user and which in that sense at least is therefore a public harbour. It does not appear that any public works have been erected or any public money expended for the improvement of, or in any way in connection with, this harbour, either by the Dominion government since, or by the Provincial Government before, or since, Confederation. I can, however, conceive no other meaning to be attached to the words: "Public Harbour" standing alone, than that of harbours which the public have the right to use, and consequently if a more restricted construction is to be put on those words it must arise from the context or from some other provision of the Act. I find no other provision of the Act conflicting with what thus appears to be the *prima facie* construction of the terms in question.

La décision de la Cour Suprême du Canada dans la cause de *Holman et al. v. Green* a été suivie par la Cour Suprême de la Nouvelle Ecosse, siégeant en appel, dans au moins deux causes à ma connaissance, savoir: *Fader* v. *Smith* (1), et *Kennelly* v. *Dominion Coal Co.* (2).

La cause suivante est celle de *Attorney-General for the Dominion of Canada and Attorneys-General for the Provinces of Ontario, Quebec and Nova Scotia* (3). Il s'agissait là d'une référence par le Gouverneur-Général en Conseil à la Cour Suprême d'un certain nombre de questions ayant trait à la propriété, aux droits et à la jurisdiction législative du Dominion et des provinces respectivement, concernant les rivières, lacs, havres, pêcheries et autres sujets analogues. De la décision de la Cour Suprême, qui n'était pas unanime, il y a eu trois appels au Conseil Privé: l'un par le Procureur-Général du Canada, le second par le Procureur-Général de la Province d'Ontario et le troisième par les Procureurs-Généraux des Provinces de Québec et de Nouvelle-Ecosse.

La première question soumise à la Cour Suprême, la seule qui nous intéresse dans la présente cause, se lisait en partie, comme suit:

(1) Did the beds of all lakes, rivers, public harbours, and other waters, or any and which of them, situate within the territorial limits of

(1) (1885) 18 N.S., 433. (2) (1904) 36 N.S., 495.
(3) (1898) A.C., 700.

the several provinces, and not granted before confederation, become under the British North America Act the property of the Dominion or the property of the province in which the same respectively are situate. * *

Le Conseil Privé s'est abstenu de formuler une définition complète de l'expression "havre public." Les observations de Lord Herschell sur le sujet n'en sont pas moins intéressantes; à la page 711, il s'exprime ainsi:

With regard to public harbours their Lordships entertain no doubt that whatever is properly comprised in this term became vested in the Dominion of Canada. The words of the enactment in the 3rd schedule are precise. It was contended on behalf of the provinces that only those parts of what might ordinarily fall within the term "harbour" on which public works had been executed became vested in the Dominion, and that no part of the bed of the sea did so. Their Lordships are unable to adopt this view. The Supreme Court, in arriving at the same conclusion, founded their opinion on a previous decision in the same Court in the case of *Holman* v. *Green,* where it was held that the foreshore between high and low water-mark on the margin of the harbour became the property of the Dominion as part of the harbour.

Their Lordships think it extremely inconvenient that a determination should be sought of the abstract question, what falls within the description "public harbour." They must decline to attempt an exhaustive definition of the term applicable to all cases. To do so would, to their judgment, be likely to prove misleading and dangerous. It must depend, to some extent, at all events, upon the circumstances of each particular harbour what forms a part of that harbour. It is only possible to deal with definite issues which have been raised. It appears to have been thought by the Supreme Court in the case of *Holman* v. *Green* that if more than the public works connected with the harbour passed under that word, and if it included any part of the bed of the sea, it followed that the foreshore between the high and low water-mark, being also Crown property, likewise passed to the Dominion.

Their Lordships are of opinion that it does not follow that, because the foreshore on the margin of a harbour is Crown property, it necessarily forms part of the harbour. It may or may not do so, according to circumstances. If, for example, it had actually been used for harbour purposes, such as anchoring ships or landing goods, it would, no doubt, form part of the harbour; but there are other cases in which, in their Lordships' opinion, it would be equally clear that it did not form part of it.

Dans une cause de *Attorney-General for British Columbia* v. *Canadian Pacific Railway Company* (1), où il s'agissait, entre autre, de déterminer si la laisse du port de Vancouver était, lors de l'entrée de la Colombie Britannique dans la confédération en 1871, devenue la propriété du gouvernement fédéral, le Conseil Privé, suivant sa décision dans la cause de *Attorney-General for the Dominion of Canada* v. *Attorneys-General for Ontario, Quebec and Nova*

(1) (1906) A.C., 204.

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Scotia (*ubi supra*), a considéré la question comme une question de fait et, sur la preuve versée au dossier, l'a résolue dans l'affirmative. Sir Arthur Wilson, qui a rendu le jugement du Conseil Privé, s'exprime ainsi (p. 209):

> The right of the Dominion Parliament so to legislate with respect to provincial Crown lands situated as these are was based in argument upon two distinct grounds.
>
> The first ground was this: Section 108, with the Third Schedule of the British North America Act, 1867 (Imperial Act 30 & 31 Vict., c. 3), includes public harbours amongst the property in each province which is to be the property of Canada. This certainly empowers the Dominion Parliament to legislate for any land which forms part of a public harbour.

Vient ensuite une référence au jugement du Conseil Privé in re *Attorney-General for the Dominion of Canada* v. *Attorneys-General for Ontario, Quebec and Nova Scotia,* suivie d'une citation partielle des observations de Lord Herschell, qu'il est inutile de répéter; puis Sir Arthur Wilson continue:

> In accordance with that ruling the question whether the foreshore at the place in question formed part of the harbour was in the present case tried as a question of fact, and evidence was given bearing upon it directed to shew that before 1871, when British Columbia joined the Dominion, the foreshore at the point to which the action relates was used for harbour purposes, such the landing of goods and the like. That evidence was somewhat scanty, but it was perhaps as good as could reasonably be expected with respect to a time so far back, and a time when the harbour was in so early a stage of its commercial development. The evidence satisfied the learned trial judge, and the Full Court agreed with him. Their Lordships see no reason to dissent from the conclusion thus arrived at. And on this ground, if there were no other, the power of the Dominion Parliament to legislate for this foreshore would be clearly established.

De cette décision qui a apporté peu ou point de nouveau sur le point particulier qui nous occupe, nous passons à l'arrêt du Conseil Privé dans la cause de *Attorney-General for the Dominion of Canada* v. *Ritchie Contracting & Supply Company* (1). La question qui se présentait était celle de savoir si la baie située à proximité de Burrard Inlet, qui sert d'entrée au port de Vancouver, connue sous le nom de English Bay, était un havre public; le Conseil Privé, confirmant le jugement de la Cour Suprême du Canada, a décidé que non. Sa décision, basée en grande partie sur la preuve, n'en fournit pas moins la première définition un peu complète de l'expression "havre public." Au risque de surcharger indûment ces notes déjà longues, je crois convenable de citer ici quelques-unes des remarques de Lord Dunedin, qui me paraissent s'adapter tout particulièrement

(1) (1919) A.C. 999

au cas présentement sous étude. Après avoir fait quelques commentaires sur les décisions de la Cour Suprême dans la cause de *Holman et al.* v. *Green* (*ubi supra*) et du Conseil Privé dans celle de *Attorney-General for Canada* v. *Attorneys-General for Ontario, Quebec and Nova Scotia* (*ubi supra*), Lord Dunedin continue ainsi (p. 1003):

They (meaning the members of the Judicial Committee of the Privy Council) had previously stated on the general question that it would be, they thought, extremely inconvenient that a determination should be sought of the abstract question: What falls within the description "public harbour"? They declined to attempt an exhaustive definition of the term applicable to all cases. It must depend, they said, to some extent, at all events, upon the circumstances of each particular harbour what forms a part of that harbour.

Their Lordships are bound to say that the expression, "What falls within the description of public harbour" used in that passage has been liable in some cases to misconstruction. In the case of *Holman* v. *Green,* the Court was dealing with a harbour which was an admitted harbour. Accordingly, the expression, "What falls within the description of public harbour," used as it was in commenting upon the case of *Holman* v. *Green,* means—given the existence of a public harbour—what territory falls within it, and does not mean what class of harbour is meant by the expression "public harbour." None the less, however, the words used as to each case depending on its own circumstances may well, as is pointed out by MacDonald J., be also used in regard to the question of determining what is and what is not a public harbour. The extreme view one way, namely, that a public harbour only meant such a harbour and such portions of it as had been the creation of public money, was rejected, and rightly rejected, in *Holman* v. *Green;* the extreme view the other way, namely, that every indentation of the coast to which the public have right of access, and which by nature is so sheltered as to admit of a ship lying there, is a public harbour, has been argued by the appellants in this case and rightly, as their Lordships think, rejected by all the learned judges in the courts below. Potentiality is not sufficient; the harbour must be, so to speak, a going concern. "Public harbour" means not merely a place suited by its physical characteristics for use as a harbour, but a place to which on the relevant date the public had access as a harbour, and which they had actually used for that purpose. In this connection the actual user of the site both in its character and extent is material. The date at which the test must be applied is the date at which the British North America Act, by becoming applicable, effected a division of the assets between the province and the Dominion.

Le jugement de la Cour de l'Echiquier (Cassels J.) dans la cause de *Maxwell* v. *The King* (1), postérieur à la décision de la Cour Suprême in re *Attorney-General for Canada* v. *Ritchie Contracting and Supply Company,* mais antérieur à celle du Conseil Privé dans la même cause, se borne, sur le point qui nous intéresse, à concourir dans

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l'opinion exprimée par la Cour Suprême; à la page 100 du rapport, Sir Walter Cassels dit simplement ceci:

> The decision of the Supreme Court, I think, makes two points clear. First, to be a public harbour under the provisions of the *Confederation Act* it must have been a public harbour at the time of the enactment, and second, that a potential harbour, not a harbour at the date of the *Confederation Act*, but subsequently becoming a public harbour, is not covered by the statute.

Dans cette cause le juge Cassels fait allusion à la décision qu'il avait précédemment rendue in re *The King* v. *Bradburn* (1), décision qui aurait été confirmée par la Cour Suprême; le jugement de la Cour Suprême, au dire du juge Cassels, n'aurait pas été rapporté. Après des recherches, j'ai lieu de croire qu'il y a eu là erreur de la part du juge Cassels: il n'y a pas eu d'appel dans la cause de *The King* v. *Bradburn*. L'appel, auquel vraisemblablement songeait le juge Cassels, a été formé dans une cause de *The King* v. *Kelly* (No. 1904), cause semblable à celle de *The King* v. *Bradburn* et jointe à celle-ci et à quelques autres pour fins d'enquête. Le jugement du juge Cassels in re *The King* v. *Kelly* a été confirmé par la Cour Suprême, dont l'arrêt ne me paraît pas avoir été rapporté.

Commentant la décision de la Cour Suprême dans la cause de *Holman et al.* v. *Green*, le juge Cassels s'exprime ainsi (p. 431):

> There is not much to assist in arriving at an exact definition of what is a public harbour within the meaning of the statute. I take it, however, that the language quoted would indicate that in each case it becomes a question of fact. One point is made clear, that to be a public harbour, it is not necessary that public moneys should have been expended. I think what was intended is that whether it was a public harbour or not would depend to a great extent on the question of fact as to whether the particular harbour in question had been actually used for harbour purposes, such as anchoring ships or landing goods, etc.

La cause la plus récente, dans laquelle la question qui nous occupe ait été débattue, est celle de *The King* v. *Attorney-General of Ontario and Forrest* (2). Dans cette cause, Sa Majesté le Roi, au droit du Dominion, réclamait la propriété d'une île, connue sous le nom de Ship Island située dans la havre de Goderich, dans la province d'Ontario. La Cour Suprême, s'appuyant sur le jugement du Conseil Privé dans la cause de *Attorney-General for Canada*

(1) (1913) 14 Ex. C.R., 419. (2) (1934) S.C.R., 133.

v. *Ritchie Contracting & Supply Company* ainsi que sur la preuve mise au dossier, a décidé que la havre de Goderich était, lors de la confédération, un havre public au sens de l'article 108 et de la troisième cédule de l'acte de l'Amérique du Nord. Elle a décidé en outre que la preuve n'établissait point que l'île en question (Ship Island) faisait alors partie du havre de Goderich ou qu'elle constituait une " amélioration " telle que prévue au paragraphe 5 de la même cédule.

Je crois utile de citer un passage des notes du juge Rinfret, dont le jugement est également celui de ses collègues, les juges Lamont, Smith, Cannon, Crocket et Hughes, interprétant le sens et la portée des mots "havre public"; l'on trouve, à la page 143 du rapport, les observations suivantes:

It would be difficult to say that, in 1867, Goderich harbour was not a "public harbour." In the Fisheries case (*Attorney-General for Canada* v. *Attorneys-General for Ontario, Quebec and Nova Scotia*), the Judicial Committee declined to attempt an exhaustive definition of the term. The view that it meant only "such a harbour and such portions of it as had been the creation of public money" was rejected by this Court (*Holman* v. *Green*), and by the Privy Council (*Attorney-General for Canada* v. *Ritchie Contracting and Supply Co.*). In the latter case, it was explained that "public harbour means not merely a place suited by its physical characteristics for use as a harbour" (an "indentation of the coast to which the public have right of access, and which by nature is so sheltered as to admit of a ship lying there")—"but a place to which on the relevant date the public had access as a harbour, and which they had actually used for that purpose" (p. 1004).

Applying this test, and upon the evidence as to the state of affairs at the relevant date, i.e., at the date at which the B.N.A. Act became applicable, it must be agreed that Goderich Harbour was a public harbour. Even although the work of erection of the harbour and of the subsequent improvements thereof may not have been actually carried out by the province or through the expenditure of public money, the work done by the Canada Company or by the Buffalo Railway Company was part of the consideration—in fact, the main consideration—for the leases or grants from the Crown to these companies.

Le juge Rinfret réfère ensuite aux lettres patentes accordées par la Couronne en 1862 à Buffalo Railway Company, en considération desquelles celle-ci assumait, pour une période de cinq ans, certaines obligations, entre autres, celles-ci:

provide sufficient accommodation in the Inner Harbour of Goderich aforesaid for the largest vessels navigating Lake Huron; establish and maintain * * * a facile and safe entrance or channel into the Inner Harbour aforesaid for such vessels as aforesaid and whether by the erection and maintenance of piers or otherwise with a depth in such channel sufficient for the safe entrance of the vessels aforesaid; well and sufficiently

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repair, uphold, maintain and keep the said wharves and piers, channel and Inner Basin in good, substantial and sufficient repair and fit, proper and accessible for the safe landing of passengers and for the discharge of vessels and steamers and the landing and warehousing of goods and passengers therefrom.

Puis le juge Rinfret continue ainsi:

It may further be added that, under the terms of the lease, all plans or diagrams of improvements had to be submitted to the Commissioner of Crown Lands and the Commissioner of Public Works and they were to be executed to their satisfaction. The companies were to permit and suffer passengers to land at the wharves or piers from any boat, ship or vessel with their personal baggage or luggage without charge and could demand and receive reasonable wharfage dues only for and in respect of goods and merchandise landed at or shipped from the said wharves or piers, the dues being either controlled by statute or submitted to and approved by the Governor General in Council.

Without going into details, it appears by official plans and by departmental reports that a good portion of those works and improvements had been actually carried out and that, at the time of Confederation, Goderich Harbour was not only capable of being used, but that it was actually in use as a harbour in the commercial sense. It may accordingly be held as falling, at the pertinent date, within the "class of harbour meant by the expression public harbour."

Etant arrivé à la conclusion que le havre de Goderich était, en 1867, un havre public au sens de l'article 108 et de la troisième cédule de l'Acte de l'Amérique Britannique du Nord, le juge Rinfret passe à la question de savoir si l'île "Ship" faisait, à cette époque, partie du havre de Goderich; je me bornerai à citer ses remarques (p. 145):

Given a public harbour at Goderich, in 1867, there remains to find out what territory fell within it and, further, whether Ship Island, if within the ambit of the harbour, formed a part of it. (*Attorney-General for Canada* v. *Ritchie Contracting & Supply Co.*). This must depend upon the circumstances of the particular case and, in accordance with the rulings of the Judicial Committee in the Fisheries case (*Attorney-General for Canada* v. *Attorney-General for Ontario, etc.*), and in *Attorney-General for British Columbia* v. *Canadian Pacific Railway* (1), that question must be tried as a question of fact.

We agree with the learned President of the Exchequer Court that, on the evidence, "it is open to serious doubt if Ship Island was, in 1867, situated within the bounds of what was known and used as Goderich Harbour"; and, at all events, we see no reason to dissent from his conclusion that the island was not a part of the harbour.

J'ai cru avantageux de citer assez copieusement les notes du juge Rinfret afin de déterminer de façon claire et précise la portée du jugement de la Cour Suprême.

Avant de clore cette revue de la jurisprudence, je me permettrai d'ajouter à ces citations déjà nombreuses un

(1) (1906) A.C., 204 at 209.

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passage des notes du juge-en-chef, Sir Lyman Duff, relatif à cette question de havre public; il se trouve à la page 136 du rapport et est ainsi conçu:

> Goderich Harbour was, on the 1st of July, 1867, a harbour to which the public had the right to resort and did resort for commercial purposes, and it would appear, therefore, that it satisfied the criteria laid down in *Attorney-General for Canada* v. *Ritchie Contracting & Supply Co.*
>
> But another condition must be present before s. 108 can take effect. That section applies only to public harbours which on that date were part of the "public works" or "public property" of the province. Whether on that date Goderich Harbour as a whole was, and whether the particular parts of it (alleged to be so) in question were, in view of the lease to the railway company, part of the "public property" or "public works" of the province in the sense of s. 108, it is not necessary to consider; and I desire to reserve that point in the most complete sense until it arises for determination.

Il est peut-être bon de noter que le juge-en-chef, au début de ses notes, a déclaré qu'il était d'accord avec son collègue, le juge Rinfret, mais qu'il désirait faire quelques remarques sur un ou deux points soulevés par l'appel.

Je crois qu'il découle de ces arrêts successifs qu'un havre public, au sens de l'article 108 et de la troisième cédule de l'Acte de l'Amérique Britannique du Nord, est un havre qui, au moment de la confédération, faisait partie des travaux ou propriétés publics d'une province, auquel le public avait accès et que, de fait, le public utilisait comme tel; il n'est pas nécessaire, tel que le déclare le Conseil Privé in re *Attorney-General for Canada* v. *Ritchie Contracting & Supply Company* que des deniers publics aient été dépensés pour aménager ou améliorer ce havre, pour en faire un havre public.

Ceci étant établi, la cause se résume maintenant à une question de fait: il s'agit de déterminer si, en 1867, l'endroit particulier de la rivière Saguenay, où se trouve aujourd'hui le port de Chicoutimi, faisait partie des travaux ou des propriétés publics de la Province du Canada et s'il était utilisé comme havre par le public.

La preuve sur ce point est de deux sortes: littérale et orale. Je vais essayer de la résumer aussi brièvement que possible, tout en ayant soin de ne laisser de côté aucun élément qui pourrait avoir une importance quelconque.

Il est bon de noter, dès le début, qu'il incombait à l'intimé d'établir que l'endroit où il a construit son quai faisait partie d'un havre public au moment de la confédération.

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L'article 109 de l'Acte de l'Amérique Britannique du Nord pose, en effet, la règle générale que " toutes les terres . . . . . appartenant aux différentes provinces du Canada . . . . . lors de l'union . . . . . appartiendront aux différentes provinces d'Ontario, Québec . . . . . dans lesquelles ils (ce masculin est commandé par le mot " minéraux " compris dans l'énumération du début de l'article) sont sis et situés, ... restant toujours soumis aux charges dont ils sont grevés, ainsi qu'à tous intérêts autres que ceux que peut y avoir la province."

L'article 108 est, en quelque sorte, une exception à la règle générale posée par l'article 109.

Examinons d'abord la preuve documentaire.

[His Lordship here analysed the documentary and oral evidence, and then continued.]

L'intimé a produit comme pièce D6 un exemplaire de l'ouvrage d'Arthur Buies, intitulé " Le Saguenay et la vallée du Lac Saint-Jean," publié en 1880. Le procureur de l'intervenant s'est objecté à la production de ce volume, alléguant qu'il ne constitue point un document historique. Je crois l'objection mal fondée. Buies a sans doute été surtout un journaliste et un chroniqueur, mais en écrivant " Le Saguenay et la vallée du Lac Saint-Jean " il a fait oeuvre d'historien et de géographe; il y a lieu, à mon avis, de permettre la production de ce volume: Taylor on Evidence, 10ème éd., vol. 2, parag. 1785; Phipson, Law of Evidence, 5ème éd., page 13, paragraphe (3), et page 358, sous le titre " Histories "; Powell, Law of Evidence, 10ème éd., page 298 (in fine); Odgers, Law of Evidence, page 349; Buller, Nisi Prius, 2ème éd., pages 248 et 249; *Read* v. *Bishop of Lincoln* (1892) A.C. 653; *Le Roi et al.* v. *St. Francis Hydro-Electric Co. et al.*, C.B.R. (Qué.), No. 2623, jugement 3 mars 1934, non rapporté.

[The learned Judge here cited extracts from the work of Buies and after further considering the oral and documentary evidence concluded.]

Je crois que, de l'ensemble de la preuve versée au dossier, il y a lieu de conclure qu'avant le premier juillet 1867, date de la confédération, Chicoutimi était un havre public au sens de l'article 108 et de la troisième cédule de l'Acte de l'Amérique Britannique du Nord, et qu'aux termes de cet

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article et de cette cédule le havre de Chicoutimi est devenu, à compter de l'entrée en vigueur de l'Acte de l'Amérique Britannique du Nord, i.e., à compter du premier juillet 1867, la propriété du Canada. Le terrain sur lequel l'intimé a érigé le quai dont il est question en cette cause faisant partie intégrante du havre de Chicoutimi appartient donc à l'intimé depuis la même date.

La pétition de droit du pétitionnaire est en conséqeunce mal fondée et elle est rejetée, avec dépens contre le pétitionnaire.

L'intervention est également, pour les mêmes raisons, mal fondée et elle est rejetée, avec dépens contre l'intervenant.

Judgment accordingly.

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Jan. 8-10, 13-17.

Mar. 26.

BETWEEN:

THE B.V.D. COMPANY, LIMITED....PLAINTIFF;

AND

CANADIAN CELANESE, LIMITED...DEFENDANT.

Patents — Impeachment — Anticipation — Prior publication — Specification — Patent Act, s. 61 (1) ss. (a) — Ambiguity — Sufficiency of specification — Novelty — Subject-matter — Invention — Infringement.

Defendant is the owner by assignment from the patentee, of two Canadian patents, one of which, No. 265,960, is for a process for making a composite sheet material by heat and pressure in which one fabric at least contains a "thermoplastic derivative of cellulose," or "an organic derivative of cellulose," or a "cellulose ester," or a "cellulose acetate," and contains a claim for the product.

The second patent in suit, No. 311,185, states that the object of the alleged invention is to produce a fabric containing organic derivatives of cellulose that is suitable for use as a stiffening material wherever such a fabric is necessary.

Plaintiff's action is one to impeach both patents.

Held: That a prior published patent must be read as it would have been read without the knowledge of subsequent researches or improvements disclosed in subsequent patents or publications.

2. That s. 61 (1) and ss. (*a*) of the Patent Act require that before a patent shall be declared void on the ground of anticipation it must be established that before the date of the application for such patent another inventor had disclosed or used the invention in such manner that it had become available to the public.

3. That ambiguity, whether deliberate or avoidable, voids a patent, since a specification must be sufficiently explicit in describing the nature and ambit of the invention to ensure to the public the benefit of the

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discovery, when the period fixed in the grant as the period of monopoly comes to an end.

4. That a specification will be sufficient which contains directions enabling a person having a reasonable competent knowledge and skill of the subject to make the article described without further invention.

5. That a patentee need not state the effects and advantages of his invention.

ACTION to impeach Canadian Patents for Invention, numbers 265,960 and 311,185.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C., and *R. S. Smart, K.C.*, for plaintiff.

H. Gerin-Lajoie, K.C., and *W. F. Chipman, K.C.*, for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

The President, now (March 26, 1936) delivered the following judgment:

This is an action for the impeachment of two Canadian patents owned by the defendant, numbered 265,960 and 311,185, assigned to it by the patentee, Camille Dreyfus, and alternatively for a declaration that certain soft collars or shirts with such collars attached, manufactured by the plaintiff, do not infringe the said patents of the defendant. Patent no. 265,960 corresponds with British patent no. 248,147 which issued in March, 1926, and with United States patent no. 1,903,960 which issued in April, 1935; the date of invention here relied upon in respect of patent no. 265,960 is the date of the application of the corresponding British patent, January 23, 1925. In all cases the patentee was Camille Dreyfus, and he is president of the defendant company herein.

The patentee is, I think, by profession a chemist, but at any rate he was associated with the early development of cellulose acetate as a commercial product.

Patent no. 265,960, which I shall first consider, issued on November 16, 1926, on an application filed on December 18, 1925, by Camille Dreyfus. The controversy arising over this patent relates so largely to the language and construction of the descriptive portion of the specification, and so much time was devoted to it by counsel, that it seems to

me desirable to quote it almost in its entirety even though it be lengthy. This might also be advantageous in the event of this judgment coming before another court for review. I shall adhere to the numbering of the paragraphs found in the copy of the specification filed with the court under the rules, and in the evidence, I think, there will be found numerous references to paragraphs of the specification by their numbers. Paragraphs two to twelve inclusive are as follows:—

2. This invention concerns the manufacture of new fabrics or sheet materials having waterproof to gas-proof properties or capable of other applications.

3. According to the invention, a fabric or sheet material is made by uniting under appropriate conditions of temperature and pressure, woven, knitted or other fabrics composed of or containing filaments or fibres of thermoplastic cellulose derivative or derivatives with woven, knitted or other fabric composed of or containing filaments or fibres of non-thermoplastic or relatively non-thermoplastic material.

4. According to the invention woven, knitted or other fabric made of yarns composed of filaments or fibres of a thermoplastic cellulose derivative, such for example as cellulose acetate, ethyl-, methyl-, or benzyl-cellulose, nitro-cellulose or other ester or ether of cellulose, or mixtures of such cellulose derivatives, is associated with woven, knitted, or other fabric made wholly or partly of yarns composed of filaments or fibres of a non-thermoplastic or relatively non-thermoplastic material, such for example as silk, cotton, linen, artificial filaments or fibres of the cellulose type, or wool or mixtures of any of such non-thermoplastic filaments or fibres with each other or it may be with filaments or fibres of a thermoplastic cellulose derivative or derivatives, and the associated fabrics are subjected to heat and pressure, with or without exployment, assistance or application of plasticising or softening agents or solvents of the thermoplastic cellulose derivative or derivatives; in this way the fabrics are united together and a composite sheet material is obtained in which the pores or interstices are reduced to extremely minute dimensions, or closed completely, by the melting or softening effect produced by the heat and pressure upon the filaments and fibres of the thermoplastic cellulose derivative or derivatives and by the uniting of the fabrics under the heat and pressure. Two of such fabrics, i.e., one of each of the two classes specified above, may be associated and united together as referred to, or the respective fabrics may be disposed in any desired relative number in alternation with each other. Thus for example a fabric of cotton or composed of or containing other non-thermoplastic fibre may be disposed between two fabrics of cellulose acetate or other thermoplastic yarns; or a fabric of thermoplastic yarns may be disposed between two fabrics of cotton or composed of or containing other non-thermoplastic fibres; or four fabrics, two of each class, may be disposed so that the fabrics of the thermoplastic yarn alternate respectively with the fabrics of cotton or composed of or containing other non-thermoplastic fibres, and so on.

5. The extent of the melting or softening effect, degree of closing the pores or interstices, and intimacy of union of the fabrics, and therefore the degree of impermeability of the compound fabric or material produced,

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can vary with the degrees and duration of heat and pressure employed, and with whether plasticisers, or softeners or solvents are employed, and with the number of fabrics united together, or other circumstances.

6. Thus for example the heat and pressure (with or without employment or assistance of plasticising or softening agents or solvents) may be such as to unite the fabrics together and close or reduce to minute dimensions the pores or interstices of the compound or combined fabric and render the same water-resisting or even gas-resisting, without causing the filaments or fibres of the thermoplastic cellulose derivatives to disappear. Or the heat and pressure may be such as to cause the filaments or fibres of thermoplastic cellulose derivatives to melt and disappear partly or entirely.

7. It is to be understood that the degrees and duration of heat and pressure are interdependent and that all or any of these conditions may be varied according to circumstances or requirements. For example, the less the heat, the greater or longer is the pressure required to produce a given effect or vice versa; or again, the same conditions of heat and pressure may be applied for more or less time to produce the effect in a more or less pronounced degree.

8. The degree of the melting effect, and the degree of intimacy of union of the component fabrics, may be increased or accentuated by the employment, assistance or application of plasticising or softening agents or solvents of the thermoplastic cellulose derivative or derivatives as referred to, and it is to be understood that such agents or solvents may be applied to or incorporated in any or all of the component fabrics before the application of the heat and pressure to the associated fabrics, for example, by the application of such agents or solvents in solution in volatile solvents thereof that are not solvents of the cellulose derivative or derivatives, and that alternatively, such agents or solvents may be incorporated in the filaments or fibres of thermoplastic cellulose derivatives in the production thereof, for example by employing such agents in the spinning solutions from which they are made.

9. Any plasticising or softening agents or solvents (preferably high-boiling or relatively high-boiling), of the cellulose derivatives may be employed. As some instances there may be mentioned triacetin, paratoluene sulphonamide or its derivatives, diethylphthalate, paratoluene sulphonamilide, and high-boiling alkylated xylene sulphonamide derivatives or preparations (for example, monomethyl xylene sulphonamide).

10. As the melting or softening effect is increased or accentuated by the plasticising or softening agents or solvents, one can employ less heat and/or pressure for the production of a given effect when such agents or solvents are employed.

11. The invention is particularly applicable when fabric of cellulose acetate yarns is used as the component thermoplastic fabric of the compound fabric or material, and will hereinafter be described in this connection, it being understood, however, that fabric of other cellulose esters or cellulose ethers may be employed as before indicated.

12. The heat and pressure may be applied in any appropriate way to the associated fabrics to be united together, for example by passage between pressure rollers, one or both of which is or are heated, or between a heated roller and a heated or cold plate or surface, or by pressure between heated plates or surfaces or between a heated plate or surface and a cold plate or surface, or by passing the associated fabrics under tension over a single heated roller, e.g., a calendar roller, or by any other suitable means. In cases where the associated fabrics are passed through

pairs of pressure rollers, the rollers in each pair may rotate at the same or at different speeds. Where the fabrics are passed under tension over a single heated roller, the roller may with advantage be rotated in an opposite direction to the travel of the fabric.

The specification then proceeds to give a more detailed description of the manner in which the invention may be carried into effect, and that is in the language following:—

14. A woven or warp knitted fabric made of cellulose acetate yarn is associated with woven or knitted fabric of silk, cotton, linen or other fibre, preferably after being coated or treated with a plasticising or softening agent or solvent on the face that is to contact with the latter fabric, and the associated fabrics are subjected to heat and pressure to unite the component fabrics together and give a material possessing a desired degree of resistance to penetration by water or gases, according to the degree and duration of temperature and pressure, the conditions of heat, pressure and time being interdependent. The less the heat, the greater or the longer is the pressure required to produce a given effect, or the same conditions of heat and pressure may be applied for more or less time to produce the effect in a greater or less degree.

15. Thus for example the associated fabrics (preferably with the cellulose acetate fabric treated with a plasticising or softening agent or solvent) may be passed between heated pressure rollers, as in a calender, the conditions of heat, pressure and time being interdependent as before mentioned. For instance, the associated fabrics may be passed slowly through heated calender rollers at temperatures between about 100° and 180° C. under pressures of from about 300 to 600 pounds or more per square inch, according to the degree of melting or softening effect on the yarns of the cellulose acetate fabric and the degree of impermeability desired in the resulting compound material. The fabrics may be passed repeatedly between the heated rollers if desired, according to the degree of effect required.

16. Or again the associated fabrics may be passed once or repeatedly between a heated roller and a cold roller or platen, or they may be pressed between heated plates or between a heated plate and a cold platen. Or the heat and pressure may be applied in any other suitable way.

17. The application of plasticising or softening agents or solvents of the cellulose acetate or other thermoplastic cellulose derivatives to assist the melting effect and the union of the component fabrics as hereinbefore referred to is especially of advantage where a high degree of impermeability to water is desired or for obtaining gas proof properties in the compound material. By way of example cellulose acetate fabric may be first treated with small quantities of water—insoluble, non-volatile plasticisers, softeners or solvents of cellulose acetate before being associated with the other fabric for subjection to the heat and pressure. These quantities may vary for instance from about 1 per cent to about 30 per cent of the total quantity of cellulose acetate in the fabric, but more or less may be employed. The non-volatile plasticisers, softeners or solvents may be applied by spraying, dipping or otherwise, dissolved in a volatile solvent which does not dissolve the cellulose acetate, or in any other convenient way. Any suitable plasticisers, softeners or solvents and any suitable volatile vehicle therefor may be used. As one example monomethylxylene sulphonamide may serve as a plasticiser and benzol as a vehicle, a suitable proportion being for instance about 20 grams of the sulphona-

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mide dissolved in 100 grams of benzol for each 100 grams of cellulose acetate fabric. When the volatile solvent of the plasticiser or softener evaporates, the plasticiser or softener remains distributed evenly on the cellulose acetate fabric so that when this is associated with the other fabric and subjected therewith to the heat and pressure, it assists the melting or sofening effect on the cellulose acetate yarns and the union of the component fabrics and closing of the pores or interstices of the component fabrics, thereby producing a compound material having waterproof to gas-proof properties according to the degree of dissolving or melting effect, etc., produced on the cellulose acetate by the condition of heat, pressure and time employed.

18. Instead of employing for associating with fabric composed of yarns of thermoplastic filaments or fibres, fabric consisting wholly of yarns of silk, cotton or other non-thermoplastic fibres or filaments, one may employ for association therewith "mixed" fabric consisting of a mixture of thermoplastic yarns with yarns of silk, cotton, linen, artificial silk of the cellulose type, wool or other non-thermoplastic fibres or filaments, or consisting of or comprising yarns composed of a mixture of thermoplastic filaments or fibres with non-thermoplastic fibres or filaments. Or one may even, though with less advantage, employ only such mixed fabrics for making the compound material under the effect of heat and pressure, with or without application of plasticising or softening agents or solvents, the heat and pressure causing more or less melting or softening of the thermoplastic yarns, filaments or fibres and uniting the component fabrics together to form a compound material possessing greater or less degrees of resistance to penetration by water or even gases, according to the temperature, pressure and duration of pressure or other conditions.

The specification then states that fabrics made with yarns of fibres of nitro-cellulose filaments or fibres may be employed in practising the invention but this, the patentee states, is less advantageous owing to the inflammability of nitro-cellulose. The last paragraph is as follows:—

20. The compound materials made according to the invention may be employed more particularly for applications where resistance to penetration by water or gases is desired, for instance as waterproof materials for garments, coverings, etc., or as material for airships or other gas container, but materials made according to the invention may be employed for any other technical or industrial applications.

There are twenty-five claims in this patent, the first twenty-four being process claims, the twenty-fifth being a claim for the product. Mr. Biggar, in his opening, divided the claims into five groups, which grouping seemed acceptable to counsel for the defendant. The first six claims relate to a process for making a composite sheet material by heat and pressure, in which one fabric at least contains a "thermoplastic derivative of cellulose." Claim 6 may be mentioned and it is as follows:—

6. A process for the manufacture of composite sheet material which comprises applying to a fabric containing a thermoplastic derivative of

cellulose a softening agent in solution in volatile solvents which are non-solvents of said derivatives, associating it with another fabric, and uniting the fabrics by subjecting them to heat and pressure.

In the claims 7 to 12 inclusive the expression "organic derivative of cellulose" is used instead of "thermoplastic derivative of cellulose" as in the first six claims. Claim 12 of this group is typical and is as follows:—

12. A process for the manufacture of composite sheet material which comprises applying to a fabric containing an organic derivative of cellulose a softening agent in solution in volatile solvents which are non-solvents of said derivatives, associating it with another fabric, and uniting the fabrics by subjecting them to heat and pressure.

In claims 13 to 18 inclusive reference is made to a fabric containing a "cellulose ester" and claim 18 may be mentioned and it is as follows:—

18. A process for the manufacture of composite sheet material which comprises applying to a fabric containing a cellulose ester a softening agent in solution in volatile solvents which are non-solvents of said ester, associating it with another fabric, and uniting the fabrics by subjecting them to heat and pressure.

In claims 19 to 24 inclusive reference is made to a fabric containing "cellulose acetate" and claim 24 is as follows:—

24. A process for the manufacture of composite sheet material which comprises applying to a fabric containing cellulose acetate a softening agent in solution in volatile solvents which are non-solvents of said acetate, associating it with another fabric, and uniting the fabrics by subjecting them to heat and pressure.

The twenty-fifth claim, the product claim, is as follows:—

25. A composite sheet material comprising a plurality of fabrics, at least one of which contains a thermoplastic derivative of cellulose, which fabrics have been united into a single sheet by the application of heat and pressure.

I shall attempt to state as briefly and as accurately as I can, the substance of the process described in the specification, and, I think, I can best do this by reference to that form of the invention whereby it is proposed to unite three pieces of fabric into a composite sheet, the intermediate fabric containing thermoplastic yarns of cellulose acetate. Dreyfus suggests the uniting of three pieces of textile fabrics, by the use of thermoplastic yarns of cellulose acetate woven into the intermediate fabric, which yarns become soft and adhesive, when heat and pressure is applied. The intermediate fabric may be partly or wholly composed of yarns of cellulose acetate. By the application of this process the interstices or pores in the united fabric become more or less closed by the softening and diffusion of the thermoplastic yarns, and thus acquire air and water resist-

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ing properties, depending upon the degree of intimacy of union of the component fabrics required, the degree and duration of heat and pressure, and according to circumstances and requirements. The specification recommends that before softening the cellulose acetate yarns by heat, that some suitable plasticing or softening agent, or solvent, be applied to assist or accelerate the softening of the cellulose acetate yarns in the intermediate fabric. The specification points out that the plasticising or softening agent, or solvent, may be applied to the associated fabrics before the application of heat and pressure, for example, in solution, or the same may be incorporated in the fibres of the thermoplastic cellulose acetate yarns when being produced. The associated fabrics are then to be passed between pressure rollers, such as calender rollers, one or both of which may be heated; the temperature and pressure will vary, according to circumstances and requirements. When the process is carried out in this way, the three fabrics are united into one single sheet or fabric, and it is claimed that never before was it suggested that three fabrics could be united, in this way, into a composite fabric. This substantially outlines the main features of the alleged invention disclosed in Dreyfus.

At some stage it will be necessary to describe the process employed by the plaintiff in the making of its unstarched collars in order to determine the issue of infringement, if subject-matter is found, and this would seem to be as convenient and appropriate a stage to do so as any other. In doing so I will use almost the precise words of one of the plaintiff's witnesses, Mr. Loew. He stated that the plaintiff's collar consists of three plies of material, that is to say, two outer plies of ordinary shirting material cotton, and an intermediate material cut from a sheet, a "lining" he called it, which contains threads of cellulose acetate; every third warp thread being composed of cellulose acetate. The collar in its three plies is first cut and sewn in the way usual in the collar industry. It is then sent to what is called the wet press, which consists of two metal platens, both of which are padded, and the pads are thoroughly dampened with a solvent composed of 75 per cent of acetone and 25 per cent of alcohol. The collar is placed between the two platens, where it is subjected to a mechanical pressure of ten pounds to the square inch, and there it

remains for nine or more seconds, according to the weight and fineness of the weave of the fabrics; the adjustment is one to be determined by the experience of the operator of the press. This softens the cellulose acetate threads and the three plies of fabrics are more or less adhesively united. The effect of the acetone-alcohol mixture on the cellulose threads in the lining is that it "swells" or "jellifies" the same; when pressure is applied the two outer plies of the collar are pressed on the "lining" material, and what is called the "knuckles" of the cellulose acetate threads, which are now soft, are forced into the threads of the overlying cotton fabrics. The collar is then placed in a hot press which has one polished metal surface and another that is padded with cotton. This press is heated by steam at a pressure of about fifteen or twenty pounds which keeps the press at a temperature of about 250° F. When the collar is placed between the platens of the hot press, the press is closed with a pressure of from ten to twenty pounds to the square inch of the collar. The acetone solvent, which is volatile, is evaporated in order, it is claimed, to harden the cellulose acetate and to prevent its spreading or flowing and forming a film. It was stated by the same witness, that if the collars, as they came from the wet press, were allowed to dry they would adhere but not so well as compared with the final adhesion acquired after they have gone through the hot press. This witness also stated that the cellulose acetate would disperse or flow vertically and partially sidewise, and the latter flow would assist in effecting the adhesion. That generally describes the process used by the plaintiff in the production of its collars, and according to its own witnesses.

The validity of Dreyfus is attacked on four grounds, (1) that the specification is ambiguous, (2) that the specification is misleading, (3) that the alleged invention had been anticipated, and (4) that if on any fair interpretation of the patent there is any novelty, the novelty was obvious, and on that ground the patent should not be supported. The last point relates to subject-matter and will be discussed later. I shall first consider the question of anticipation, and this relates only to prior publications, there being no evidence as to prior user.

It has been held time and again that a prior published patent must be read as it would have been read without

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the knowledge of subsequent researches or improvements disclosed in subsequent patents or publications. It is unsound to re-read prior publications in the light of information first imparted by a later patentee, or as was once said, you must not look at prior documents with an eye which has been sharpened by a subsequent patentee. In the case of *Canadian General Electric Company* v. *Fada Radio Ltd.* (1) it was held that any information as to the alleged invention given by any prior publication must be for the purpose of practical utility, equal to that given in the subequent patent. The latter invention must be described in the earlier publication that is held to anticipate it, in order to sustain the defence of anticipation. Where the question is solely one of prior publication, it is not enough to prove that something described in an earlier publication could have been used to produce this or that result. It must also be shown that the specification contains clear and unmistakable directions so to use it. It must be shown that the public have been so presented with the invention that it is out of the power of any subsequent person to claim the invention as his own. And an improvement, claimed to be invention, must not be dismissed as unpatentable merely because of some vague adumbration of it in the prior art.

Applying these principles to the prior publications cited in this case it seems to me they are all irrelevant. Not one of them, I think, describes or gives directions to use the idea described and claimed in Dreyfus. Not one of them contains the suggestion of uniting two or more fabrics by making use of thermoplastic yarns of a cellulose derivative woven into one of the fabrics to be united; most of the cited prior art suggests the application of an adhesive substance to be applied to some of the fabrics or materials involved. As Mr. Lajoie expressed it, if in 1924, that is prior to Dreyfus, one were given all the prior art cited, he could not have learned from all of them the process of uniting fabrics according to the process described by Dreyfus. I propose to refer only to two of the prior publications cited, Kennedy and Van Heusen.

Kennedy, United States patent no. 590,842, relates to a waterproof cloth and the process of making the same. The

(1) (1930) A.C. 97.

specification states that a fabric may have woven or intertwined into it threads or fibres of cellulose, along with the ordinary threads in the fabric. To obtain a waterproof cloth the patent directs that the fabric be sprayed or otherwise treated with a suitable solvent which converts the nitro-cellulose into pyroxylin (which the defendant's witness Levinson stated to be the same thing as nitro-cellulose), and the acetate of cellulose into a substance analogous to pyroxylin. It is not easy to understand this specification. At any rate the patent suggests that the fibres of nitro-cellulose are altered to another form and in that form diffuse themselves and thus "impregnate the raw fibres, and their interstices of the ordinary threads," without changing the appearance or structure of the article, and which is made waterproof though remaining uncoated or unglazed. Kennedy shows merely the treatment of a single layer of fabric. There is no suggestion of uniting two or more fabrics in the manner disclosed in Dreyfus; and consequently there is no reference to the application of heat and pressure in uniting two or more pieces of fabric one of which contains yarns of thermoplastic cellulose derivatives. I do not think it can possibly be said that Kennedy is an anticipation of Dreyfus. They express altogether two different ideas.

Van Heusen, United States patent no. 1,479,565, relates to the making of collars. In one form of the disclosure the plies of the fabrics are coated on their inner surfaces with an adhesive or cementing material, for example, solutions of cellulose derivatives such as cellulose nitrate in suitable solvents, or solutions of cellulose in cellulose solvents, such as cupremmonium solutions. The coated surfaces are brought together and united by appropriate means. Again the patent states that three plies of fabric may be used and only the intermediate ply coated with the adhesive to give it an adhesive surface, and the two outer layers can be secured to this intermediate layer by reason of its adhesive surfaces. In other cases, the patent states the pieces of fabric may be put together and pressed in a heated press to convert the cementing material into its final form and thereby uniting together the separate layers of fabric. Now there is no reference in Van Heusen to the use of a thermoplastic cellulose derivative in the form of yarns, woven into one of the two or more fabrics to be united, and which

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may be cut and sewn and handled like any other fabric, and this, I think, on grounds of utility, would be much more desirable and convenient than dealing with pieces of fabrics that were coated with a cementing material. Van Heusen in my opinion is not an anticipation of Dreyfus.

Before passing to another topic, I must refer to the United States patent to Woodman and Dickie, no. 176,255, which was assigned to Celanese Corporation of America. This patent apparently does not relate to the uniting of textile fabrics according to the process of Dreyfus. This patent was first published in the United States on June 4, 1929, it having been applied for on December 8, 1925; the caption states that the same application was filed in Great Britain on January 10, 1925. In Great Britain patents are published when they are accepted, while in the United States they are not published until they issue. The patent to Dreyfus was published in Canada before Woodman and Dickie was published in the United States, and there is no evidence as to the date of publication in Great Britain. Woodman and Dickie was mentioned in the plaintiff's particulars of objections as a prior publication. When it was tendered in evidence its reception was objected to and the point was reserved for decision until the end of the trial. In the end Mr. Smart stated that he did not rely upon Woodman and Dickie as an anticipation. He stated plainly that, by reason of section 61 of the Patent Act, he could not attack Dreyfus on the ground of anticipation by setting up this patent even if Woodman and Dickie were a prior invention, because he could not show that the patent was in any way made public before the application of Dreyfus was filed in Canada, which was on December 18, 1925. Sec. 61 (1) and ss. (*a*) of the Patent Act read as follows:—

> 61. (1) No patent or claim in a patent shall be declared invalid or void on the ground that, before the invention therein defined was made by the inventor by whom the patent was applied for it had already been known or used by some other inventor, unless it is established either that,
>
> (*a*) before the date of the application for the patent such other inventor had disclosed or used the invention in such manner that it had become available to the public.

Mr. Smart was desirous that Woodman and Dickie should be received in evidence in case section 61 of the Patent Act should be construed in a way different to that in which he says it has been construed. I do not know that this

provision of the Patent Act has ever been judicially construed, but its meaning would seem quite clear. Woodman and Dickie must be rejected as a prior publication and if it is not admissible on that ground then, I think, there is no reason for its reception at all, and it is refused.

On four grounds it is claimed that the patent in question is ambiguous. It was contended that ambiguity, if deliberate, would void a patent, and if the ambiguity or obscurity were avoidable it would also void the patent, whether the effect was due to design or to carelessness or lack of skill, and that, I think, is on the whole, a fair statement of the law. A specification must be sufficiently explicit in describing the nature and ambit of the invention, to ensure to the public the benefit of the discovery, when the period fixed in the grant as the period of monopoly comes to an end. The four grounds on which ambiguity is alleged are: (1) that it is doubtful on the specification whether or not the alleged invention is confined to relatively impermeable fabrics, (2) that it is doubtful whether the patent is confined to the use of threads of cellulose derivatives woven into the fabric or whether it extends to a fabric which contains a cellulose derivative subsequently applied in any form or manner, (3) that the specification does not make clear whether the alleged invention is confined to thermoplastic derivatives of cellulose or whether it extends to any derivative, thermoplastic or not, that can be made adhesive, and (4) that it is not clear whether the patent is confined to the use of softening agents as mentioned in the claims or whether it extends to the use of volatile solvents, such as acetone-alcohol which the plaintiff employs as a softener or solvent.

Before discussing these points I would observe that a specification is to be read and construed like any other document. All that the statute requires is that the specification correctly and fully describe the invention and its operation or use, and that the claims should state distinctly the things or combinations which the applicant regards as new. And one cannot look at the specification divorced from the art as it existed at the time of the specification. The claims have to be interpreted in the light of the descriptive portion of the specification, the "dictionary" it is sometimes called. A specification will not be bad if it

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turns out afterwards that it does not describe the best possible way of performing the invention; all that is necessary is that it should give the best method known to the patentee. Neither is it incumbent on the patentee to describe all the possible advantages which may in future accrue from the improved use of his invention. He is only bound to give the world the benefit of such information as he possesses. A specification will be sufficient which contains directions enabling a person having a reasonable competent knowledge and skill of the subject to make the article described without further invention, though it may be necessary for him to make some trial and experiment before succeeding in carrying out the process. And finally, a specification is addressed to skilled workmen, and chemical patents are addressed to persons possessing chemical skill to an extent varying with the subject-matter.

Turning now to the first ground on which ambiguity is alleged. It was urged that it was difficult to say whether or not the invention is confined to relatively impermeable fabrics. And probably this is the important and difficult point in this case. The specification states in several places that in uniting multiple fabrics, according to the process therein described, the pores or interstices of the composite fabric will be more or less closed, or reduced in dimensions, and thus take on water and air resisting properties, all depending upon the quantity of cellulose acetate yarn employed, the intimacy of union of the fabrics required, the degree and duration of the heat and pressure applied (heat, pressure and time being interdependent), whether or not softeners or solvents are employed—the use of which is recommended where a high degree of impermeability to water or air is desired,—the number of fabrics to be united, and the weave of the fabrics involved. That is essentially what the specification here has to say concerning "impermeability" or "resistance to air and water" and the specification states that this will vary according to the conditions just mentioned, and according to requirements.

I assume all textile fabrics, in varying degrees, possess air and water resisting properties and when several are united, according to Dreyfus, these properties would probably be emphasized, particularly if the composite fabric when made were intended to be relatively impermeable against air and water. I would infer from the evidence of Mr. Pratt that

in the textile trade, the water and air resisting properties of a fabric are always a matter of concern to the textile manufacturer, and that it is the practice to measure the air and water resisting qualities of a fabric by well known means, and that these properties would vary according to the use to which the fabric was to be put. Mr. Pratt, a witness for the defendant, made many tests of uniting fabrics according to the process of Dreyfus, and he found that air and water resistance varied just as suggested in the specification. According to these tests the quantity of thermoplastic yarns of cellulose acetate employed, the degree of heat and pressure, the quantity and kind of softeners or solvents used, and other factors, determined the degree of adhesion and the relative air and water resisting properties of the composite fabric.

The point raised by the plaintiff under the head just mentioned may be put this way: Dreyfus describes only a process for the manufacture of relatively impermeable fabrics, and it is only the use of such fabrics that the patent directs; the process will make a relatively waterproof fabric or material, something that will resist penetration by water or air, and that was all the patentee had in mind; if the process be applied to the making of collars, the collars would disclose a stiff glaze that would be non-porous, and generally the process would be utterly unsuitable for the making of collars; and that a true construction of the specification limits the invention, if any, to relatively impermeable fabrics or materials, or alternatively, that the specification is ambiguous and therefore void. The defendant contends the specification is clear and unambiguous and that on a fair construction it is not to be limited to relatively impermeable fabrics; and that the process described in the specification can be applied to the manufacture of such things as the collars in question.

Turning now to the specification itself. The paragraph numbered two in the specification states that "the invention concerns the manufacture of new fabrics or sheet materials having water-proof to gas-proof properties or capable of other applications." The words "other applications" mean, I should think, that the process is capable of application for the making of fabrics where water-proof to gas-proof properties are either not required or are of

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no importance. Having mentioned one application of the invention, the "other applications" must mean something distinguished from that which is already mentioned. The last paragraph of the specification makes this more plain. It says: "The component materials made according to the invention may be employed more particularly for applications where resistance to penetration by water or gas is desired, for instance, as waterproof materials for garments, coverings, etc., or as materials for airships or other gas containers, but materials made according to the invention may be employed for any other technical or industrial applications." Here, "technical or industrial applications" means, I think, fabrics or materials which would have a use different from those uses which are particularly given as examples earlier in the paragraph, and would include any "material made according to the invention," where resistance to penetration by water or gas was of little or perhaps no importance at all. I have no doubt but that is what the patentee had particularly in mind, in 1925, as the then best use to which he knew his process might be applied, was a fabric or material where resistance to penetration by water was desired, or, as the last paragraph of the specification puts it, "compound materials made according to the invention may be employed more particularly * * where resistance to * * water * * is desired"; but, the specification states that "materials made according to the invention may be employed for any other technical or industrial applications." I can find nothing in the specification which would, on any fair or just construction, indicate that the patentee intended to limit his territory to relatively impermeable fabrics, or to limit the uses to which the invention might be applied. There is no claim for a fabric which is relatively impermeable, it is the process of uniting two or more textile products which is claimed, and the product made according to the process. I might further add that it is a principle in patent law that a man need not state the effects and advantages of his invention, nor is he obliged to be omniscient. The patentee here has stated a few of the effects or advantages of his invention, for illustrative purposes, that is to say, that a composite fabric may be made by the process de-

scribed, which will be water and air resisting to the degree desired, but he impliedly states that there are other effects, advantages and uses to be obtained from his invention.

The next point made against the patent on the ground of ambiguity is that it is doubtful whether the invention is confined to the use of yarns of cellulose derivatives, or whether it extends to a fabric which contains the cellulose derivative subsequently applied. I think it is quite clear that the specification is limited to yarns or threads of cellulose derivatives, that is to say, the thermoplastic yarns of cellulose derivatives are woven into one at least of the fabrics to be united, and that is the first step in the invention. I cannot think that the specification is in any way ambiguous upon this point.

The next point of attack under the head of ambiguity is that it is in doubt whether the specification is confined to thermoplastic derivatives of cellulose, or whether it includes any cellulose derivative, whether thermoplastic or not. In this connection it was urged by Mr. Biggar that if the invention were confined to the use of thermoplastic derivatives then the plaintiff did not infringe because cellulose derivative acetate was not thermoplastic. It seems to me that the specification is not in doubt about that. It includes any cellulose derivative that is thermoplastic. To sustain this point one would have to hold that yarns of cellulose derivative were not thermoplastic, and that is a point that will be discussed later.

Coming now to the last point in the attack on the specification on the ground of ambiguity, which is, that there is a doubt as to whether the expression, "plasticising or softening agents, or solvents" includes volatile solvents, such as acetone-alcohol, which the plaintiff uses, in the manner already explained. On behalf of the plaintiff it was also contended that acetone-alcohol, a very active solvent, particularly in low temperatures, is not a softening agent, and it was pointed out that the claims refer only to softening agents. Lengthy arguments were addressed to me on this point but I do not think it necessary to review the same, or the evidence directed to this point. I entertain no doubt whatever but that those to whom the specification was addressed would regard "softening agents" and "solvents," as meaning substantially the same thing, in making a

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practical application of Dreyfus, and they would understand the behaviour or effect of softeners, or solvents, in interpreting the specification. The practical effect of the acetone solvent, I think, is to soften the yarns of cellulose acetate, and the plaintiff's own evidence is really to that effect. If the plaintiff's solvent is a volatile one it is still a solvent, and the specification covers any suitable solvent, volatile or non-volatile. It matters little whether acetone is described as a softener or as a solvent. The specification covers both. Further, if we assume that acetone was an invention of the plaintiff, that would not relieve it of infringement if there were subject-matter in Dreyfus. I think that is quite plain as a matter of patent law. I do not think that one can reasonably say that there is ambiguity in the specification in so far as this point is concerned.

Then it was contended that the specification is misleading, first, on the ground that cellulose acetate is theoretically but not practically thermoplastic in the range of temperatures mentioned in the specification. It seems unfortunate that there should be any disagreement upon a point like this. My conclusion is that the contention is not in fact correct. It is admitted that the ethers mentioned by the patentee are thermoplastic. The esters are also admitted to be thermoplastic, and so the controversy narrows down to the question whether cellulose acetate is thermoplastic, and a somewhat similar criticism is made of nitro-cellulose. I have already stated that a thermoplastic derivative of cellulose is one that softens or becomes plastic on the application of heat and of this, upon the evidence before me, I have no doubt. Mr. Levinson pointed out that a product composed of cellulose acetate, such as the fabric sold under the trade name of "Celanese," has been permanently embossed by heated rollers, that is to say, cellulose acetate has been molded during the embossing operation because of its tendency to respond to the action of heat. The same witness also stated that experience had shown that every housewife who has attempted to iron a fabric made of cellulose yarns had found that she must not allow her iron to get too hot, otherwise the cellulose acetate fibres or yarns would coalesce or melt and stick to the iron, causing a hole in the fabric if the iron were hot

enough and long enough applied, and I am disposed to accept this evidence as being in fact correct. Mr. Lajoie contended that the best evidence as to the thermoplasticity of cellulose acetate, within the range of temperatures mentioned in the specification, came from the plaintiff itself. Exhibit no. 29 was put in evidence by the plaintiff and it represents a union of two fabrics, one composed entirely of cellulose acetate, the other being a cotton fabric. These two fabrics were united by the application of heat and pressure. They were subjected to a pressure of 600 pounds per square inch at a temperature between 150° C and 160° C, for five minutes. The result was that the cellulose acetate fabric had a glazed appearance which does not appear on the cotton fabric and Mr. Lajoie contended that the glaze was due to the softening of the cellulose fabric. I am inclined to think, though I do not rely on it, that this does demonstrate that cellulose acetate is not only thermoplastic, but that it is thermoplastic within the temperatures and pressures mentioned in the specification; and the test or experiment represented by this exhibit was made without the aid of a solvent or softener. Counsel for the plaintiff, I should say, contended that the glaze on the cellulose acetate fabric was merely an effect produced by the pressure of the heated rollers. The contention that cellulose acetate is not thermoplastic, to say the least, has not been established.

Next, the patent is said to be misleading on the ground that methyl-cellulose is not waterproof and is soluble in cold water, or water at room temperature. Dr. Esselin, for the plaintiff, stated that he examined a specimen of methyl-cellulose textile finish and found it soluble at a certain temperature. On the other hand, Mr. Levinson, for the defendant, was definitely of the opinion that methyl-cellulose was not soluble in water at room temperature; and he further stated that the methyl-cellulose that Dr. Esselin referred to had come on the market recently and was deliberately made water soluble because it was highly desirable that textile sizes should be water soluble so that they might be readily removed by washing. On the evidence I must hold this ground of attack is not established. Even the evidence of Dr. Esselin, on this point, left me with the impression that he himself was a little uncertain as to the opinion he expressed.

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The specification is also said to be misleading because it states nitro-cellulose to be thermoplastic. Nitro-cellulose, as the specification states, is highly inflammable and the point taken is that before it could be made thermoplastic by the application of heat the fabric containing it would burn, and it would be dangerous to operatives. It is agreed that nitro-cellulose can be made safely thermoplastic by the use of a softener, and this probably would be known by those to whom the specification was addressed. Paragraph 19 of the specification, which I did not reproduce, is as follows:—

> Whilst fabrics made with yarns or fibres of nitro-cellulose filaments or fibres may be employed in practising the invention this is less advantageous owing to the inflammability of nitro-cellulose.

I do not think the public could be misled by this. The specification in effect warns those to whom the patent is addressed not to use nitro-cellulose yarns and the reason therefor is stated. I cannot think there is any substance in this point. I think the patentee in mentioning the danger of using fabrics made with yarns of nitro-cellulose has prudently met all legal requirements, otherwise the specification might have been attacked on the ground of insufficiency; it also is indicative of good faith in describing the invention. In the case of *Gold Ore Treatment Co.* v. *Golden Horseshoe Company* (1) Lord Dunedin said that if a patentee puts forward a process without a warning note that if certain things are done it will be a failure, the specification will be insufficient unless the danger is such as common knowledge of ordinary practice will avert.

Then it is claimed that the patent is bad because the expressions "organic derivatives of cellulose," "cellulose esters," and "cellulose ethers," are so broadly stated in the patent as to include many derivatives of cellulose, laboratory products, not mentioned in the specification, many of which are not commercially available, and many of which could not have been known to the patentee. I hope I understand and have stated this point accurately. The classes of substances which I have mentioned were and are perfectly well known but it may well be that there are many species of the same classes not commercially available, known only to laboratory workers, and the list may grow. It seems to me that it is immaterial, if other

(1) 36 R.P.C. 95 at p. 132.

species of the classes mentioned, but which fall within the general description of such classes, are not specified, or were unknown to the patentee. I do not think the patent should be condemned on this ground.

I turn now to the difficult question, true of so many patent cases, as to whether or not there is invention in Dreyfus. That is a question of fact. It will be seen that the alleged invention is essentially a process for the uniting of two or more textile fabrics so as to produce a composite fabric. To unite fabrics by some adhesive, applied in one way or other, such as coating, spraying or impregnating, was known to the art. Dreyfus seems to suggest an entirely new idea, and that is the uniting of fabrics by making use of yarns, filaments or fibres, of thermoplastic cellulose derivatives, which are woven, at least into one of the fabrics, and uniting the fabrics in the way I have already described. To suggest the uniting of three pieces of fabric in this way, I think, was a novel step and called for the exercise of the inventive faculty, and, I should also think, required research and experimental work; and I do not think it was obvious. The idea was, I think, quite novel and patentable, and an idea may be patentable. Subject-matter is demonstrated by the fact that the plaintiff in the manufacture of its collars follows almost precisely the process which Dreyfus describes in his specification. Collars are not mentioned in the patent, and there is no reason why they should, but the patent does describe a process whereby, for example, the plaintiff's united three-ply soft collar may be made and is being made. The plaintiff enjoys and employs, in a practical way, all the advantages described in Dreyfus. A patentee need not state the effect or advantage of his invention, if he describes his invention so as to produce it, and that, I think, Dreyfus has done.

Even if Dreyfus had slightly erroneous views as to the effect or influence of some of the various factors which he has mentioned in carrying out or procuring the advantages of his invention, for example, the precise behaviour and effect of the thermoplastic yarns, whether softened or not, or the precise contribution which heat and pressure, and their degrees, make in carrying out his process, that would not militate against him because he has shown the practical advantages of his invention, and I think he has shown how the public can obtain those advantages practically.

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however narrow or wide, as has the plaintiff. See Moulton, L.J., in *Z. Lamp Works* v. *Marples* (1). I am of the opinion therefore that there is invention and that the patent is valid. In this action I do not think it is necessary to discuss the claims separately, or in the groups mentioned. It seems to me they are all valid claims.

There remains for decision the question of infringement. The plaintiff claims that it does not infringe Dreyfus, in the making of its collars. First, it is said, the plaintiff does not make a composite fabric, and that its collar is not a composite fabric. Then it is claimed that the plaintiff does not make use of a fabric containing thermoplastic yarns of cellulose acetate, that is to say, that the cellulose acetate yarn in the intermediate ply of its collar is not thermoplastic at all. Next it is claimed that if the yarns of cellulose acetate in the intermediate ply has thermoplastic qualities, no reliance is placed upon heat and pressure whereas, it is said, Dreyfus depends exclusively upon the thermoplastic qualities of cellulose acetate yarns and the bringing about of adhesion by heat and pressure. And finally it is claimed that the collar made by the plaintiff is even more permeable or porous than it was before being processed. I have described the plaintiff's process, and in doing so I relied on the evidence of one of its own witnesses. From that evidence, and other evidence, I should think it is beyond controversy that the intermediate ply which the plaintiff employs in the making of its collars contains a predetermined quantity of thermoplastic yarns of cellulose acetate to the square inch, and that heat and pressure is used and relied upon to make a merchantable collar. Neither do I think it has been established by the evidence that the plaintiff's collar is more porous after it is completed than it was before going through the process described, and I doubt if it can be established. It seems to me the plaintiff in the practical sense, uses precisely the process described in Dreyfus in making collars and that is done by uniting three pieces of fabric in the manner already described. The collar is a composite fabric. That there are slight differences between the process described in Dreyfus and that followed by the plaintiff is not of importance. For example, one of the platens in the press

(1) 27 R.P.C. at p. 746.

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used by St. Hilaire Ltd. is padded, but, as explained by the witness Loew, that was necessary because the edges of the collar are thicker than the body or central portions, and if the platens were both faced with metal the pressure would be concentrated upon the edges and the other parts of the collar would not receive the necessary pressure. The process which Dreyfus describes and that employed by St. Hilaire Ltd. are substantially the same. I am of the opinion therefore that there is infringement of Dreyfus by the plaintiff.

I come now to consider the second patent in suit. The specification states that the object of the alleged invention is to produce a fabric containing organic derivatives of cellulose that is suitable for use as a stiffening material wherever such a fabric is necessary. Paragraph 4 of the specification is as follows:—

> In the making of garments, particularly outer garments such as suits, coats, top coats, etc., the use of stiff material is necessary in certain places to help retain the shape of the garment. Likewise it is often desirable to use a stiff fabric as an inner lining in neckwear such as cravats, to impart desirable stiffness to the same. Heretofore, coarsely woven fabrics made of wool, cotton, or the like, reinforced or not by stiffer material such as hair, have been used for this purpose. These materials are open to the objections that they are apt to soften when damp and are often bulky.

The specification describes several methods of carrying out the invention. The stiffening material may assume the form of a comparatively open mesh fabric made of cellulose acetate yarns, and in order to impart stiffness the yarns should be of a "high twist," or the fabric may be made of "spun" cellulose acetate yarns, which means, as I understand it, that the yarns are cut into comparatively short lengths and the short lengths are spun in a manner analogous to cotton or wool yarns, which yarns it is said form a fabric which is much stiffer than the yarns made of continuous filaments of cellulose acetate. Then it is stated that in the spinning of the yarn, other fibres, such as cotton or wool, may be incorporated with the cellulose acetate yarns and a stiff fabric may be made of this mixed yarn. Another method of carrying out the invention is to treat a fabric containing organic derivatives of cellulose with a material tending to stiffen it, such as a solvent or swelling agent, which may be applied by brushing, spraying or dipping. The specification points out that yarns of organic derivatives of cellulose are not affected

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by humidity as are many other yarns and will retain their stiffness under conditions wherein fabrics of other fibres will become softened.

I do not propose to engage in a lengthy discussion of this patent. In the first place, it seems quite clear to me that the plaintiff does not infringe this patent. I see nothing in the teachings or directions of this patent that resembles the process carried out by the plaintiff in the making of its collars; this patent relates to something entirely different.

Further, I do not think there is patentable novelty or subject-matter in this patent. There may be some novelty in the patent but something further is necessary to secure a monopoly. There is no invention, I think, in the weaving of a fabric of yarns of organic derivatives of cellulose merely by using yarns of a high twist, yarns of a certain denier, or spun yarns, in order to get a stiffening effect; that in plain language only means the using of more yarns or threads, of well known yarns or threads, whose behaviour was known, in the weaving of a fabric, in order to get a stiffening or strengthening effect in the fabric. It was urged by Mr. Lajoie that Dreyfus was the first to suggest the idea that these yarns could be used for the purpose of obtaining a stiffening material, and that this was the invention. Even on that assumption I do not think the idea contains subject-matter. I hardly think this called for the exercise of the inventive faculty. Examined qualitatively or quantitatively, I do not think there is that degree of novelty or of subject-matter in this patent which would justify a patent monopoly. Having reached that conclusion it is not necessary to say more. The plaintiff must therefore succeed in respect of this patent.

In the result the defendant succeeds upon the issues relating to the first patent, no. 265,960, with costs, and similarly the plaintiff in respect of the second patent, no. 311,185. The main contest related to the first patent and occupied by far the greater part of the time of the trial of the action, and that I should think would also be true of the preparation for trial. There will be an apportionment of costs, the basis of which will be fixed on the settlement of the minutes, the one set of costs to be set off against the other.

Judgment accordingly.

1935
Nov. 25.
1936
May 15.

BETWEEN:

CAPITAL TRUST CORPORATION LIMITED AND DANIEL J. COFFEY, EXECUTORS OF THE WILL OF JOSEPH M. MACKENZIE, DECEASED.... } APPELLANTS;

AND

THE MINISTER OF NATIONAL REVENUE ..... } RESPONDENT.

Revenue—Income War Tax Act—Income—Payment to executor for services—Accumulation of salary taxable in year received.

A testator appointed his sons, R. J. and J. M., together with a third person executors of his will, and by codicils named additional executors and directed that "my son J. M. shall be paid the sum of $500 per month in addition to any sum which the Courts or other proper authorities may allow him in common with the other executors." The testator died on December 5, 1923. From that date until March 10, 1927, the son J. M. did not receive any of the monthly payments of $500. On March 10, 1927, he received all the payments that had accumulated from December 5, 1923, and, subsequent to March 10, 1927, until his death on July 16, 1932, he received the sum of $500 per month. Income tax returns filed by J. M. or, after his death, by his executors, did not mention the monthly payments of $500.

Appellants, as executors of the will of J. M., were assessed for income tax purposes for all the payments received by J. M., and such assessment was confirmed by the Minister of National Revenue. The executors appealed to this Court.

Held: That the remuneration of $500 per month to J. M. as provided for in the codicil was in payment of his services as executor and not a gift or bequest, and therefore taxable under the Income War Tax Act, R.S.C. 1927, c. 97.

2. That the Income War Tax Act assesses income for the year in which it is received, irrespective of the period during which it is earned or accrues due.

APPEAL under the provisions of the Income War Tax Act, R.S.C. 1927, c. 97, from the decision of the Minister.

The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

D. J. Coffey, K.C., for the appellant.

W. S. Fisher for respondent.

The facts are stated in the reasons for judgment.

ANGERS J. now (May 15, 1936) delivered the following judgment:

This is an appeal by the executors of the will of the late Joseph Merry Mackenzie, under sections 58 and following of the Income War Tax Act (R.S.C. 1927, chap.

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97), from the assessment of the said Joseph Merry Mackenzie's income for the years 1927, 1928, 1929, 1930, 1931, and 1932.

Joseph Merry Mackenzie, who was a son of Sir William Mackenzie, died on July 16, 1932. Capital Trust Corporation Limited and Daniel J. Coffey were sometime in August, 1932, appointed executors of his will.

By his last will and testament executed on May 20, 1909, Sir William Mackenzie appointed his sons, Roderick J. and Joseph M., and Byron J. Walker as executors and trustees and gave and devised to them the whole of his estate to be held, dealt with and disposed of upon certain trusts and for the purposes set forth in the said will.

I need not deal with the various stipulations of the will, which are immaterial herein; it will suffice to note that the testator directs that his estate shall be divided among his wife and children and children of any deceased child in the same manner as the law at the time of his death would divide it had the testator died intestate.

By a codicil bearing date the 14th of November, 1923, Sir William Mackenzie, after stating that in his will he had named Sir Edmund Byron Walker and Joseph Merry Mackenzie as his trustees and executors, appointed two additional trustees and executors, namely Robert John Fleming and Frank H. McCarthy.

By another codicil made on the following day the testator bequeathed a sum of $5,000 to each of his grandchildren alive on the date of the codicil (November 15, 1923).

On November 28, 1923, Sir William Mackenzie made a third codicil on which depends, mainly if not solely, the issue of the present suit; I think it is expedient, in the circumstances, to quote the material part thereof:

> Whereas by my said will I appointed my son, Joseph Merry Mackenzie, and Sir Edmund Byron Walker, President of the Canadian Bank of Commerce, to be two of the executors thereof, And Whereas by codicil to my said will made on the fourteenth day of November, one thousand nine hundred and twenty-three, I appointed Robert John Fleming, formerly General Manager of the Toronto Railway Company, and my son-in-law, Frank H. McCarthy, to be additional executors of my said will Now I Direct that my son, Joseph Merry Mackenzie, shall be paid Five hundred dollars a month in addition to any sum which the courts or other proper authorities may allow him in common with the other executors. And in all other respects I confirm my said will, and the codicils thereto made.

A fourth codicil executed on December 4, 1923, has no relevance in the present case.

The aforesaid last will and testament as well as the codicils thereto were probated on March 25, 1924; duly certified copies of the will, of the codicils and of the letters probate thereof were filed as exhibit 1.

Sir William Mackenzie died on December 5, 1923.

From the death of his father until the 10th of March, 1927, Joseph Merry Mackenzie did not receive any of the monthly payments of $500 provided for in the codicil of the 28th of November, 1923, the reason given for this omission being that there were no funds available for that purpose until said date. On the 10th of March, 1927, Joseph Merry Mackenzie received $19,500 representing 39 payments of $500 each from December 5, 1923, to March 5, 1927. Subsequent to March 10, 1927, Joseph Merry Mackenzie was paid the sum of $500 per month, in compliance with the stipulation contained in the said codicil, until his death which, as previously pointed out, occurred on July 16, 1932.

Income tax returns filed by Joseph Merry Mackenzie or, after his decease, by his executors for the years 1927, 1928, 1929, 1930, 1931, and 1932 made no mention of these monthly payments of $500.

On February 3, 1934, assessment notices for the years 1927 to 1932 inclusive were sent by the Commissioner of Income Tax to Capital Trust Corporation Limited including in the income, in addition to the amounts mentioned in the returns, the monthly payments of $500 received by Joseph Merry Mackenzie during the said years, to wit:

for	the	year	1927	$24,416.67 plus interest
"	"	"	1928	6,000.00
"	"	"	1929	6,000.00
"	"	"	1930	6,000.00
"	"	"	1931	6,000.00
"	"	"	1932	3,250.00

On or about February 21, 1934, within one month after the date of mailing of the notice of assessment, the Estate of Joseph Merry Mackenzie, through its solicitors, served a notice of appeal upon the Minister, in accordance with the requirements of section 58 of the Income War Tax Act.

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The appellant in its notice says (*inter alia*):

The appellant claims that the Department has no right to make an assessment on the whole or any part of the moneys paid to the late Joseph Merry MacKenzie under the said provision of the will of the late Sir William MacKenzie, as the said payments are a bequest and not otherwise and come entirely within subsection (*a*) of section 3, being chapter 97, R.S.C.

The payment of the said moneys was not earnings nor compensation and in any event the said payments are exempt under the said subsection (*a*) of section 3 of the said Act.

The said appellant claims that assessment should not be made for 1927, in any event for more than the amount payable for that year, being $500 per month during such year, but does not admit that any of said sum is assessable.

The appellant claims that it was the intention of the late Sir William MacKenzie to provide a gift of $500 per month to the said Joseph Merry MacKenzie which should be exclusive of any moneys which he earned as executor's fees or compensation.

The appellant claims that the executorship of the executors of the late Sir William MacKenzie was completed in 1927 and from then on the trustees were acting as trustees only for the heirs of the estate.

On December 19, 1934, the Minister, represented and acting by the Commissioner of Income Tax, affirmed the assessment on the ground that the payments received by Joseph Merry Mackenzie in the years 1927 to 1932 inclusive from the Estate of the late Sir William Mackenzie are executor's fees, as provided by the codicil of November 28, 1923, and as such are income taxable under the provisions of section 3 and other provisions of the Income War Tax Act; on or about the same day the Minister, represented and acting as aforesaid, notified the appellant of his decision.

On December 31, 1934, the appellant's solicitors sent to the Minister a notice of dissatisfaction in which it is stated that the particulars in support of the appeal are contained in the notice of appeal.

On January 31, 1935, the Minister, represented and acting by the Commissioner, replied denying the allegations and contentions set forth in the notice of dissatisfaction and affirming the assessment appealed from for the reasons alleged in the decision of the Minister.

Formal pleadings were ordered filed.

The statement of claim, after stating that the late Joseph Merry Mackenzie filed income returns for the years 1923 to 1932 (with the exception of the year 1929) and giving particulars of the amounts reported each year and after relating the facts hereinabove mentioned, says in sub-

stance: that the Department has no right to assess in whole or in part the moneys paid to the late Joseph Merry Mackenzie under the provisions of his father's will, as the said payments are a bequest; and come within subsection (*a*) of section 3 of the Act; that the assessment for 1927 is in error in any event and that, if it should be found that the monthly payments of $500 are earnings, the said earnings should be assessable in each of the years for which they were allocated; that it was the intention of the testator to provide a gift of $500 a month to the said Joseph Merry Mackenzie exclusive of any moneys which he earned as executor's fees; that, when all the debts of Sir William Mackenzie were paid in 1927, the executorship ceased and from then on Joseph Merry Mackenzie was only acting as a trustee for the heirs.

The respondent's statement in defence alleges (*inter alia*): that the late Joseph Merry Mackenzie was appointed an executor of the will of Sir William Mackenzie and that he was to receive, in addition to any sums otherwise payable to him as executor, the sum of $500 per month; that the sum of $500 so paid to the late Joseph Merry Mackenzie was not a bequest but a payment for services rendered as executor and trustee; that the sums of $500 per month are taxable against the said Joseph Merry Mackenzie in years in which they were paid; in the alternative, that, if the sum of $500 per month is not a payment for services rendered as executor and trustee, it is nevertheless taxable as being an annuity received by him from the estate of the late Sir William Mackenzie and is not exempt under the provisions of paragraph (*a*) of section 3 of the Act.

No evidence was adduced on the hearing of this appeal apart from the last will and testament of Sir William Mackenzie, his four codicils and the letters probate.

It was argued on behalf of appellant that the latter was entitled to a decision by the Minister under section 59 of the Act and that the decision herein, signed by the Commissioner, is irregular. Seeing subsection 2 of section 75 of the Act and the decision of Audette, J., in *Morrison* v. *Minister of National Revenue* (1), I think that the objection taken to the decision is unfounded. I may note that a copy of Delegation of authority from the Minister of

(1) (1928) Ex. C.R., 75.

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National Revenue to the Commissioner of Income Tax published in the *Canada Gazette* of December 16, 1933 (page 1224), was sent to me with a letter from the respondent's solicitor (copies of the two documents having been forwarded to the appellant's solicitor), which Delegation of authority dated the 6th of December, 1933, and signed by the Minister, is thus worded:

> Be it hereby known that under and by virtue of the provisions of the Income War Tax Act and particularly section 75 thereof, that I do hereby authorize the Commissioner of Income Tax to exercise the powers conferred by the said Act upon me as fully and effectively as I could do myself as I am of the opinion that such powers may be the more conveniently exercised by the said Commissioner of Income Tax.

It was also urged by counsel for appellant that the decision of the Minister was illegal because no proper notification thereof had been sent to the appellant. The decision in fact appears to have been addressed to Capital Trust Corporation Limited and to Coffey & McDermott, its solicitors. Section 59 of the Act provides that the Minister "shall notify the appellant of his decision by registered post." Capital Trust Corporation Limited is one of the executors of the will of Joseph Merry Mackenzie and Daniel J. Coffey, of the legal firm of Coffey & McDermott, is the other. Strictly speaking the notification to the appellant of the Minister's decision is perhaps not literally regular; the irregularity, however, is trifling and the appellant has suffered no prejudice thereby; furthermore the appellant did not raise any objection to this irregularity in his notice of dissatisfaction, relying therein on the reasons set forth in its notice of appeal, the question being first brought up, after the hearing was closed, in a letter to me from the appellant's solicitors dated November 27, 1935, in reply to a letter from the respondent's solicitor dated November 25, 1935, hereinabove referred to (both said letters having been filed of record), and the appellant is now estopped by his attitude from invoking this irregularity. This question of procedure being disposed of, let us now consider the merits of the appeal.

The first question to determine is whether the sum of $500 payable monthly to the said Joseph Merry Mackenzie under the codicil of the 28th of November, 1923, is to be treated as income according to the Minister's contention or whether it is a gift or bequest and as such exempt from taxation in virtue of subsection (*a*) of section 3 of the Act

as claimed by the appellant. If I reach the conclusion that the monthly payments of $500 are income, I will have to decide whether the assessment for the year 1927 which includes the monthly payments of $500 from the date of the decease of Sir William Mackenzie (December 5, 1923) to the 31st of December, 1927, is legal or whether these payments should have been assessed in each of the years in which they were payable.

The intention of Sir William Mackenzie seems to me clear: he wished to increase the income of his son Joseph Merry and, with that object in view, he decided to give him, in addition to what the courts or other proper authorities might allow him in common with the other executors, a sum of $500 per month.

The codicil in which is stipulated this monthly allowance or remuneration of $500, to wit the codicil of the 28th of November, 1923, deals exclusively with matters pertaining to executorship. The codicil in question first refers to the appointment of Joseph Merry Mackenzie and Sir Edmund Byron Walker as executors by the will and to the further appointment of Robert John Fleming and Frank H. McCarthy as additional executors by the codicil of the 14th of November, 1923, and immediately thereafter expresses the stipulation aforesaid; this codicil contains no other provisions. The only conclusion to draw, it seems to me, is that the intention of Sir William Mackenzie was to provide for his son Joseph Merry a remuneration for his services as executor over and above any sum which the courts or other authorities, as the codicil says, might allow him in common with his co-executors. I find it impossible to conclude that, by the codicil in question, Sir William Mackenzie purposed to make to his son Joseph Merry a gift or bequest. Had he intended to bequeath or give to his son Joseph Merry a sum of $500 a month in addition to his share under the will, he would not have referred to the appointment of his executors and he would not have stated that the sum of $500 a month should be paid to him in addition to any other sum which the courts or other authorities might allow him in common with the other executors; such reference and statement would have been superfluous and entirely irrelevant to a gift of bequest; Sir William Mackenzie would undoubtedly have

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drafted his codicil differently, leaving aside any reference to the appointment of his executors and their remuneration; he would have employed plain and unmistakeable language, using for instance the words "bequeath" or "give," instead of saying that his son should be paid $500 a month in addition to any sum which the courts or other authorities might allow him. The codicil of the 15th of November, 1923, anterior by only thirteen days to the codicil with which we are concerned, making a bequest of $5,000 to each of the testator's grandchildren alive on the date of the codicil, is very plain and unambiguous; I can see no reason why Sir William Mackenzie should not have used the same form and phraseology as he had used in the codicil of the 13th of November, had he wished to make a bequest to his son Joseph Merry. The more I look into the matter, the more I am convinced that Sir William Mackenzie, by his codicil of the 28th November, 1923, contemplated giving his son a remuneration of $500 per month in payment of his services as executor in addition to what he might be allowed by the courts or other authorities in common with his co-executors. Contrary to the appellant's contention, I do not believe that the sum of $500 per month payable to Joseph Merry Mackenzie under the codicil of the 28th of November, 1923, is exempt from taxation in virtue of subsection (*a*) of section 3 or in fact of any other provision of the *Income War Tax Act*.

The second question which I have to determine is whether the Minister of National Revenue had the right to assess in the year 1927 the monthly payments of $500 which fell due between the date of the testator's decease, i.e., December 5, 1923, and December 31, 1927, or whether the payments which became due during that period should have been assessed in each of the years for which they were allocated as claimed by the appellant in the event of their assessability.

Section 3 of the *Income War Tax Act*, defining the word "income," says that it

means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly *received* by a person from any office or employment, or from

any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; * * *

Section 3 then goes on to say that income

shall include the interest, dividends or profits directly or indirectly *received* from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source * * *

Then follows a list of various sources specifically included in the stipulation, which have no relevance to the question at issue.

It seems to me evident that the intention of the legislators was to assess income for the year in which it is received, irrespective of the period during which it is earned or accrues due. There is no stipulation in the *Income War Tax Act* providing for the apportionment of accumulated income, paid in one sum, over the period in respect of which it became receivable. This may cause a hardship and increase the burden of the taxpayer, as it does in the present instance, by depriving him of his annual exemption, raising the rate of the income tax and rendering him liable to a surtax, but the statute, if expressed in clear and unambiguous language, must be construed strictly. As Lord Cairns said in *Partington* v. *The Attorney-General* (1),

if the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be.

Although the law dealing with income tax in the United Kingdom differs from ours in certain respects, reference may be had with some advantage to the following English and Scottish decisions: *Leigh* v. *Inland Revenue Commissioners* (2); *Hurll* v. *The Commissioners of Inland Revenue* (3); *Duncan* v. *The Commissioners of Inland Revenue* (4).

Relief may be obtained in England in regard to surtax in certain circumstances under section 34 of the Finance Act, 1927 (17 & 18 Geo. V, chap. 10); there is no similar or equivalent legislation in this country.

For the reasons aforesaid I can reach no other conclusion than that the assessment must be affirmed and the appeal dismissed.

(1) (1869) L.R., 4 H.L., 100, at 122.
(2) (1928) 1 K.B., 73.
(3) (1922) 8 Rep. Tax C., 292.
(4) (1923) 8 Rep. Tax C., 433.

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The respondent will be entitled to his costs against the appellant, namely, the Estate of the late Joseph Merry Mackenzie.

Judgment accordingly.

BETWEEN:

THE TORONTO GENERAL TRUSTS CORPORATION, EXECUTOR OF THE LAST WILL AND TESTAMENT OF SARAH WHITNEY, DECEASED ..... } APPELLANT;

AND

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Dec. 12.

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May 28.

THE MINISTER OF NATIONAL REVENUE ..... } RESPONDENT.

Revenue—Income—Annuity chargeable upon corpus of estate not taxable as income—Income War Tax Act.

Held: That an annuity chargeable upon the corpus of an estate rather than being payable out of a settled fund, and not dependent upon the production or use of any real or personal property in particular, is a gift and not taxable under the *Income War Tax Act*, R.S.C. 1927, c. 97.

APPEAL under the provisions of the Income War Tax Act from the decision of the Minister of National Revenue.

The appeal was heard before the Honourable Mr. Justice Angers, at Ottawa.

W. S. Montgomery, K.C., and *D. E. Gunn* for appellant.

W. S. Fisher and *J. R. Tolmie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (May 28, 1936) delivered the following judgment:

This is an appeal by the Toronto General Trusts Corporation as executor of the last will and testament of the late Sarah Whitney, widow of Edwin Canfield Whitney, under the provisions of sections 58 and following of the Income War Tax Act (R.S.C. 1927, chap. 97) and the amendments thereto, from the assessment of the said Sarah Whitney's income for the years 1931, 1932 and 1933.

By his last will and testament dated February 19, 1920, probated on March 25, 1924, Edwin Canfield Whitney

appointed The Toronto General Trusts Corporation as executor and trustee of his will and gave, devised and bequeathed all his real and personal estate unto his trustee upon certain trusts which it is not necessary to specify.

The said last will and testament contains (*inter alia*) the following stipulations:

4. I give to my wife, Sarah Whitney, the sum of Two hundred thousand dollars ($200,000) to be paid forthwith after granting of probate of this my will, also the sum of One hundred thousand dollars ($100,000) par value in Victory Bonds (Canada) of the year 1933 issue to be transferred and delivered to her at once on granting of probate of my said will.

12. I give and direct my Trustees to provide and pay to my wife, Sarah Whitney, an annuity of Twenty-five thousand dollars ($25,000) per annum during her life, payable quarterly in advance.

20. I declare that the provision hereinbefore made to my said wife, Sarah Whitney, shall be in lieu of all claims to dower in respect of real estate which I was at the time seized or to which I may be beneficially entitled and said legacy and annuity are only to become payable on my said wife consenting by proper instrument in writing to execute same in lieu of her dower rights.

Edwin Canfield Whitney died on or about February 6, 1924.

By an instrument in writing dated April 3, 1924, Sarah Whitney elected to take the bequests made to her under the will of her husband in lieu of dower.

I may note incidentally that it was admitted at the hearing that the testator had left no dowable lands and that consequently it could not be argued that Mrs. Whitney had taken the annuity of $25,000 by purchase: *Acey* v. *Simpson* (1). Mrs. Whitney was in the position of an ordinary legatee.

The only question in controversy is whether the so-called annuity of $25,000 given by the testator to his wife under clause 12 of the will is, in whole or in part, income within the purview of the Income War Tax Act. The Minister of National Revenue contends it is and has assessed it for the years 1931, 1932 and 1933, the only ones with which we are concerned. The appellant, claiming that it is not, asks that the assessment be set aside and seeks the refund of the tax paid thereon for the years 1931, 1932 and 1933.

It was urged on behalf of appellant that the payments of $25,000 a year to Mrs. Whitney constitute a gift or bequest and as such are not assessable. The respondent, on

(1) (1842) 5 Beav., 35.

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the other hand, submits that these payments, by the terms of the will as well as by their nature and intendment, are annual income in the hands of the annuitant and are accordingly liable to taxation.

The question at issue is governed by section 3 of the Act, the relevant provisions whereof read as follows:

3. For the purposes of this Act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source including

(*a*) the income from but not the value of property acquired by gift, bequest, devise or descent;

* * * * * * * * *

(*f*) rents, royalties, annuities or other like periodical receipts which depend upon the production or use of any real or personal property, notwithstanding that the same are payable on account of the use or sale of any such property.

It is hardly necessary to state that the annuity with which we are dealing does not come within the scope of the first paragraph or general clause of section 3; it is only fair to mention that counsel for respondent did not suggest that it does. Counsel relied on subsection (*a*) of section 3 and stressed the point that the annuity in question is the income of property acquired by gift, bequest or devise.

I must say that, after giving the matter careful consideration, I feel unable to adopt this view.

If the definition of "income" contained in the first paragraph of section 3 of the Income War Tax Act was apparently borrowed from The Assessment Act, R.S.O. 1914, chap. 195, s. 2 (*e*), reproduced in substance although not literally in R.S.O. 1927, chap. 238, s. 1 (*e*), subsection (*a*) of section 3 of the Income War Tax Act is derived from paragraph B of section II of chapter 16 of the Public Acts of the First Session of the Sixty-third Congress (1913) of the United States (see vol. 38 of the U.S. Statutes at Large, Part I); I think it is apposite to quote the relevant part of paragraph B:

B. That, subject only to such exemptions and deductions as are hereinafter allowed, the net income of a taxable person shall include gains, profits, and income derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid, or from professions, vocations, businesses, trade, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in real or personal property, also from interest, rent, dividends, securities, or the transaction of any lawful business carried on for gain or profit, or gains or profits and income derived from any source whatever, *including the income from but not the value of property acquired by gift, bequest, devise, or descent:* * * *

A substantially similar provision exempting from taxation the value of, but not the income from, property acquired by gift, bequest, devise or descent was included in the various Revenue Acts which followed, particularly those of 1916, 1918, 1921 and 1924 (U.S. Statutes at Large, vol. 39, p. 758, s. 4; vol. 40, p. 1065, s. 213 (*b*) (3); vol. 42, p. 238, s. 213 (*b*) (3); vol. 43, p. 268, s. 213 (*b*) (3).

The provision in each of the above Revenue Acts exempts from taxation the "value of property acquired by gift, bequest, devise, or descent" but enacts that the income from such property shall be included in gross income.

The meaning and import of this provision formed the subject of two decisions of the Supreme Court of the United States, namely, *Burnet* v. *Whitehouse* (1); *Helvering* v. *Pardee* (2).

In the case of *Burnet* v. *Whitehouse,* the testator, James Gordon Bennett, had by his will provided for the payment of certain annuities, among which was one of $5,000 to Sybil Douglas, wife of William Whitehouse. The will contained, among others, the following stipulations:

I authorize and empower said executors or executor to retain and hold any personal property which may belong to me at the time of my death and to set aside and hold any part thereof to provide for the payment and satisfaction of any annuity given by me.

It appears from the notes of Mr. Justice McReynolds, who delivered the opinion of the Court, that the annuity given to Mrs. Whitehouse was satisfied from the corpus of the estate prior to November 14, 1920, and that after that date it was paid out of income derived therefrom. It further appears that the Commissioner of Internal Revenue demanded of Mrs. Whitehouse income tax for 1921 on the payments received during that year. She appealed to the

(1) (1931) 283 U.S., 148. (2) (1933) 290 U.S., 370.

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Board of Tax Appeals and the Board held that the bequest to her was within paragraph (*b*), item (3), of section 213 and therefore exempt; the decision of the Board was approved by the Circuit Court of Appeals, First Circuit (1). The Supreme Court affirmed the judgment of the Circuit Court of Appeals.

At page 150 of the report, McReynolds, J. says:

The most plausible argument submitted for the Commissioner is this: An annuity given by will is payable primarily out of the income from the estate. The residuary estate of Bennett produced enough during 1921 to meet all bequeathed annuities. The payments received by Mrs. Whitehouse during that year were, in fact, made from such income. Consequently, it cannot be said that the bequest was one of corpus; and the payments were taxable under *Irwin* v. *Gavit*, 268 U.S. 161.

As held below, the bequest to Mrs. Whitehouse was not one to be paid from income but of a sum certain, payable at all events during each year so long as she should live. It would be an anomaly to tax the receipts for one year and exempt them for another simply because executors paid the first from income received and the second out of the corpus. The will directed payment without reference to the existence or absence of income.

Irwin v. *Gavit* is not applicable. The bequest to Gavit was to be paid out of income from a definite fund. If that yielded nothing, he got nothing. This Court concluded that the gift was of money to be derived from income and to be paid and received as income by the donee. Here the gift did not depend upon income but was a charge upon the whole estate during the life of the legatee to be satisfied like any ordinary bequest.

In the case of *Helvering* v. *Pardee* the testator, Calvin Pardee, gave to his wife an annuity of $50,000 to be computed from the date of his decease and to be paid in advance in quarterly payments.

Mr. Justice McReynolds, delivering the judgment of the Court, said (p. 370):

The total amount paid by the trustees to the widow under the will during the tax years 1924 and 1925 and prior thereto did not aggregate the value of the interest to which she would have been entitled had she declined to take under the will. When computing the taxable income of the estate the trustees deducted the amounts paid to the widow, claiming credit therefor under § 219. The Commissioner's refusal to allow this was sustained by the Board of Tax Appeals. The court below ruled otherwise.

The annuity provided by the will for Mrs. Pardee was payable at all events. It did not depend upon income from the trust estate. She elected to accept this in lieu of her statutory rights. She chose to assume the position of an ordinary legatee. Section 213 (*b*) (3), Revenue Act of 1924, c. 234, 43 Stat. 253, 267, 268, exempts bequests from the income tax there laid. Payments to Mrs. Pardee by the fiduciary were not necessarily made from income. The charge was upon the estate as a whole; her claim was payable without regard to income received by the fiduciary. Payments to her were not distribution of income; but in dis-

(1) (1930) 38 Fed. (2nd), 162.

charge of a gift or legacy. The principle applied in *Burnet* v. *Whitehouse*, 283 U.S. 148, is applicable.

Subsection (*a*) of section 3 of the Income War Tax Act, as we have seen, is in substance the same as section 213 (*b*) (3) of the United States Revenue Acts of 1921 and 1924, upon which are based the judgments of the Supreme Court in *Burnet* v. *Whitehouse* and *Helvering* v. *Pardee;* these two cases are in point and I agree with the decisions rendered therein.

The annuity payable to Mrs. Whitney was a charge upon the whole estate; it was not payable out of a settled fund. The fact that the trustees thought advisable to buy Dominion of Canada tax-free bonds with which to pay in whole or in part the annuity in question seems to me absolutely immaterial; this was a mere matter of administration on the part of the trustees which could not affect the rights of the beneficiary.

There remains subsection (*f*) of section 3, enacted by 24-25 Geo. V, chap. 55, s. 1 (assented to July 3, 1934) and made applicable to the 1933 taxation period by section 18 of said Act. I do not think that subsection (*f*) applies to the present case: the annuity bequeathed to Mrs. Whitney by her husband does not depend upon the production or use of any real or personal property in particular; it is a charge against the corpus of the estate.

For the above reasons I have reached the conclusion that the appeal must be allowed and that the decision of the Minister affirming the assessments must be set aside.

The respondent is ordered to refund to the appellant the sums which have been overpaid for the years 1931, 1932 and 1933. If the parties cannot agree on the amount to be refunded, they will be at liberty to refer the matter to me for adjudication.

At the opening of the trial, counsel for respondent made a motion orally for leave to file an amended assessment for the year 1931; by consent the decision on this motion was left in abeyance until after the case was heard. Seeing the conclusion at which I have arrived, the motion is of no avail and it is accordingly dismissed.

The appellant will be entitled to its costs against the respondent.

Judgment accordingly.

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Sep. 18.
1936
Apr. 9.

BETWEEN:

CANADA CRAYON COMPANY LIMITED ..... } PETITIONER;

AND

PEACOCK PRODUCTS LIMITED...RESPONDENT.

Trade-marks—Expunging—Failure to register trade-mark within period prescribed by Unfair Competition Act.

Petitioner commenced the use of the word "Peacock" and the representation of a peacock as a trade-mark in July, 1926, but failed to apply for registration of such trade-mark until April 7, 1934. On February 21, 1933, respondent, acting in good faith, obtained registration of its trade-mark, similar in appearance to that of petitioner, which it had been using since December, 1932. The Unfair Competition Act, 22-23 Geo. V, c. 38, came into force on September 1, 1932. Petitioner applied to have respondent's trade-mark expunged or amended.

Held: That, since petitioner had not applied for registration of its trade-mark within six months from the date on which the Unfair Competition Act came into force, as required by s. 4 of said Act, the action should be dismissed.

PETITION by petitioner herein to have respondent's trade-mark expunged from the Register of Trade-Marks, or amended.

The petition was heard before the Honourable Mr. Justice Angers, at Ottawa.

G. E. Maybee for petitioner.

O. M. Biggar, K.C., for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (April 9, 1936) delivered the following judgment:

This is a motion by Canada Crayon Company Limited, a corporation having its head office in the town of Lindsay, in the province of Ontario, asking that the registration by Peacock Products Limited, a corporation having its head office in the city of Winnipeg, in the province of Manitoba, of a trade-mark consisting of the "representation of a peacock on a limb appearing in a circle supported by scrolls resting on a panel" be struck out or amended on the ground that the entry as it appears on the register does not accurately express or define the existing rights of the

person appearing to be the registered owner of the mark, to wit Peacock Products Limited, inasmuch as (1) the said Peacock Products Limited had not, at the date of its application for registration, used the said trade-mark in Canada on the wares defined therein and (2) it was not, in any event, the first to use or make known in Canada the said trade-mark.

The facts are briefly as follows:

In or about the month of August, 1925, James Walter Gravestock, of the town of Lindsay aforesaid, commenced business in the city of Toronto, in the province of Ontario, as manufacturer and distributor of chalks and crayons under the firm name of Canada Crayon Company.

On or about September 30, 1927, Canada Crayon Company Limited was incorporated by letters patent of the Dominion of Canada and the company succeeded to the business of the firm Canada Crayon Company. Its head office was first located in the city of Peterborough and in the year 1933 moved to the town of Lindsay.

When he commenced business as Canada Crayon Company in 1925 or shortly thereafter, Gravestock adopted the word "Peacock" as a trade-mark to be applied to crayons and on or about July 13, 1926, he started to use the said trade-mark and continuously used it until the organization of Canada Crayon Company Limited, at which time the trade-mark together with the other assets of the firm were acquired by the latter. The trade-mark has since been used continuously and extensively by the company. In 1926 Canada Crayon Company adopted a design for use in connection with the sale of crayons which was applied to cartons; it consisted *inter alia* of the word "Peacock" and the representation of a peacock. The design so adopted was altered in 1927 by substituting the name of the company for the name of the firm.

The first cartons bearing the trade-mark "Peacock" appear to have been delivered to Canada Crayon Company by A. E. Long & Company Limited, of Toronto, on November 5, 1926: See exhibit B to the affidavit of Gravestock.

Produced as exhibit A to said affidavit is an invoice of Legge Bros. & Jones Engravers Limited, of Toronto, which, according to Gravestock's statement, is a charge for changing the plate for the trade-mark by substituting the name of the company for that of the firm.

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CANADA CRAYON CO. LTD. v. PEACOCK PRODUCTS LTD.

Angers J.

A catalogue of Canada Crayon Company Limited, which Gravestock in his affidavit states was published in 1928, was marked as exhibit D. It illustrates various products, including drawing crayons, checking crayons, marking crayons, railroad crayons, textile mills crayons and carpenters' chalks. Gravestock says that subsequently the products of the company were extended and that at the present time (June 11, 1935) the wares manufactured and sold by the company comprise wax crayons, school chalk, dustless blackboard crayons, railroad crayons, carpenters' chalk, mill crayons, lumber crayons, marking crayons, composition pressed drawing crayons, pastel crayons, coloured blackboard crayons, modelling clay and birthday candles.

Sample packages of "Peacock" drawing crayons manufactured and sold by Canada Crayon Company Limited were filed as exhibits E and F. Gravestock declares that, with the exception of the substitution of the name of the company for that of the firm and of the addition in 1928 of the striped label on the crayons, the packages and labels similar to exhibits E and F have been used since 1926 by the firm and since 1927 by the company. Gravestock adds that on or about April 1, 1933, the company adopted and used a third carton, a sample whereof was filed as exhibit G.

The affidavit of Gravestock discloses that the numbers of crayons sold by the firm and the company in the cartons aforesaid from 1926 to 1934 were as follows:

1926	296,544
1927	256,704
1928	696,768
1929	3,199,872
1930	3,783,408
1931	3,866,112
1932	4,374,144
1933	2,355,840
1934	2,936,448

The evidence does not disclose the figure of these sales.

Gravestock says that "Peacock" crayons have been sold throughout Canada from the date of adoption of the said trade-mark and that the word "Peacock" and the representation of a peacock had, long prior to December 15, 1932, which is the date of the alleged first use by Peacock Products Limited of its trade-mark, become gener-

ally recognized by dealers in and users of the class of wares in association with which the said trade-mark has been used as indicating that Canada Crayon Company Limited assumes the responsibility for their character and quality. The deponent adds that the use of the word "Peacock" or the representation of a peacock by any person other than Canada Crayon Company or Canada Crayon Company Limited in connection with crayons or similar wares would be likely to deceive the public.

On April 7, 1934, Canada Crayon Company Limited filed an application for registration of a trade-mark consisting of the word "Peacock," alleging that the mark had been first used in or about the month of August, 1925. The certificate of registration was, upon petition dated May 16, 1935, amended to mention the date of first use as being "on or about the 13th day of July, 1926." Registration of the trade-mark was granted under No. N. S. 2912, on April 7, 1934.

Gravestock's affidavit goes on to state that on or about December 1, 1934, it came to the attention of Canada Crayon Company Limited that Peacock Products Limited was selling modelling material in a carton bearing the words "Peacock Brand" and the representation of a peacock and that this carton was similar in appearance to the one used by Canada Crayon Company Limited in connection with the sale of "Peacock" crayons; a sample of "Peacock Brand" modelling material was filed as exhibit H.

The affidavit then refers to an extensive correspondence between petitioner's patent attorneys and Peacock Products Limited, the outcome of which was that the latter advised the said attorneys that it had registered a trade-mark consisting of the representation of a peacock on a limb appearing in a circle supported by scrolls resting on a panel, registration No. N. S. 490, dated February 21, 1933, and that it had no intention to discontinue using the said trade-mark.

The trade-mark in question was registered by Peacock Products Limited for use in connection with "the manufacture of inks of all kinds, adhesives of all kinds, crayons, white and coloured and wax coloured crayons, water colour paints, plastico modelling compounds, jig-saw puzzles, railroad chalk, lumber crayons, billiard chalk, carpenters' chalk,

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nest eggs, marking crayons, school and office supplies other than paper and manufactures of paper."

The application of Peacock Products Limited for registration of its trade-mark mentions the 15th of December, 1932, as the date of first use.

Gravestock, in his affidavit, states that he verily believes that Peacock Products Limited, at the time of the adoption of its trade-mark as well as at the time of its application for the registration thereof, knew that the trade-mark "Peacock" and the representation of a peacock was in use in Canada by Canada Crayon Company Limited because of the extensive use of the said trade-mark by the company and in particular because of extensive sales made by it in the city of Winnipeg where Peacock Products Limited has its head office. The affidavit contains a list of 21 stores in which the wares of Canada Crayon Company Limited are alleged to have been sold.

A second affidavit by Gravestock bearing date the 12th of July, 1935, states that the affiant has made inquiries in the trade and that he is informed and verily believes that Peacock Products Limited has used a label bearing the representation of a peacock on inks since the year 1933 and on modelling material since the spring of 1934 and that to the best of his knowledge it has not used this label on other wares.

An affidavit signed by F. S. Peacock, president and general manager of Peacock Products Limited, dated September 14, 1935, was put in evidence on behalf of respondent.

The affidavit states that the company was organized under the laws of the province of Manitoba and that it has its head office at the city of Winnipeg; that in or about October, 1932, the deponent, on behalf of Peacock Products Limited, had a search made of the register of trade-marks and he was advised that the representation of a peacock and the words "Peacock Products" were available for registration for school supplies; that, as a result, on or about December 15, 1932, his company commenced to use the trade-mark covered by the application which, on February 21, 1933, he caused to be filed with the Registrar of Trade-marks, the said trade-mark consisting of the representation of a peacock on a limb appearing in a circle sup-

ported by scrolls resting on a panel for use in connection with the manufacture and sale of the wares, a list whereof is hereinabove reproduced; that a certificate of registration was issued to Peacock Products Limited on August 2, 1933, under No. N. S. 490; that on or about December 31, 1934, Peacock Products Limited received a communication from the solicitors for Canada Crayon Company Limited, advising that the latter was the owner of a registered trade-mark which had been applied to the sale of crayons for many years and requesting Peacock Products Limited to discontinue the use of its trade-mark; that, following this communication, the deponent wrote to the Commissioner of Patents and received a reply dated January 16, 1935. The letter of the Acting Commissioner reads in part as follows:

> In reply I beg to say that your trade-mark, No. 490, was filed on February 21, 1933, recorded on August 5, 1933, and registered in the name of the Peacock Products Limited. Trade-mark No. 2912 was filed on the 7th of April, 1934, and was recorded on December 12, 1934. During the examination of this application the trade-mark examiner failed to locate the prior registered trade-mark No. 490.
>
> Your attention is directed to the fact that the registered trade-mark No. 2912 of the Canada Crayon Company, Limited, gives the date of first use as August, 1925, whereas the date of first use of your trade-mark No. 490 was given as of December 15, 1932.

Peacock declares that, until he received the letter from the solicitors for Canada Crayon Company Limited, he was not aware that the latter had used as a trade-mark the word "Peacock" or the representation of a peacock. He adds that he is informed and verily believes that the only use made by Canada Crayon Company Limited of its trade-mark is in connection with the manufacture and sale of one line of its wax crayons, as appears from a circular produced as exhibit B.

The affidavit further discloses that Peacock Products Limited was organized in 1933, commenced to do business in September of the same year and has continued to do business ever since; that from the date of the adoption of its trade-mark it has made a continuous use thereof on all its lines of goods and that the sales have been substantial; that, at the time of the receipt of the first notice from the petitioner's solicitors, Peacock Products Limited was doing an average yearly business of $23,000; that of this amount approximately $17,000 worth of the goods sold were sold under the trade-mark complained of by the peti-

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tioner, and if the company were forced at this time to discontinue the use of its trade-mark it would suffer substantial losses.

It is clear from the evidence that the use of its trade-mark by Canada Crayon Company Limited anticipated the use of its own by Peacock Products Limited by approximately six years. The prior use in a case of this nature, however, seems to me to have no materiality.

The Canada Crayon Company Limited commenced to use the word "Peacock" and the representation of the peacock some time in July, 1926, but failed to apply for a trade-mark until April 7, 1934.

In the meantime, to wit on February 21, 1933, Peacock Products Limited, apparently in good faith, obtained the registration of its trade-mark.

The case is governed by section 4 of The Unfair Competition Act. The relevant provisions of section 4 read as follows:

4. (1) The person who, in association with wares, first uses or makes known in Canada, as provided in the last preceding section, a trade-mark or a distinguishing guise capable of constituting a trade-mark, shall be entitled to the exclusive use in Canada of such trade-mark or distinguishing guise in association with such wares, provided . . . . that in compliance with the provisions of this Act he makes application for the registration of such trade-mark within six months of the date on which this Act comes into force, ...

(2) The use of a trade-mark or a distinguishing guise capable of constituting a trade-mark by a person who is not registered as the owner thereof pursuant to the provisions of this Act shall not confer upon such person any right, title or interest therein as against the person who is registered as the owner of the same or a similar trade-mark or distinguishing guise.

(3) Notwithstanding the provisions of subsection one of this section, the person who first uses or makes known in Canada, in association with wares a trade-mark or a distinguishing guise capable of constituting a trade-mark, may apply for and secure registration thereof after the expiration of any of the periods of six months specified by subsection one, provided the same or a similar trade-mark or distinguishing guise has not been registered by another for use in association with the same or similar wares, ...

The Unfair Competition Act came into force on September 1, 1932; Canada Crayon Company Limited, as we have seen, filed its application for registration of its trade-mark on April 7, 1934, i.e., more than nineteen months after the coming into force of the Act.

In view of the petitioner's failure to seek the registration of its trade-mark within six months from the 1st of

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September, 1932, date on which the Unfair Competition Act came into force, the registration of the respondent's trade-mark was quite in order. I do not think, in the circumstances, that Canada Crayon Company Limited is justified in asking that the trade-mark of Peacock Products Limited be removed from the register. In fact, I believe that, with the trade-mark of Peacock Products Limited on the register, the trade-mark of Canada Crayon Company Limited should not have been registered.

There will be judgment dismissing the motion with costs.

Judgment accordingly.

BETWEEN:

UNIVERSAL BUTTON FASTENING & BUTTON CO. OF CANADA LIMITED ..... PLAINTIFF;

AND

PETER C. CHRISTENSEN ..... DEFENDANT.

1935

Dec. 3, 4, 5.

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Jun. 6.

Patents—Impeachment action—Patent invalid—Sec. 61 ss. (1) (a) of Patent Act not applicable where one party to action does not claim invention—Person interested.

Defendant is the grantee and owner of two patents; number 338,100 relates to the production of buttons and similar articles and more particularly to an improved method of producing such articles, preferably from a material which is composed principally of casein; and number 341,399 relates to an improved composite casein material peculiarly adapted for the production of buttons therefrom.

The plaintiff's action is to impeach both patents on the ground that the Letters Patent are and always have been null and void.

The Court found that the plaintiff is an "interested person" within the meaning of the Patent Act; that as to patent number 341,399 it lacked invention, since the composition was known and used previously by others, and what is described and claimed did not call for the exercise of the inventive faculty; that as to patent number 338,100, the method or methods described therein lacked subject-matter, that practically every step in the method was substantially known and practised by others, prior to any date claimed by the defendant; that the method described and claimed is a mere aggregation of known distinct and interdependent steps in the manufacture of buttons from casein; that the invention is a mere aggregation of methods, a series of distinct and different steps—not a combination—in the manufacture of buttons, each of which is carried out independently of the others, and none of which was invented by the defendant.

Held: That if a process of manufacture is known the industrialist must be free to use his skill in the art in working it and modifying it.

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2. That if any variation of an existing process could be made the subject of a monopoly, merely because it had not been done before, patents would exist and be supported for innumerable trivial details and industrial effort would be hampered.

3. That s. 61 (1) (*a*) of the Patent Act is not applicable since the plaintiff lays no claim to invention, seeking instead to impeach two patents on the ground that they are and always were invalid and void. S. 61 presupposes that there are two inventions and two inventors, each of whom claims priority, and that a patent has issued to one only.

ACTION to impeach two Canadian Patents for Invention, numbers 338,100 and 341,399.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

O. M. Biggar, K.C., and *M. B. Gordon* for plaintiff.

S. M. Clark, K.C., and *Alastair MacDonald* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (June 6, 1936) delivered the following judgment:

In this action the plaintiff seeks to expunge two patents, granted to and owned by the defendant Christensen, on the ground that the Letters Patent are and always have been null and void, (1) because no invention was in fact made by Christensen having regard to the general common knowlege of the art prior to the alleged date of Christensen's inventions, (2) because the invention described in each patent was known and used by others before they were known to Christensen, and (3) before the date of the applications for said patents the same had been made available to the public. Upon the material before me, I think, the plaintiff is an "interested person" within the meaning of the Statute.

The first patent, no. 338,100, issued on December 26, 1933, on an application filed on June 10, 1933, This patent relates to the production of buttons and similar articles, and more particularly to an improved method of producing such articles, preferably from a material which is composed principally of casein. The second patent numbered 341,399 issued on May 8, 1934, on an application filed on June 10, 1933. This patent relates to an improved composite casein material and is said to be peculiarly adapted for the production of buttons therefrom.

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I shall first refer to the last mentioned patent, no. 341,399. It will be sufficient to make reference to one paragraph only of the descriptive portion of the specification and which is as follows:

My improved material consists principally of casein, and in case the same is to be used for the production of buttons, is preferably formed of a suitable mixture of casein, water and alum. The casein employed may be any of those commercial forms known to the trade as rennet casein, hydrochloric acid casein and acetic acid casein but I find that where the material is to be used for buttons and similar articles, best results are obtained by using rennet casein. Also while I prefer to use alum in producing the mixture referred to, any one of a number of other materials including a weak solution of acetic acid, a weak solution of any of several acid salts such as aluminum ammonium sulphate, aluminum sodium sulphate, aluminum potassium sulphate and ammonium sulphate, and a weak solution of any of several alkalis such as sodium hydrate, potassium hydrate, sodium phosphate, sodium carbonate, potassium carbonate, sodium bicarbonate, potassium bicarbonate and sodium tetraborate, may be employed to advantage instead of alum.

All the claims of this patent have been abandoned with the exception of claims numbered 5, 6, 9 and 10, and they are as follows:—

5. A composition of the character described comprising a mixture of casein, water and alum, the amount of water in the mixture, exclusive of that in the casein, being from 10 per cent. to 25 per cent. by weight of the casein, and the amount of alum in the mixture being from 1 per cent. to 5 per cent. by weight of the casein.

6. A composition of the character described comprising a mixture of casein, water and alum, the amount of water in the mixture, exclusive of that in the casein, being substantially 15 per cent by weight of the casein and the amount of alum in the mixture being substantially 2 per cent. by weight of the casein.

9. A composition of the character described comprising a mixture of materials including casein and alum, the casein being the predominating ingredient of the mixture and the amount of alum in the mixture being from 1 per cent. to 5 per cent. by weight of the casein.

10. A composition of the character described comprising a mixture of materials including casein and alum, the casein being the predominating ingredient of the mixture and the amount of alum in the mixture being about 2 per cent. by weight of the casein.

The invention described in patent no. 338,100, as already stated, relates more particularly to an improved method of producing buttons and other articles, preferably from a material which is composed principally of casein, which is the material described in the other patent in suit. The specification states that the material consists principally of casein, and is preferably a suitable mixture of casein, water and alum, although other mentioned substances may be used in place of alum. The specification states:—

In producing the composite material, the casein, water and alum or other substance instead of the alum, are merely all introduced into an

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ordinary mixing machine and the latter is operated until these substances are thoroughly commingled and a uniform mixture is obtained. This usually takes from 5 to 10 minutes. If the buttons or other articles to be produced are to be of a single solid color, a suitable dyeing material, or where the finished articles are to be solid white, a white pigment may be advantageously added at this point to the casein and other substances and mixed therewith in the mixing machine. The mixing operation may be carried on at ordinary room temperature.

The mixture produced as just described, is in granular or rather coarse powder form, and is now preferably highly compressed in a suitable extrusion press into a solid coherent material. This solid material as extruded from the press, is of uniform cross section and is usually, though not necessarily, cylindrical. As it issues from the press the said material, which is fairly soft and flexible, is cut into rods of any desired length, usually a length of from three to four feet. The press may be adjusted to produce cylindrical rods of any diameter from 0·1″ up to 2·5″ which may be desired. The rods thus produced are immediately immersed in water which is at substantially room temperature, and left therein for about one-half an hour. They are then removed from the water and maintained in the open air at ordinary room temperature for a period of from twenty-four hours up to a month or more, depending on when it is desired to use the rods for the production of the buttons or other articles to be made therefrom. After being removed from the water, however, the rods should be kept where the air is of such humidity as to prevent the moisture in the rods from drying out to any appreciable extent. By the simple treatment just described, the material of the rods is hardened and stiffened somewhat but is still wholly uncured and relatively soft.

The specification then states that where buttons are to be made in accordance with the invention, the rods produced and treated as just described, and while still in what is called an uncured or unhardened condition, are usually each formed into a large number of blanks which substantially conform in size and shape to the button finished by a turning machine, which turning machine is preferably of the type disclosed in a patent to Emanuel Clemens, and which automatically faces, edges, backs and cuts off the blanks from the rod by successive operations. The button blanks when cut are next cured or hardened by subjecting them to the action of formaldehyde. After being cured the buttons are scoured by subjecting them to the action of a mixture of pumice and sawdust in a rotating drum; then the buttons are drilled to provide the desired number and arrangement of holes, and that is followed by a preliminary polishing treatment by drumming the buttons in the usual manner with a mixture of powdered chalk, sawdust and bran, or other suitable mixture. Next follows an additional polishing, either mechanically or chemically, according to the finish or appearance desired. If a chemical polishing

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is desired the specification recommends the following procedure:

A solution for treating the buttons is made by thoroughly mixing about 50 parts by weight of water, one part by weight of chloride of lime, and one part by weight of any one of the following substances: carbonate of soda (soda ash), bicarbonate of soda or potassium carbonate. This solution is heated to a temperature which is preferably within the limits of 170 degrees and 212 degrees F.

the buttons are then introduced into this heated solution. The buttons are thereafter dyed, subjected to the action of a fixing bath, washed, dried and finished. I think this sufficiently sets forth the substance of the invention described in this patent.

The claims in this patent number 17, but all have been abandoned except claims numbered 3, 4, 7, 8, 11, 14, 15 and 16, and they are as follows:

3. The method which consists in forming a solid but uncured member consisting principally of casein, cutting a plurality of buttons or like articles substantially in their final shape directly from said member while still uncured, and curing the shaped articles.

4. The method which consists in intimately mixing casein, water and alum, pressing the resulting mixture into a solid uncured member of cylindrical form, successively cutting a plurality of buttons substantially in their final shape directly from said member while it is uncured, and then subjecting said buttons to the action of formaldehyde to cure the same.

7. The method which consists in forming buttons or like articles substantially in their final shape from uncured material consisting principally of casein, curing the shaped articles, and subjecting the cured articles to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate.

8. The method which consists in forming buttons or like articles substantially in their final shape from uncured material consisting principally of casein, curing the shaped articles, subjecting the cured articles to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate, and then dyeing said articles.

11. The method which consists in forming buttons or like articles substantially in their final shape from uncured material consisting principally of casein, curing the shaped articles, subjecting the cured articles to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate, then applying dye only to portions of the surface of said articles, then subjecting the articles to the action of a fixing solution, immersing the articles in a dye solution, and then again subjecting the articles to the action of a fixing solution.

14. The method which consists in subjecting cured buttons or like articles formed of material consisting principally of casein, to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate, and then dyeing said articles.

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15. The method which consists in subjecting cured buttons or like articles formed of material consisting principally of casein to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate.

16. The method which consists in subjecting cured buttons or like articles formed of material consisting principally of casein to the action of a solution of a mixture of chloride of lime and one of the group of materials consisting of carbonate of soda, bicarbonate of soda and potassium carbonate, then applying dye only to predetermined portions of the surfaces of said articles, then subjecting the articles to the action of a fixing solution, then applying dye to said articles over their entire surfaces, and then again subjecting the articles to the action of a fixing solution.

The point in issue in respect of patent no. 341,399 relates entirely to the employment of alum in a casein mixture. In the case of patent no. 338,100 the controversy largely revolves around the matter of the cutting of buttons from an uncured rod made from the casein mixture described in the other patent, and the liquid chemical solution used for the polishing of buttons. The issues for determination being largely questions of fact it is desirable to review at some length the evidence given in respect of both patents, particularly in respect of the points mentioned.

I will first refer to the evidence of Mr. Jaeger, presently, and since July or August, 1928, in charge of the manufacturing of casein plastics in the George H. Morrell Corporation, hereinafter to be referred to as Morrell, at Muskegon, Michigan, U.S.A. About that time Morrell, as I understand it, took over a concern known as the Kyloid Company, manufacturers of casein material in the shape of sheets, rods and button blanks, and this company had been in business, in Muskegon, at least four or five years prior to 1928; and about the same time Morrell took over George Morrell Inc., a company that had been manufacturing celluloid articles at Livingstone, Massachusetts, and buttons in a small way in New Jersey. Jaeger joined the latter company in May, 1925, and he entered the employ of Morrell when it acquired the business of Kyloid, in 1928. Kyloid manufactured button blanks, which were sliced or cut from the rod in an uncured state and which would be subsequently cured; they were then sold to button manufacturers who turned, drilled and finished them. There was in the Kyloid plant a hand machine for rounding uncured rods to the desired diameter, and also a machine for cutting button blanks from the uncured rods. Many of these

straight button blanks were capable of being used, and were used, as buttons after curing, drilling, dyeing and polishing the same. Kyloid had not on hand any machine for turning, that is for shaping and finishing cured casein buttons, nor did it have any drilling machine. In August, 1928, Morrell installed a drilling machine at Muskegon, and it also installed nine other machines, which would cut button blanks from cured or uncured rods, and which would also turn or pattern the buttons. These machines were known by the name of Syble Pandorf. As I understand Jaeger's evidence, shortly after August, 1928, Morrell was selling more finished buttons than they were selling button blanks.

When Jaeger went to Morrell the material used comprised casein, water, pigments and dyestuffs, and that practice continued till May, 1929, when Jaeger, through correspondence with friends of his in Germany, got in contact with a consulting casein expert who supplied him with a book of formulae, which formulae it was said were known, or were being used, in Germany at that time. This book, now in evidence, reached Jaeger in February or March, 1929. Three formulae contained in this book were particularly referred to. Formula no. 1 called for a mixture of rennet casein, alum, turkey red oil and water, no. 2 for a mixture of casein, water, glycerine, and alum, and no. 3 for a mixture of casein, glycerine, and alum. In each case the proportion of each constituent is mentioned but I need not refer to them except to say that the proportion of alum to be used in formula no. 1 is only a small part of one per cent, in no. 2 it is five per cent, and in no. 3 one-tenth of one per cent.

Morrell then obtained the services of a German chemist, a casein expert, to demonstrate these formulae, to Jaeger I assume. This casein expert, a Mr. Haupt, arrived at the Morrell plant towards the end of April, 1929, and he remained until the middle of October following. In May, Jaeger, under the direction of Haupt, commenced the use of alum in all their casein mixtures and that is established by the evidence. The percentage of alum used varied from one-half of one per cent to five per cent, according to the character of the alum which was bought in the open market. Jaeger stated that they found the alum to be of special

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help in obtaining the proper plastification of the material and to obtain even extrusion of the plastic rods out of the machine. They found the material firmer and easier to cut, and afterwards to turn. The percentage of alum used in a given material was determined by a trial and error method; if the material did not extrude freely from the machine with one per cent it was immediately increased, but not more than five per cent was ever used; the usual proportion was one or two per cent, one per cent for one type of alum, and two per cent for another type. As I understand it some casein is more uniform than others and in that case the percentage of alum required was rather constant, whereas, for example, in the case of imported French casein, the proportion of alum had often to be varied. The quantity of water used in the mixture ranged between twenty and thirty per cent by weight, depending largely upon the moisture content of the casein, the size of the rod, and in some instances on the colours used.

In 1928 and 1929, 25 per cent of Morrell's button production consisted of buttons that were never turned, that is to say, they were cut from the uncured rod and then pierced, dyed and polished. Of the balance only about 5 per cent would be turned uncured, this because it was found to be more economical to cure the blanks and turn the button out of the cured blank.

The only difficulty Morrell encountered in connection with the buttons turned out in 1928 and 1929 was not in the manufacture but in the selling of the same. Customers objected to a wax finish, that is to say, the buttons were finished with a wax in the tumbler. When garments to which these buttons were attached, were pressed in the ordinary steam presses in tailoring establishments, the flats of which are canvas covered, it was found that the heat would soften the wax and the canvas would absorb it, thus leaving the button with a dull surface. At that time German trade journals, which Jaeger was receiving, were advertising chemical finishing solutions, and he wrote to some of such advertisers. One of such journals, called Butonia, of date August 15, 1929, now in evidence, mentions in an article the existence of liquid polishing materials that are used in the casein industry, on buttons and other articles, and the following is a translation of that article.

Art Horn material (casein) can be polished and will accept a beautiful lustre without polishing wheel, without barrel or without lacquer by simply immersing it into a liquid composition which is still kept secret by the manufacturer. This simple procedure should be of special interest to fabricators of articles made of this composition material especially as this polishing liquid is suited advantageously for certain articles such as buckles, combs, buttons and beads made in quantity production.

The same journal on December 15, 1929, carried an advertisement of a Berlin firm, by the name of A. Troitzsch, advertising a liquid polishing material for certain articles. Another advertisement in that journal advertised a liquid polishing material under the trade name of Rotoxyl. As a result of the appearance of advertisements of this nature Jaeger went to Germany early in April, 1930, having previously had correspondence with concerns advertising such liquid polishing material; in fact, Jaeger had previously sent samples of Morrell buttons to Berlin, where they were polished by Troitzsch, and as I understand it, they were finished and returned to Morrell before Jaeger left for Germany. Jaeger took with him to Germany several pounds of Morrell buttons and there he experimented with several samples of liquid polishing materials advertised in Germany, such as Rotoxyl and Oxygenol, and buttons polished with such liquids in Germany are in evidence; a third sample, known to the trade as Alepolit, he did not use. A liquid was recommended to him by a fourth person, one Brandt, who gave him a formula of application and the source of supply, and this he then considered the most adaptable. Brandt finished some Morrell buttons with this liquid polishing solution in the presence of Jaeger, and some of such buttons are in evidence. Jaeger then entered into a written agreement with Brandt respecting the use of the liquid polishing material, and he bought some of the liquid, 10 kilogrammes, from a chemical supply house that made the solution for Brandt, and this Jaeger brought back to Muskegon. In this connection Jaeger agreed to pay Brandt $100, and Brandt agreed to assist Jaeger (Morrell) with suggestions in respect of any difficulties that might be encountered later on, in the application of this liquid polish, but not in securing supplies of the liquid because apparently it was not expected there would be any difficulty in obtaining such supplies.

On Jaeger's return to Muskegon a sample of this liquid procured through Brandt in Germany was sent to the

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Miner Laboratories, consulting chemists, in Chicago, for an analysis of the same. The report from Miners Laboratories, dated June 11, 1930, was that on an analysis of the sample submitted, which they described as Javelle water, it was found to contain so much available chlorine and so much total alkalinity as sodium carbonate. The Miner Laboratories, following their analysis, prepared a sodium hypochlorite solution which they thought was sufficiently close to the German Javelle water to justify Morrell proceeding with its use in their plant.

The next step was that Morrell communicated with the Matheson Alkali Works, at the suggestion of the Miners Laboratories, in respect of supplies necessary for the making of the liquid polish and this concern sent two men to the Morrell plant to assist in making the first batches of the solution. In a letter dated June 16, 1930, they instructed Morrell as to the percentage of chlorine and caustic soda to use, and how to make the solution, and on that date they shipped Morrell a stated quantity of liquid chlorine and flake caustic soda; in a later letter they suggested using bleaching powder instead of liquid chlorine. The first batches of the solution made by Morrell consisted only of caustic soda and liquid chlorine. Later about July 1, 1930, soda ash, was added as a third ingredient to overcome certain difficulties experienced with the diffusion of the gas in the bath. A bleaching powder, known as H T H, containing a high percentage of free chlorine was experimentally added to the caustic solution. After further experimental work it was found more convenient to make the solution with chloride of lime instead of liquid chlorine gas, and caustic ash and caustic soda, and this solution was used for more than a year and a half, commencing September, 1930; now Morrell is back to the original formula of liquid chlorine gas and caustic flakes because a way had been found of diffusing them satisfactorily.

It will be remembered that the chemical polishing solution described in patent no. 338,100 is made by mixing fifty parts by weight of water, one part by weight of chloride of lime, and one part by weight of carbonate of soda (soda ash), or bi-carbonate of soda, or potassium carbonate. Jaeger stated that either of these alkalis could be used in the compound instead of caustic flake or soda. I think

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it may be assumed upon the evidence that the polishing mixture described by the defendant is the chemical equivalent of that used by Morrell, and so far as I can recall that was not contested by the defendant. The precise behaviour of these different chemical elements I have no doubt would be well known to chemists. The only real point in this connection is whether or not there was invention by Christensen in compounding his chemical polishing solution, or in introducing it into the method described by him. This will be determined later.

There are two methods of dyeing buttons. One is by mixing the dye or pigment in the original mixture which is extruded from the press, and the other is to surface dye them at some subsequent stage in their process of manufacture, and both methods have long been known. In surface dyeing operations buttons are exposed to a solution consisting of water, and natural dyes, wood dyes or aniline dyes, and in some cases acid, to obtain penetration. Morrell used its solution on its buttons regardless of colour, but inasmuch as the solution acts as a bleach on surface colours, the surface dyeing is done after treatment in the polishing solution. I do not propose commenting on the dyeing operations described by Christensen, or that practised by others. In my opinion it is not an element of importance in this controversy.

The evidence of Jaeger was confirmed in some important particulars by that of Renkenberger, an attorney at law, practising at Muskegon; he became legal adviser to Morrell some time after its organization. He also had a general knowledge of the Kyloid plant before it was taken over by Morrell. I do not think it necessary, however, to review the evidence of this witness.

Mr. Parsons of the American Plastics Corporation, of Bainbridge, N.Y., manufacturers of casein plastics, including button blanks, also gave evidence. He was employed by this corporation either as production manager, or assistant production manager, since 1925. The product of this company was sold in the shape of sheets, rods and tubes, until recent years when it commenced to make button blanks. In August, 1925, and continuously since that date, this company has been using a formula which it obtained from Erinoid Ltd. of Stroud, England, and this formula

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directed the use of alum aluminum sulphate in casein mixtures, for the production of rods from an extruding press, in the proportion of one-half of one per cent of the casein. For reasons which I need not delay to explain this corporation experimented with larger proportions of alum, late in 1926, on the advice of a German casein expert, up to five per cent, but finding no advantage in the increased quantity they gradually reverted to the proportion of one-half of one per cent, and Parsons stated that with their casein that was all that was required. The inclusion of alum in the mixture would, Parsons stated, be known to employees in the plant of the corporation.

Mr. Dunham, a graduate chemist, one of the vice-presidents of the same corporation, also gave evidence. After the formula mentioned by Parsons was acquired Dunham, in 1924, spent several months in Stroud, England, with Erinoid Ltd., in order to become acquainted with the various processes and practices relating to the production of casein plastics, prior to erecting the plant of American Plastics Corporation at Bainbridge, N.Y. And he stated that one formula called for the use of alum, particularly for use in black material. He confirmed the evidence of Parsons that as satisfactory results were obtained by the use of one-half of one per cent of alum as with a greater quantity. His opinion as to the cause of this was that in the plant at Bainbridge, the milk was precipitated with rennet whereas in ordinary casein it was curdled with acids, which, he thought not a desirable practice. He gave further reasons why only a small percentage of alum was used by his company in casein mixtures, but it is hardly necessary that I should repeat the same. The fact is that this corporation has been using alum in casein mixtures since 1925, and the proportions are not, I think, of importance, because apparently for one reason or another this may vary, and Christensen would appear to concede this. Dunham visited the Morrell plant in September, 1930, when he observed the complete process employed there in the manufacture of buttons, just as described by Jaeger. He saw buttons put into what he was told was a hypochlorite solution, a polishing bath, and he stated that anyone would recognize that the solution contained chlorine because its presence was so evident about the plant.

Mr. Vawter, presently chief chemist of the American Plastics Corporation, between 1924 and 1931 was in the employ of the Karolith Corporation, manufacturers of casein plastics, at Long Island City, N.Y. Karolith at first made such articles as fountain pen stands, lamp shades, lamp stands, balls, etc., which were moulded and later cured and polished; later it cut button blanks from uncured casein rods. This witness stated that Karolith, in 1924, used alum for a very short period, to the extent of 2 per cent, in casein mixtures. Karolith had been using acetic acid but found it corroded their machines and so they experimented with alum but with the same result and the use of alum was abandoned; Karolith did not return to the use of acetic acid and apparently used casein and water only.

In the latter part of 1927, one of the Karolith corporation heard, while in Europe, of the use there of Javelle water by casein plastic manufacturers, as a chemical polishing bath. Karolith then purchased some Javelle water from a local drug store but the results were not particularly impressive. In 1929 rumours persisted that Javelle water was being successfully used in Europe. Then Vawter experimented with sodium carbonate and ordinary chloride of lime and mixed them together with water, and after allowing the mixture to settle, the clear solution was decanted. This solution, which Vawter stated was probably stronger and fresher than Javelle water, gave excellent results. This information was given to the sales department to be passed on to their customers, button manufacturers, Karolith itself not finishing buttons at that time. Vawter testified that his mixture of chloride of lime and sodium carbonate would be about the same as a mixture of chlorine gas and caustic soda except that caustic soda would be more convenient, and that it would be about the same as a mixture of chloride of lime, caustic soda and soda ash.

Mr. Brother, a chemical engineer, testified on behalf of the defendant. About eight or nine years ago he was associated with Karolith and prior thereto, along with Vawter, with Art Horn Product Corporation. Karolith, in 1923, took over Art Horn and with the transfer came certain secret formulae which the latter obtained from some German casein expert. Brother stated that some of the secret

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formulae directed the use of alum in the casein mixture and that alum was used for a time by Karolith, but was abandoned because it seemed to produce no advantage; he also stated that alum was not necessary for the finished rods and sheets made by Karolith, and which were used in making the articles mentioned in the evidence of Vawter. He was of the opinion that the mere mixture of casein and water would not have sufficient body to hold up under a machine that would cut and turn a button from an uncured rod in one operation. In cross-examination he stated that if one wished to render the casein and water mixture softer, in putting it through the extrusion machine, you would include some softening agent such as glycerine, turkey red oil, or something of that nature, and if you wished to make the rod harder you would include alum, or some form of formaldehyde, which would give it more body or substance than the ordinary plastic casein rod would have. Brother seemed to make this statement as if it were common knowledge and within his own experience, and not something learned from the patents in suit. This witness apparently thought that alum stiffened the mixture in some degree, but not in the same degree as formaldehyde.

I shall now refer to the evidence of the defendant Christensen. In 1919 Christensen organized what was known as the Alladdinite Company to manufacture casein rods and sheets, starting first with sheets, then with rods, which when cured were sold to button manufacturers. The ingredients used in the casein mixture at this time were casein, water and some colouring. Christensen said it was the general practice in producing buttons from cured casein rods to first put the rods in an oil bath and soften them by heat, so as to avoid dulling the cutting tool; the blanks were then put into an automatic machine for facing, and another machine operation for backing, and that made a button; then there followed the drilling, polishing and dyeing operations. In the summer of 1929 Christensen learned that Clemens had developed a machine, the one referred to in the specification of patent no. 338,100, intended for the cutting of buttons from uncured rods. On seeing this machine and on being shown how it worked Christensen said he was led to believe that an uncured rod could be

used on that machine and that finished buttons could be cut from the uncured rod. He gave Clemens several uncured rods to try out on this machine and it was found that while the button had a perfect face the back was smeared and so the button was unsatisfactory. Christensen then proceeded to make other rods using chemicals of different hardness in the mixture so that it would have the proper firmness to withstand the operations of Clemens' machine and he states that he worked on that during the summer of 1929. These experiments ended with the use of alum in the casein mixture in the proportions mentioned in the material patent; but 2 per cent Christensen found to be the most satisfactory. He then produced uncured rods from this mixture, the first being made on December 12, 1929, and the next on January 9, 1930. In the result Christensen stated that he found that in one operation he could cut from the uncured rod a finished button with the Clemens machine, which, he claims, had never been done before. I am prepared to accept the date of December 12, 1929, as the time when Christensen made his first casein mixture containing alum. On discovery, he gave sometime in 1931 as the date, but I am satisfied he was confused about this and was unintentionally in error as to the proper date. He then commenced production in a small way and in about a year's time production was on a substantial scale. The button after being cut from the uncured rod was cured in a formaldehyde solution, then drilled, polished and dyed, as explained in the specification of the method patent. Just a word as to the chemical polishing liquid. Christensen claims to have discovered or invented, after about a month's experimental work, in August, 1931, his liquid polishing material which has already been described.

Now Christensen claims that with his casein-alum water mixture, the cutting and turning of buttons from uncured rods by the Clemens machine, by using his chemical polishing agent, and generally by following the directions set forth in the specification of the method patent, much time was saved in curing, dyeing and polishing buttons, and consequently much time was saved in producing the finished button. And it is also claimed that this method effected a reduction in waste material. All this it is claimed caused

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a reduction in the cost of production of buttons with an ensuing reduced price to the public and increased sales. I do not think it is necessary to review the evidence of Christensen on these several points.

Coming now to the question of the validity of patent no. 341,399. It is not necessary, I think, to discuss the individual claims relied upon. It is plain that the invention claimed in this patent rests on the inclusion of alum in the casein mixture, or, to use the words of the claims "a composition * * * comprising a mixture of water, alum and * * * casein"; the proportion of each ingredient is not of importance because that would be a matter to be adjusted according to requirements, or according to the character or behaviour of the casein and the alum. When Christensen became acquainted with the Clemens machine he was making rods from a mixture of casein and water. He stated that this machine could not satisfactorily work on such rods and his problem was to produce a casein composition from which uncured rods might be produced and which would stand the cutting and turning operations of the Clemens machine. To solve that problem he claims to have invented his casein-alum composition. He states in his specification:

> Also while I prefer to use alum in producing the mixture referred to, any one of a number of other materials including a weak solution of acetic acid, a weak solution of any of several acid salts such as aluminum ammonium sulphate, aluminum sodium sulphate, aluminum potassium sulphate and ammonium sulphate, and a weak solution of any of several alkalis such as sodium hydrate, potassium hydrate, sodium phosphate, sodium carbonate, potassium carbonate, sodium bicarbonate, potassium bicarbonate and sodium tetra-borate, may be employed to advantage instead of alum.

Christensen was examined on discovery by Mr. Biggar and I wish to make a very brief reference to that examination, by quoting a few questions and answers, and they are as follows:

127. Q. So you had to get a different kind of rod?
A. Exactly.

128. Q. And you knew, because you were familiar with the business, that you would get a different kind of rod by adding alum, or one of these other things that you suggest in your patent specification?
A. I expected to.

129. Q. That was because of the character of the materials?
A. Yes.

130. Q. And, therefore, you just took the obvious material, alum, and tried it?
A. Yes, sir.

131. Q. And that material gave you a rod which did stand up properly under the operation of Mr. Clemens' cutting machine?

A. So much so that formerly we could only make buttons for twenty-two line—just what you have on your vest is twenty-four line—now we can make them—the rods—two inches in diameter and cut them—a finished button out of a rod—which was quite absolutely impossible in the other way.

132. Q. And you knew you could get that kind of result not only from alum but also by using these other materials that are set out in your specification?

A. Yes.

Question 130 may appear to have been put in a way calculated to trap the witness, but I do not think that this is so, particularly when one reads the next fifteen or twenty questions and answers concerning the alternatives of alum. It is not perfectly clear from the evidence, but I think Christensen is a trained chemist. He worked for twelve years in the Edison Laboratories in West Orange, New Jersey, on mechanical and chemical problems. When Christensen found that a casein-water uncured rod would not meet his problem he almost immediately turned to alum, and a dozen or more alternative substances, which he says could be used instead of alum. From the very first he expected to get from either of these substances the results later obtained. It is said that one of these materials might corrode the cutting tools of the machine, that one had a tendency to affect the colour if too great a quantity were used, that some were more expensive than alum, but any one of them would produce the effect Christensen desired, that is, they each would, if in the mixture, produce an uncured rod sufficiently plastic, but firm enough, to stand the cutting and turning operations of Clemens' machine; that is the merit which Christensen claims for his alleged invention. The fact remains that alum and the alternative substances would make firmer the uncured rod if Christensen is accurate in his statement concerning them, in his specification and evidence. Jaeger's evidence was the most satisfactory evidence regarding the effect of alum in a casein mixture. He said that he found "alum to be of special help in obtaining the proper plastification of the material and to obtain even extrusion of the plastic rods out of the machine. We find the material firmer and easier to cut or turn afterwards." That would closely correspond to what Christensen expected from the use of alum in a casein mixture.

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From the evidence it would seem to have been generally known by those interested in the manufacture of casein material for the manufacture of buttons, that alum was more or less used, or talked about, as a useful ingredient. With so many concerns in the industry in the United States, using or experimenting with alum, with German formulae in the hands of so many concerns directing the use of alum and available apparently to anybody at a price, I find it difficult to believe that Christensen should not in some way have known or heard of the use of alum in a casein mixture, and if alum were useful its equivalents would be known, at least to chemists. Christensen immediately turned to alum and its alternatives or equivalents to solve his problem, and he then hoped to get the results later obtained and claimed as invention.

Mr. Brother, a witness for the defendant, used alum in casein mixtures, when with the Art Horn Company, but this was abandoned because it seemed to perform no useful function. He also stated that if you wished to make a casein-water mixture harder "you would include alum or some good form of formaldehyde." I understand this to mean that years ago he understood the reaction of alum in a casein mixture. When Brother speaks of alum hardening the mixture I assume he only means that it is made "firmer," just as Jaeger spoke of it; if it were actually made hard it would not pass through the extrusion machine. Hardening, as understood in this art, is accomplished by a formaldehyde solution. When Brother and Vawter were together in the employ of Karolith, in 1924, they used alum to the extent of 2 per cent in their casein mixture. They had been using acetic acid in their casein mixture and it was found that this corroded the cutting machines so they resorted to the use of alum, but this did not avoid corrosion and apparently they abandoned the use of both alum and acetic acid. Brother stated that alum was not necessary for the sheets and rods made by Karolith and from which were made such articles as fountain pen stands, lamp shades, balls, etc., and that may be correct. This only shows that the use of alum was abandoned because the alum in the mixture was believed to corrode the cutting machine, and because, in the case of Karolith products, it was thought not to be necessary. I might here add that Brother suggested that the German formulae were useless

and deceptive, because they would in some instances suggest the use of one ingredient which would be neutralized by the effect of another mentioned ingredient, for example, he said that either turkey red oil, or glycerine, would neutralize the effect of alum in a mixture. I understood Vawter and Dunham to dispute this suggestion; at any rate the suggestion was not established to my satisfaction and the point is probably not of importance. Jaeger commenced using alum in casein mixtures in the Morrell plant in May, 1929, and its use has been continued there since. Apparently no difficulty was encountered by Morrell through any corrosive qualities inherent in alum, and apparently that is the experience of Christensen. Then the American Plastics Corporation have used since 1925 the English Erinoid formula which required the use of one-half of one per cent of alum aluminum sulphate in a casein mixture, and that is the same as alum.

Upon the evidence I must hold there is no invention in this patent of Christensen and, I think, it should be expunged. The composition claimed was known and used previously by others, and in my opinion what is described and claimed did not call for the exercise of the inventive faculty.

Turning now to patent no. 388,100. Invention is claimed chiefly because of the casein composition, the liquid polishing material, and the cutting and turning of the finished button in one operation from an uncured rod by a machine such as Clemens, all of which are claimed to be new. In these three steps really rests the claim to invention. I think it will be sufficient to discuss this patent in a general way, and without reference to the individual claims relied upon. What I have said concerning the use of alum in a casein composition in the other patent is applicable here; that step in the method was not new and of itself contributes nothing to the subject-matter here. The same thing may be said of the polishing solution composed of chloride of lime with carbonate of soda, or bicarbonate of soda, or potassium carbonate. The same solution had been used by others prior to any date which Christensen could claim. It was used by Jaeger in Germany; Jaeger had the same solution, or its equivalent, made up at Muskegon, in June, 1929, and it has been continuously used since by Morrell;

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Vawter discovered the same properties in Javelle water for Karolith and this concern used the solution; Miners Laboratories and the Matheson Alkali Works suggested the same composition, or its equivalent, to Morrell, and all this was prior to any date which Christensen claims.

Some of the claims refer to the "cutting" of buttons from uncured rods, but Christensen admitted that the cutting of button blanks from uncured rods was known prior to his alleged invention; and further he makes no claim for the "turning" of buttons. Several of the claims state that the buttons are cut from uncured rods substantially in their final shape; and quantities of button blanks, after being drilled, were sold in this state long before Christensen. The words "substantially in their final shape" refer to button blanks cut from uncured rods. In the paragraph of the specification which refers to Clemens' machine we find the words: "blanks * * * which substantially conform in size and shape to the finished buttons by a turning machine * * *" This can only refer to button blanks. As to the turning machine to be employed the patentee merely expresses a preference for that of Clemens but that is the invention of Clemens, if invention there be. The method or methods claimed for dyeing buttons had long been practised in substance, whether or not alum was in the material, whether or not any chemical solution was used for the polishing of buttons, and whether the buttons were cut from a cured or uncured rod.

I do not think that the method or methods described and claimed by Christensen contain subject-matter; I think that every step in what is described as a method, with the exception of the use of the Clemens machine, was substantially known and practised by others, prior to any date claimed by Christensen. If there is anything new in Christensen's method it is in the Clemens machine which apparently cuts and turns the button in one operation whereas the usual practice, I think, was to employ one machine for cutting the button blank and another for turning the button. Making casein rods and sheets from a mixture of casein, water and alum, was practised prior to Christensen's claim to invention. Means were known for the cutting of button blanks from uncured rods, and also for turning them in a cured or uncured state. Curing buttons by

a formaldehyde solution was known; and the method for dyeing buttons, and polishing them mechanically or chemically was known. There may be slight variations between Christensen's described method and what was previously practised, but the difference does not spell invention. If a process of manufacture is known the industrialist must be free to use his skill in the art in working it and modifying it. If a person could monopolize any variation of an existing process, merely because it had not been done before, industrial effort would be intolerably hampered since patents would exist and be supported for innumerable trivial details.

It seems to me that the method described and claimed is a mere aggregation of known distinct and independent steps in the manufacture of buttons from casein. The making of casein material is the first step, the making of rods, the curing of rods or buttons by formaldehyde, the cutting of blanks from the cured or uncured rod by a cutting machine, the turning of buttons by another machine, the drilling, the polishing, and the dyeing, are other distinct steps in the manufacture of buttons from casein, but all were known. The Clemens machine performs an old function, but perhaps in an improved way, because it both cuts and turns buttons directly from the rod in one operation; but that is the only function it performs, and so with formaldehyde, and with the polishing solution. That each step I have mentioned is distinct from the others is exemplified by the fact that some concerns make only casein, others casein rods or sheets, others button blanks, and others do the drilling, turning, polishing and dyeing; and it would not be difficult to imagine some doing only the dyeing. I think this is the correct way of looking at this patent and if one does it becomes apparent that it is a mere aggregation of methods, a series of distinct and different steps,—not a combination—in the manufacture of buttons, each of which is carried out independently of the others, and none of which were, in my opinion, invented by Christensen. If I ask myself what step from the casein material to the finished button did Christensen invent, I can only answer none. If Christensen obtained any new results, or achieved any advantages over anything that had been previously known or practised, it seems to me it is not due to anything he discovered or invented.

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Mr. Clark very skilfully argued that sec. 61 (1) (*a*) should be applied, on the ground that the methods employed by Morrell, and others, in making casein materials and polishing solutions, were carried out secretly, and that such methods had not been made available to the public. In view of the conclusion which I have reached, that is, that there is not subject-matter in either patent, the point taken is not applicable. Section 61 presupposes that there are two inventions and two inventors, each of whom claims priority, and that a patent has issued to one only. The plaintiff lays no claim to invention; it seeks to expunge two patents on the ground that they are and always were invalid and void, which is not the issue contemplated by sec. 61 of the Act. I do not think therefore that the provision of the Patent Act mentioned is applicable here and I need not discuss the question as to whether or not the methods practised by Morrell, or others, were carried out secretly, and whether such methods were made available to the public in the sense intended by sec. 61 (1) (*a*) of the Act.

The plaintiff therefore succeeds and costs will follow the event.

Judgment accordingly.

BETWEEN:

1935

Nov. 27 & 28.

1936

Jun. 13.

HIS MAJESTY THE KING, ON THE INFORMATION OF THE ATTORNEY-GENERAL OF CANADA..... } PLAINTIFF;

AND

A. KUSSNER AND E. J. KUSSNER.. DEFENDANTS.

Revenue—Sales tax—Liability of director for debts of company already incurred at the time the company made a loan to its shareholders or subsequent thereto—Companies Act, R.S.C. 1927, c. 27, s. 112—Companies' Creditors Arrangement Act, 23-24 Geo. V, c. 36—Income War Tax Act, R.S.C. 1927, c. 97, s. 18—Crown not bound by any statute unless statute expressly states otherwise.

Held: That the Companies Act, R.S.C. 1927, c. 27, s. 112, renders the directors of a company liable to its creditors not only for debts of the company existing at the time a loan is made to its shareholders but also for debts contracted between the time of the making of such loan and that of its reimbursement.

2. That the Companies' Creditors Arrangement Act, 23-24 Geo. V, c. 36, does not bind the Crown.

3. That there is no conflict between s. 18 of the Income War Tax Act, R.S.C. 1927, c. 97, and s. 112 of the Companies Act, R.S.C. 1927, c. 27.

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INFORMATION exhibited by the Attorney-General of Canada to recover from the defendants a certain sum for sales tax incurred when defendants were directors of a limited company.

The action was tried before the Honourable Mr. Justice Angers, at Montreal.

O. P. Dorais, K.C., and *Jacques Panneton* for plaintiff.

B. Bernstein, K.C., and *S. Moscovitch* for defendants.

The facts and questions of law raised are stated in the reasons for judgment.

ANGERS J., now (June 13, 1936) delivered the following judgment:

The present action is brought to recover from the defendants Abraham Kussner and E. J. Kussner jointly and severally the sum of $2,613.28 with interest from March 10, 1934, and costs.

The claim is for sales tax incurred by the National Waist Company Limited, a body politic and corporate having its head office in the City of Montreal, during the years 1932, 1933 and 1934, penalties and costs; it is made up as follows:

Date.	Payable.	Paid.	Balance.	
1932				
June	$799 20	$640 76	$158 44	
July	315 44	251 89	63 55	
Aug.	357 83	282 96	74 87	
Sept.	477 20	476 42	78	
Oct.	558 07	556 93	1 14	
				298 78
1933				
Jan.	$477 04	$472 96	$ 4 08	
Feb.	639 66	638 16	1 50	
March	345 51	344 91	60	
April	372 30	371 64	66	
Sept.	432 18	155 28	276 90	
Oct.	469 87		469 87	
Nov.	169 88		169 88	
Dec.	118 50		118 50	
				1,041 99

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1934			
Jan.	$290 35	$290 35	
Feb.	270 77	270 77	
March	114 17	114 17	
			675 29
			2,016 06
Exchequer Court costs			11 00
			2,027 06
Penalties			586 22
			$2,613 28

Plaintiff seeks to hold the defendants responsible for these taxes, penalties and costs as directors of National Waist Company Limited at the time the said taxes became due, in virtue of the provisions of Section 112 of the Companies Act (R.S.C. 1927, ch. 27) which reads:

112. If any loan is made by the company to any shareholder in violation of the provisions of this Part, all directors and other officers of the company making the same, or in anywise assenting thereto, shall be jointly and severally liable for the amount of such loan with interest, to the company, and also to the creditors of the company for all debts of the company then existing, or contracted between the time of the making of such loan and that of the repayment thereof.

National Waist Company Limited was incorporated by federal letters patent some twenty years ago; the exact date was not disclosed and it is immaterial.

In the latter part of March, 1934, National Waist Company Limited made a proposal of compromise to its creditors under the provisions of The Companies' Creditors Arrangement Act, 1933 (23-24 Geo. V, ch. 36) at ten cents on the dollar, which was agreed to by a statutory majority of its creditors and was sanctioned by the Superior Court of the Province of Quebec sitting in and for the district of Montreal by a judgment rendered on April 10, 1934, a duly certified copy whereof was filed as exhibit I.

The plaintiff was not represented at any of the meetings of the creditors of the company having to deal with this proposal of compromise and the said proposal was not accepted by or on behalf of the plaintiff.

A cheque for $200.58, purporting to represent 10% of the plaintiff's claim, was sent to the Commissioner of Excise but the same was not accepted.

The information alleges (*inter alia*) that National Waist Company Limited was indebted to plaintiff in the sum of

$2,613.28, with interest, for sales tax incurred when the defendants were directors of the company, that the company made an arrangement under the Companies' Creditors Arrangement Act on April 10, 1934, which was not accepted by plaintiff and that the defendants are jointly and severally liable for the said debt as a consequence of misfeasance and appropriation to their own use, when directors of the company, of funds of the company contrary to Section 112 of the Companies Act. The information then refers to and quotes in part the minutes of a directors' meeting held on February 5, 1934, at which a resolution was passed whereby certain shares of the Eagle Building, transferred by the defendants to the company in reduction of their indebtedness to the latter, were surrendered to the defendants and whereby it was declared that the amount of said indebtedness was to be considered as a bonus earned by the defendants during the previous years when it was actually paid out and when the company was showing a profit. I shall revert to this resolution later.

The defendants pleaded separately; the statements in defence are substantially the same.

The defendants admit that they were directors of National Waist Company Limited; they deny that the company was indebted to plaintiff in the sum of $2,613.28 for sales tax; they deny having appropriated, to their own use, funds of the company; they admit that the company made an arrangement under the Companies' Creditors Arrangement Act at ten cents on the dollar and say that this arrangement was binding on all the creditors of the company including plaintiff; they state that the company remitted to plaintiff a cheque for $200.58 being 10% of the amount of his claim, that this cheque was accepted by the plaintiff, that this acceptance constituted a full discharge of any indebtedness of the company and that the plaintiff had no further recourse against the company or against its directors.

The defendant Abraham Kussner, in addition to the foregoing, pleads that no actual loan, as contemplated by Section 112 of the Companies Act, was ever made by National Waist Company Limited to the defendants and that the sums in question received by them were in the nature of salaries, profits and bonuses earned in the regular

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course of the business of the company which they controlled, at a time when the company was earning profits; and he adds that in any case the said sums were paid to him prior to the existence of the plaintiff's claim.

The proof discloses that National Waist Company Limited made loans to E. J. Kussner and A. Kussner, the defendants, who at all material times were shareholders and respectively president and secretary-treasurer of the company, starting around 1925 or 1926.

The indebtedness of the defendants to the company in that respect from the 31st of January, 1931, was as follows:

For year ending January 31, 1931:
E. J. Kussner, $22,163.56; A. Kussner, $17,026.83.
For year ending January 31, 1932:
E. J. Kussner, $23,672.35; A. Kussner, $18,240.12.
For year ending January 31, 1933:
E. J. Kussner, $24,527.03; A. Kussner, $18,736.74.
On December 7, 1933, date on which the debt was written off to profit and loss:
E. J. Kussner, $22,352.61; A. Kussner, $17,907.36.

As may be noted the bulk of these sums was received prior to January 31, 1931. In fact subsequent to that date the loans to E. J. Kussner totalled $440.93 and the loans to A. Kussner $182.64. The amount of the defendants' indebtedness varies as the result, on the one hand, of certain refunds made by them and credited to their loan accounts and, on the other hand, of interest charged from time to time to the same accounts.

It was contended on behalf of defendants that the sums thus advanced to the latter by the company were not loans but profits or earnings which the defendants were entitled to withdraw and shared between them proportionately to their interests in the company.

This contention is, in my opinion, untenable. From the very outset these advances were treated as loans. A special account was opened in the company's books in the name of each of the defendants, under the heading "loan account" or occasionally "drawing account."

From the time these accounts were opened to the date on which the balance owing by the defendants was written off as aforesaid (December 7, 1933), the defendants, at different intervals, reimbursed certain sums and periodically interest on the balance outstanding was charged. In addition to the various amounts which the defendants refunded,

they transferred to the company, in partial reduction of their indebtedness, their interests in a property known as the Eagle Building estimated at $16,625.12, of which $9,559.44 were credited to E. J. Kussner and $7,065.68 to A. Kussner.

It is quite obvious that the company, from the beginning, considered these advances as loans and treated them as such and this lasted until the end of 1933 or the beginning of 1934, when the company, on the eve of making its proposal of compromise to its creditors, decided to grant the defendants a release of their indebtedness to the company.

I may mention here that all the shares of National Waist Company Limited were held by the defendants and their wives and that all four constituted the board of directors.

On December 7, 1933, as previously stated, the balance due by the defendants on the advances made to them was written off the books. On February 5, 1934, at a meeting of the board of directors, at which the four directors were present, resolutions were adopted on the vote of the wives of the defendants, the latter refraining from voting because personally interested in the said resolutions, the material part whereof I believe expedient to quote verbatim:

After discussion the following resolution was duly moved and seconded:

That where the equity in the said shares of the Eagle Building was practically negligible in view of the fact that they were already pledged for the personal indebtedness of Messrs. A. and E. J. Kussner and there would be no use in retaining the said shares or showing them as an available asset in the Company;

That the said shares be surrendered to Messrs. A. and E. J. Kussner and that the amount whereby their overdraft had been reduced in consideration of the said shares having been originally transferred to the Company, be written off from the assets of the Company to be considered as a bonus allowed to the said Directors for services rendered to the Company in the past.

Messrs. A. and E. J. Kussner being personally interested in the said resolution refrained from voting thereon.

It being established to the satisfaction of the meeting that the said Directors were not in a financial position in any case to pay off or meet their obligations for the amount of their overdraft or not likely to be in a position to meet same in the immediate future, the said resolution was thereupon unanimously adopted.

In view of the above representations it was thereupon resolved and seconded that the balance of the overdraft and loans made by the Company to Messrs. A. and E. J. Kussner be written off from the assets of the Company, the amount of the said overdraft to be considered as a bonus earned by the said Directors during the previous years when it was actually paid out and when the Company was showing a profit.

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Messrs. A. and E. J. Kussner being personally interested in the said resolution refrained from voting thereon. Carried unanimously.

The notion of treating these advances as bonuses or remuneration for services only occurred when the company decided to make a proposal of compromise to its creditors; up to that moment the advances were considered as loans.

I am satisfied that the advances in question were really loans by the company to two of its shareholders and that section 112 of the Companies Act applies to the case now under consideration.

It was submitted on behalf of defendants that the advances were made and the indebtedness of the defendants created before the sales tax claimed in the present action became due and exigible. This is quite true: except for interest the bulk of the defendants' indebtedness was incurred prior to 1931; on the other hand the unpaid sales tax is for the years 1932, 1933 and 1934. But this, in my opinion, is wholly immaterial, seeing that section 112 renders the directors of the company liable to its creditors not only for debts of the company existing at the time the loan was made but also for debts contracted between the time of the making of such loan and that of its reimbursement.

I have reached the conclusion that the defendants, who at the time the loans in question were made were directors of the company, became liable for the sales tax incurred by the company during the years 1932, 1933 and 1934.

It was urged on behalf of defendants that, in view of the proposal of compromise made by the company which was accepted by a statutory majority of its creditors and sanctioned by the Court, the plaintiff has no further recourse against the company nor against its directors under section 112 of the Companies Act.

This compromise is undoubtedly binding on the ordinary creditors. I do not think it is binding on the Crown.

It was contended for the defendants that the omission on the part of the Minister to vote against the proposal of compromise as well as his failure to return the cheque for $200.58, purporting to represent 10% of the amount of his claim, constituted an acceptance of compromise and a discharge of the company's indebtedness and that the company's directors could not be held liable in the circumstances. I do not believe that this contention has any foundation. The absence of a creditor from a meeting

held for the purpose of considering a proposal of compromise or his abstention from voting thereat must be considered as a vote against the proposal. As far as the cheque is concerned, it is clear from the letters of the Department of National Revenue dated respectively April 25 and May 7, 1934 (exhibits C and D), that it was not accepted. The plaintiff's position would perhaps have been more regular had this cheque been either returned to the sender or tendered in court as alleged in the information, but I do not think that the omission of doing either can be interpreted as being an acceptance of the same in satisfaction of the plaintiff's claim.

It was argued on behalf of defendants that the proposal of compromise, sanctioned by the Court as it was, became binding on the plaintiff as well as on the other creditors. I feel unable to agree with this view.

I do not think that the Companies' Creditors Arrangement Act can affect the rights of the Crown. Section 16 of the Interpretation Act (R.S.C. 1927, ch. 1) stipulates that "no provision or enactment in any Act shall affect, in any manner whatsoever, the rights of His Majesty, his heirs or successors, unless it is expressly stated therein that His Majesty shall be bound thereby." There is no such statement in the Companies' Creditors Arrangement Act.

My attention was drawn to a judgment of the Honourable Mr. Justice Boyer of the Superior Court of the Province of Quebec, dated April 22, 1936, in the case of *Roxy Frocks Manufacturing Company Limited and the Minister of National Revenue,* under the Companies' Creditors Arrangement Act, so far to my knowledge unreported, in which the learned judge said (*inter alia*):

> Au surplus la loi des Arrangements n'est qu'un accessoire de la loi de faillite qui s'applique à la Couronne et d'après laquelle elle n'a aucun privilège et il n'y a pas plus de raison d'accorder un privilège à la Couronne en vertue de la loi des Arrangements avant faillite, qu'après faillite sur compromis en vertu de la loi de faillite.

With all due deference I must say that I am not inclined to consider the Companies' Creditors Arrangement Act as an accessory to the Bankruptcy Act. The latter Act contains provisions dealing with Composition or Scheme of Arrangement (sections 11 *et seq.*) after the granting of a receiving order against the debtor or the making of an authorized assignment by him; it applies to insolvent debtors in general, whether a corporation, a firm or part-

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The proposal for a composition or scheme of arrangement under the Bankruptcy Act is incidental to and must follow a receiving order or an assignment. Before the amendment enacted by 13-14 Geo. V, chap. 31, s. 15, a debtor could make a proposal for a composition or a scheme of arrangement either before or after the making of a receiving order against him or the making of an authorized assignment by him: see 9-10 Geo. V, chap. 36, s. 13. But since the statute 13-14 Geo. V, chap. 31, came into force a debtor wishing to avail himself of the provisions of the Bankruptcy Act regarding a composition or scheme of arrangement must first be declared bankrupt or make an assignment for the benefit of his creditors. By section 188 of the Bankruptcy Act the provisions thereof relating to, among other things, the effect of a composition or scheme of arrangement and the effect of a discharge are made binding upon the Crown; section 188 reads as follows:

> 188. Save as provided in this Act, the provisions of this Act relating to the remedies against the property of a debtor, the priorities of debts, the effect of a composition or scheme of arrangement, and the effect of a discharge, shall bind the Crown.

The Companies' Creditors Arrangement Act contains no similar stipulation. I think I must assume that the legislators, when enacting the Act known as the Companies' Creditors Arrangement Act, enabling a company or corporation to submit to its creditors a proposal of compromise or arrangement without the necessity of a receiving order or an authorized assignment, intentionally omitted to mention that the Act would bind the Crown. It is to be surmised, as I think, that the legislators were aware that there was a clause in the Bankruptcy Act in virtue of which certain provisions thereof were expressly declared to bind the Crown. But be that as it may, it matters not, to my mind, whether the omission of a binding clause in the Companies' Creditors Arrangement Act was intentional or not; the absence of a provision in the Act relieves the Crown of any obligation thereunder: Maxwell on the Interpretation of Statutes, 7th ed., p. 117; Chitty, Prerogatives of the Crown, 383; Bacon's Abridgment of the Law, Prerogative (E) 5, pp. 92 *et seq.*; *Attorney-General* v. *Allgood* (1); *In re Henley & Co.* (2); *In re Oriental*

(1) (1743) Parker, 1 at 3.

(2) (1878) L.R. 9 Ch. D., 469, at 481 and 482.

Bank Corporation (1); *Ex parte Postmaster General. In re Bonham* (2); *Perry* v. *Eames* (3); *The Queen* v. *Bank of Nova Scotia* (4); *The Liquidators of the Maritime Bank* v. *The Queen* (5); *North Pacific Lumber Co.* v. *The Minister of National Revenue* (6).

It has been held that the doctrine that a statute does not affect the rights of His Majesty unless it is expressly mentioned therein that His Majesty shall be bound by it applies only to such rights and prerogatives as are the attributes of sovereignty and that it does not apply to minor prerogatives nor to such rights as may be possessed equally by all his subjects: see *Campbell* v. *Judah* (7); *In re Colonial Piano Limited* (8); *Monk* v. *Ouimet* (9). These decisions, in my opinion, have no bearing on the present case: the prerogative or right which the plaintiff is pleading is neither what has been termed a minor prerogative nor even less a right enjoyed by His Majesty's subjects.

The question as to whether the Crown had or not a preferential claim for sales tax was raised at the hearing but was not discussed at any great length, counsel for plaintiff declaring that he did not rely on a matter of privilege but on the fact that the Companies' Creditors Arrangement Act does not bind the Crown; I do not think that the question of privilege is relevant.

Prescription does not run against the Crown. Counsel for defendants submitted, however, that the plaintiff's claim was stale, and, relying on *Brooks* v. *Muckleston* (10), contended that it ought to be dismissed. The doctrine of staleness is not applicable in the present case.

It was argued by counsel for defendants that the Minister of National Revenue having assessed as income the advances received by the defendants and charged to their "loan" or "drawing" accounts was now precluded from claiming that they were loans; in support of his contention

(1) (1885) L.R. 28 Ch. D., 634, at 647.
(2) (1878-79) L.R. 10 Ch. D. 595 at 600.
(3) (1891) L.J. 60 Ch. D. 345 at 349.
(4) (1885) 11 S.C.R., 1 at 21.
(5) (1888) 17 S.C.R. 657 at 660, 661 and 668.
(6) (1928) Ex.C.R. 68
(7) (1884) 7 L.N., 147.
(8) (1926-27) 8 C.B.R., 266; (1928-29) 10 C.B.R., 111.
(9) (1874) 19 L.C.J., 71.
(10) (1909) 2 Ch. 519.

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counsel referred to section 18 of the Income War Tax Act (R.S.C. 1927, chap. 97). The first paragraph of section 18 reads as follows:

> *For the purposes of this Act,* any loan or advance by a corporation, or appropriation of its funds to a shareholder thereof, other than a loan or advance incidental to the business of the corporation shall be deemed to be a dividend to the extent that such corporation has on hand undistributed income and such dividend shall be deemed to be income received by such shareholder in the year in which made.

This section deals with income; it does not conflict with section 112 of the Companies Act which deals with an entirely different subject. The evidence does not disclose if the defendants complied with these assessment notices and if the income tax therein mentioned were paid; the proof in this connection is incomplete and unsatisfactory. But, assuming that the defendants paid income tax in compliance with the said assessment notices, I do not think that this can affect in any way the plaintiff's recourse under section 112 of the Companies Act.

The plaintiff has established his claim to the extent of $2,602.28; the evidence with regard to the sum of $11 for costs is not satisfactory.

There will be judgment against the defendants jointly and severally for $2,602.28 with interest from March 10, 1934, and costs.

The plaintiff will either return the cheque for $200.58 received pursuant to the arrangement hereinabove mentioned or give credit to the defendants for the amount thereof.

Judgment accordingly.

BETWEEN:

ROBERT P. PORTER AND ARCHIBALD R. MACGLASHEN, ADMINISTRATOR WITH THE WILL ANNEXED, OF THE ESTATE OF GEORGE F. PORTER (DECEASED) ..... PLAINTIFFS;

AND

THE CORPORATION OF THE CITY OF TORONTO; THE FOUNDATION COMPANY OF ONTARIO, LIMITED, AND TORONTO IRON WORKS, LIMITED ..... DEFENDANTS.

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Patent—Infringement—Anticipation—Invention.

The patent for invention herein relates to tunnels, more particularly to tube tunnels adapted to be constructed in sections which are mounted bodily in position and connected one with the other. One of its stated objects is the provision of a novel coupling structure for connecting the sections, and another object is to provide a coupling structure that will permit the sections to be shifted or swung into line after one side is coupled, thereby facilitating the coupling operation. The construction alleged to infringe plaintiffs' patent relates to a steel intake pipe built by the City of Toronto, extending some 4,200 feet into Lake Ontario.

The Court found that the form of coupling employed by the defendants was precisely that suggested by a prior patent other than that of the plaintiffs; that the patent in suit had been anticipated; that plaintiffs' patent did not disclose invention.

Held: That it is not invention to adopt a method to accomplish a result when that method is simply a case of engineering judgment or skill.

ACTION by plaintiffs to have it declared that Canadian Patent for Invention number 305,548 is valid and infringed by defendants.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Toronto.

H. A. Rose, K.C., H. G. Fox and *E. W. Tyrrill* for plaintiffs.

D. L. McCarthy, K.C., and *A. W. Langmuir* for defendants.

The facts and questions of law raised are stated in the reasons for judgment.

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THE PRESIDENT, now (July 24, 1936) delivered the following judgment:

This is an action for the infringement of patent no. 305,548 which issued to George F. Porter, now deceased, and Robert P. Porter, both engineers, on November 4, 1930, upon an application dated January 10, 1930. It will be convenient to refer hereafter to the plaintiffs as "Porter." The invention claimed is said to relate to tunnels, and more particularly to tube tunnels adapted to be constructed in sections, which sections are mounted bodily in position and connected one with the other. One of its stated objects is the provision of a novel coupling structure for connecting the said sections whereby they may be readily coupled together. Another object, the specification states, is to provide a coupling structure that will permit the sections to be shifted or swung into line after one side is coupled, thereby facilitating the coupling operation.

On this continent at least there seems to have been two standard methods of tunnel construction, the shield driven method, and the open trench method, the latter of which seems to be known as subaqueous tunnel construction. The shield driven method is one in which vertical shafts are sunk on land on each side of a body of water and from which shaft a cylindrical shield or bore is driven forward under land and water, the excavated material, by appropriate means, being carried to the surface. The tunnel so formed is lined usually with steel segments as the shield proceeds. This method of tunnel construction is apparently more expensive than the open trench type of tunnel construction in which a deep open trench is dredged in the bed of the water to be crossed, to receive the steel tunnel sections which are constructed on land; the sections are then by appropriate means conveyed to and sunk in the trench, where they are coupled together, the tunnel thus consisting of a single steel tube built in sections; the trench in which the sections are placed is afterwards covered by the previously excavated material. It was a well known practice in this type of construction to sink the tunnel sections on landing platforms constructed close to the bottom of the dredged trench, on which platforms certain portions of the ends of two adjacent sections would rest and

there be connected, usually by being bolted together; under and around the platforms and tunnel sections concrete would later be placed so as to afford a solid base for the sections.

The Michigan Central Railway tunnel, a double-tube tunnel, built between Detroit, Michigan, and Windsor, Ontario, in the years 1908 and 1909, was constructed according to what is known as the Hoff method, popularly known as the trench and tremie method, patented by one Hoff in 1908. In that case the steel tube sections were constructed on land, fitted with bulk-heads, and then towed into position and sunk upon the prepared landing platforms; the tubes were guided into place by what were called pilot pins and cones, the cones being on the section already sunk and the pilot pins on the section being sunk. In other words, one end of the section being placed in position had four projecting pins which were guided and forced into four corresponding holes in the end of the section already sunk. After the former section was in place, the flanges bolted, and the bulk-heads removed, the interior of the tube section was lined with concrete and the exterior was entirely surrounded by concrete deposited under water by what is called a tremie pipe. That was generally the type of tunnel construction first proposed to be followed in building a vehicular tunnel under the Detroit river, between Detroit and Windsor, with which construction Porter later became associated.

In April, 1928, as I understand it, contractors were invited to submit tenders for the construction of the Detroit-Windsor tunnel, comprising the land sections on either side of the Detroit river, and the subaqueous portion which was to comprise nine sections in number. When contractors were invited first to tender for the construction of this tunnel the plans provided for the Hoff type of construction, or some modification of it. The promoters of the Detroit-Windsor tunnel subsequently discovered that they were unable to secure sufficient capital to proceed with the tunnel according to the proposed plans or type of construction, but they advised contractors of their willingness to consider alternative proposals as to plans and method of construction, and cost of construction. Porter then submitted a proposal, which was later accepted, to construct the sub-

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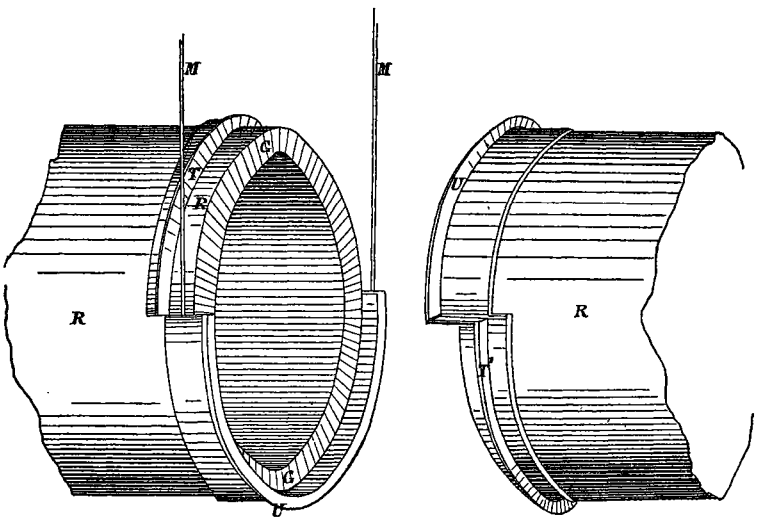
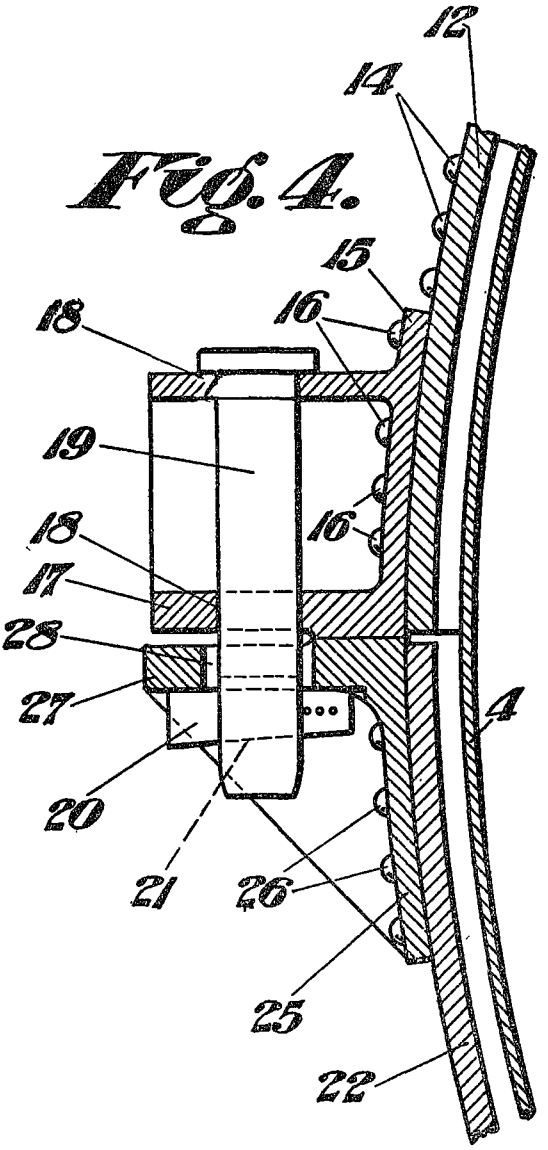
aqueous portion of tunnel by building the steel sections on land, there concreting the exterior and interior of the sections, except at the extreme ends of the sections, and then launching, sinking and connecting the same in the prepared trench. The Hoff type of construction, as already mentioned, called for the placing of the interior and exterior concrete after the sections were sunk and connected, and the bulk-heads removed. Porter at that time was particularly concerned with designing a type of construction which would meet the financial resources of the promoting company, and first he proposed the elimination of the landing platforms, which was a more or less expensive feature, and laying the tubes on the bed of the trench, after grading the same with sand or gravel, or both. Then in order to align the tubes when laid in the trench he proposed having bolted flanges on the lower half of the end of the cylindrical section already in place, and a corresponding flange on the upper half of the section to be sunk, so that when the latter was sunk it would rest upon the lower flange of the section already in place, at the correct elevation longitudinally. This, Porter claims, was to take the place of the landing platform whereon the ends of the adjacent sections were usually bolted together. Fig. 10 of the British patent to Raynor (1875) will more quickly and clearly disclose the nature and purpose of tunnel section flanges than I can do. The rods M, M, may be disregarded. It is as follows:

FIG. 10.



The idea of the flanges, whereby the ends of two adjacent sections might be nested together, Porter now claims as novel. Each flange in Porter occupied one half of the circumference of the sections; the sections were almost 250 feet in length, with an inside diameter of 31 feet and an outside diameter of 35 feet, and weighing when ready to be sunk seven or eight thousand tons.



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Porter then proposed attaching steel castings or lugs on each terminal of both the upper and lower flanges, with apertures in each, through which pins might be placed in horizontal position, to couple the sections together, but this, it was said, was not satisfactory because both pins would have to be put in simultaneously or the coupling would not be satisfactory; that coupling was abandoned and that described in the patent in suit adopted. Fig. 4 of the patent to Porter illustrates the construction and function of the lugs and pins.

It will be seen from this drawing that at or near the terminals of the upper and lower flanges are fastened steel castings or lugs with apertures through which tapered pins are placed vertically to couple the sides of the sections together. In the upper lugs the pins fit snugly but in the lower lugs the pins and apertures gave a very considerable tolerance; in actual practice the pins when in the lower lugs had a diameter of about five inches while the apertures in the same lugs were of a diameter of about fourteen inches, thus giving what is called a loose coupling. Generally, during construction, the practice was to couple first the adjacent sections on one side only, which, it is claimed, would give such a loose coupling as would permit a manœuvring or "wriggling" of the section at the free end so as to correct any deviation of any kind from the true alignment of the two sections; later the second pin would be placed in the lugs on the other side of the sections, but sometimes the two pins would be placed simultaneously in position. I perhaps should add here that, in Porter, after the pins were in place a sealing ring was secured in position over the joint formed by the abutting ends of the sections and concrete was then placed to cover the joint. Thus, the upper and lower flanges, the slotted lugs on each side of the flanges, and the tapered pins, gave what is called a loose coupling of the sections, and that combination is, as I understand it, what Porter claims as invention.

The construction which is said to infringe Porter relates to a steel intake pipe built by the City of Toronto and which extended some 4,200 feet into Lake Ontario, off Victoria Park. This work was designed by H. G. Acres, a consulting engineer, practising in Toronto. We are not concerned here with the form of construction on the land

end of the intake pipe. The portion of the intake pipe involved in this action was that part laid in the lake bottom, in sections, in an excavated trench graded with gravel. Landing platforms were not employed in aligning or coupling the adjacent sections. The sections were each about 100 feet in length, with a concrete finished inside of a diameter of about 8 feet, and a horse-shoe shaped concrete envelope outside which served the double purpose of an external protection for the steel shell, and footing for the pipe after it was laid. To each end of a section was riveted a projecting flange, called by Mr. Acres a butt strap, alternately on the upper half and then on the lower half of the periphery of the steel shell, substantially as in Porter and Raynor. Fig. 1 in the United States patent to Wight, which I shall later reproduce, is practically the same construction as Acres in so far as the flanges and coupling means are concerned, though perhaps not on the same scale. To obtain an accurate engagement of the upper and lower projecting flanges, what is called clip angles were bolted at right angles to each end of the upper and lower flanges, and in those angles holes of the same diameter were placed; when the flanges were nested together or brought into alignment a drift pin would be inserted and gradually worked into place through the holes of the upper and lower angles, by a diver. The pin was slightly tapered at the lower end, but the tolerance was slight and does not seem to have been an important factor in Acres' plans. Acres stated that in 1920 he used the same kind of flanges, or upper-hanging and under-hanging lips as he sometimes called them, in designing and fabricating the conduits for a large power plant at Queenston, Ontario. Acres stated that he had never seen the Detroit-Windsor tunnel, nor had he ever read anything concerning it, prior to designing the intake pipe for the city of Toronto, and which is claimed to infringe Porter. What Acres was concerned with was in getting as tight a joint as was possible, and the use of a drift pin he stated was the most practical method of so doing and was a well recognized method in the engineering profession for fabricating steel sections together.

The contractor, the Foundation Company of Ontario Ltd., one of the defendants, adopted the following method

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of effecting an alignment of the sections. The drawings of the plans to be followed by the contractor required, as I have already stated, an angle on both sides of the upper and lower flanges in which was a hole, and in the angles in the section already sunk in place the contractor drilled a second hole about an inch in diameter, and through these holes it put a cable which was secured at the bottom. The cables were then threaded through corresponding holes in the angles of the section hanging above the surface and about to be sunk, and which were held taut by a derrick; the pipe about to be lowered into position was then lowered down on the cables so that the end of the pipe being lowered had to fit over the flange or lip of the section already in position in the bottom of the trench, the cable serving as a guide in lowering the pipe into place and alignment. This was exactly what Raynor suggested except that he recommended the rods M, M, instead of the cables. Hoff suggested the use of cables in practically the same way, that is, if I read his specification properly. The flanges and angles, together with the pins, suggested by Acres, were simply a means of connecting the two sections together. Now that was one way of effecting an alignment and coupling, though somewhat different from Porter.

Referring now more specifically to some of the prior art cited in this case, to all of which I have already made some reference. I have already described Hoff and nothing further need be said concerning it. Raynor, which I have already mentioned, describes a subaqueous tubular tunnel constructed in sections on land, then sunk and placed on the bottom of an already excavated and graded trench. Figure 10 of that patent, which I have already reproduced, shows upper and lower flanges attached to the ends of contiguous tunnel sections, when the same are to be of cylindrical form. The flange arrangement is slightly different from that of Porter but they are essentially the same, and there is no necessity for taking time to point out the structural differences because they represent the application of the same idea. In Raynor the flanges of the contiguous sections are ultimately riveted together thus effecting a permanent connection between the sections, which is different from the type of coupling suggested by Porter. In Raynor, the rods M, M, in the section already in place, are intended

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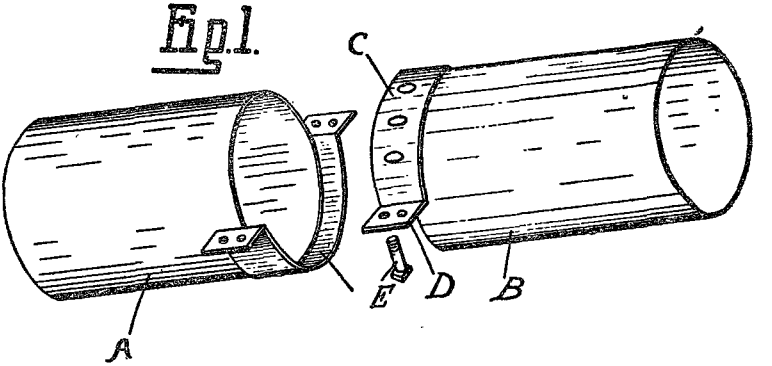
as guides for sinking and placing the next following section and in which section are two corresponding eyes projecting near the terminals of the upper flange; the section to be sunk follows through such eyes the rods M, M, and thus the two sections come into close contact. Hoff, I think, suggests as a guide the use of a line or cable, instead of rods, just as did the Foundation Company of Ontario Ltd., which concern constructed the alleged infringing work. The only other cited published patent to which I would refer is Wight, a United States patent which issued in 1909. This invention, the specification states, relates particularly to metallic sectional conduits, especially adapted to sewer work, and consists primarily in means for connecting or joining two abutting sections. In the drawings of this patent figure 1 is a perspective view of two abutting conduit sections, and is as follows:



The specification states:

With reference particularly to the construction of conduit shown in fig. 1, A and B represent two abutting sections formed each of sheet metal, the meeting edges of which are riveted to form cylindrical sections. Each of these conduit sections is provided at its meeting edge with a segmental flange, as C, in this instance a metal band extending preferably half way about the conduit section and riveted thereto. These bands are also provided with lateral offset portions at their ends, indicated by the reference-letter D, which when the conduit sections are arranged in place register one with the other, and these registering portions are clamped by any suitable means, as bolts E. A conduit formed in this manner is especially adapted for sewer work,—as a sewer pipe,—for the reason that the meeting ends of the conduit sections abut, and the interior of the conduit is of uniform diameter throughout its length, there being no overlapping of the sections.

The idea of a flange, butt-strap, band, or lip being riveted onto the end of each section forming a tunnel or conduit, alternately on the upper half and lower half of the periphery of the section, so as to bring two abutting sections

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into engagement, in the bottom of a graded trench was plainly anticipated by Raynor. Raynor shows this in sub-aqueous tunnel construction where the sections were to be laid on the bottom of an excavated and graded trench. Acres turned to the same idea in constructing the city of Toronto intake pipe, and he employed the same principle in 1920 in fabricating conduits, cylindrical pipes, in connection with a large power plant at Queenston, Ont. Wight suggested the same idea for joining abutting sections of metallic conduits in sewer construction. Hoff also employed a form of flange which was riveted together, when the alignment of the section being sunk was accomplished. Something in the nature of a flange would seem to be necessary where conduit sections are to be fabricated, whether laid on the bottom of a trench or on a platform, and whether a water conduit, a sewer conduit, or a vehicular tunnel which is also a conduit. Then as to the lugs and pins. There is nothing to suggest that Porter experienced any difficulty in designing his means of coupling and some form of coupling would appear necessary, whatever the degree of flexibility, if as an engineer and contractor he was to complete satisfactorily his contract. He experimented with one form of coupling which he believed to be unsatisfactory, and as one would expect of a competent engineer, he quickly altered it to the form described in the patent, which in principle was similar to the one discarded. Some means of coupling being necessary I should think any skilled engineer would readily turn to something of the nature of slotted lugs or lateral offsets, or something of that nature, associated with pins or bolts. That is a well recognized method of assembling steel sections together. The precise method adopted would be simply a case of engineering judgment or skill, and skill is not invention. Wight suggested, what, so far as I can see, is exactly the same means of coupling adopted by Acres, and if that is so then the defendants cannot, in that respect, possibly infringe Porter. No distinction can, I think, be drawn between the means for coupling sewer pipe sections and tunnel sections. Then as to the idea of the loose coupling of Porter, made possible, it is claimed, by the small diameter of the pin when in the lower lug as compared with the larger diameter of the lower lug itself, which, it is claimed required invention. That seems to be the point on which the plaintiff

chiefly relies to sustain the patent, and it is claimed that this loose coupling was designed, not to make the connection water-tight, but to procure an easy alignment of the sections, a point which I cannot avoid thinking is somewhat exaggerated. Hoff does not seem to have had any difficulty in manœuvring the free end of his section when the pins and cones at the other end were in registration. It may have been desirable to make provision for manipulating the free end of the section being lowered, before placing the second pin in position, by allowing a liberal tolerance for the pin in the lower lugs. But would that be invention? I think this only required engineering skill, and the application of an idea which must have been old to skilled engineers, and very probably to laymen. The loose coupling suggested by Porter, I think, merely represents that mechanical skill which all engineers working in the art, particularly in certain circumstances, ought to be permitted to exercise. It does not present that amount of genius which should be rewarded by a patent. I take it to be well settled that no valid patent can issue for a conception which requires the mere exercise of the skill of the competent or skilled workman in any particular art as distinguished from the act of invention. My conclusion is that Porter does not disclose the sort of thing which can be described as invention. Further, as I have already stated, the flanges and the form of coupling employed by the defendants in the city of Toronto intake pipe construction is precisely that suggested by Wight, and if that is so, then there could not possibly be infringement of Porter by the defendants. It is not therefore necessary to discuss the matter of infringement.

Before concluding I should refer to a controversy that arose at the very end of the trial regarding the reception of certain evidence. On cross-examination Mr. Fox asked Mr. Acres if any persons working under him had seen the Detroit-Windsor tunnel while under construction, and the latter answered that he had no knowledge of any of his staff of employees having seen this work, and I accept that evidence of Acres. In reply there was called on behalf of the plaintiff a witness, Mr. MacGlashen, who was construction superintendent on the Detroit-Windsor tunnel work, and in answer to a question he stated that in 1928 or 1929,

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a person introducing himself as Andrews, and as being in the employ of Acres, asked permission to inspect the tunnel work and to see the plans of the same, and this permission was given him. This would seem rather unusual if Porter at that stage believed he had made an invention. Subject to objection this evidence was admitted. Mr. Fox did not suggest the name of Andrews to Mr. Acres when cross-examining him, and after reading the evidence carefully since I am now inclined to agree with Mr. McCarthy's objection to the reception of this evidence. Mr. Fox either should have called Andrews as a witness on behalf of the plaintiffs if he suspected that Andrews had visited the Detroit-Windsor tunnel construction and had seen the plans and the work under construction, and had communicated to Acres, his employer, what he had seen and learned, prior to Acres' preparation of the plans of the alleged infringing work, or, he should have asked Acres specifically if Andrews had seen the plans and section construction of Porter and had communicated or utilized any information thus and then acquired, in the preparation of the plans of the offending work, or something of that kind, and not left it as a mere innuendo. Even if the evidence of MacGlashen was admissible it is so general and vague that one could not safely draw any inference from it. In any event I believe the plans of construction of the city of Toronto intake pipe represent generally the considered ideas of Acres. I might observe that if Andrews did see the complete construction of Porter in 1928, or 1929, and was then in the employ of Acres, it is probable the same licence would have been extended to anybody else interested in such a work and making a similar request. I would think that would be perilously close to a publication fatal to the validity of Porter even if there were invention in it. An inventor who, before applying for a patent, uses his invention in such a manner as to convey to the public a knowledge of it will thereby render his patent just as invalid on the ground of want of novelty as if a prior public use and exercise by persons other than himself were shown to have existed. Porter did not apply for a patent in Canada until January, 1930. However, this point was not argued before me and I do not propose relying upon it.

The plaintiffs' action is therefore dismissed with costs.

Judgment accordingly.

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March 23.

July 24.

BETWEEN:

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED, AND WM. WRIGLEY JR. COMPANY, LIMITED ..... PLAINTIFFS;

AND

ROCK CITY TOBACCO COMPANY LIMITED ..... DEFENDANT.

Patents — Infringement — Anticipation — Prior publication — Novelty — Invention — Subject-matter.

The patents in suit, infringement of which was claimed by the plaintiffs, were for methods of severing package wrappers. The Court found that there was no subject-matter in the patents and dismissed the action.

Held: That when a principle is not new, a patent for a method of applying it only secures to the patentee protection in respect of the particular method specified, and the use of different methods of carrying the same principle into effect cannot be restrained.

2. That a combination of well-known elements without any new functions or the accomplishment of any new results does not constitute invention.

ACTION by plaintiffs to have it declared that Canadian Patents for Invention numbered 349,299 and 349,983 are valid and infringed by the defendant.

The action was tried before the Honourable Mr. Justice Maclean, President of the Court, at Ottawa.

R. S. Smart, K.C., for plaintiffs.

J. T. Richard for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT, now (July 24, 1936) delivered the following judgment:

This is an action for the infringement of two patents. The first named plaintiff, a manufacturer of tobacco and cigarettes, is the owner of patent no. 349,299 which issued on April 2, 1935, on an application filed on August 14, 1934, by one Van Sickels, and that plaintiff is the exclusive licensee of the second named plaintiff, in respect of the sale of tobacco in any form, under patent no. 349,983 which issued on April 30, 1935, on an application filed on August 14, 1933, by one Lindsey, and which patent is now owned by the second named plaintiff, a manufacturer of chewing

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gum. Both patents relate to means for removing wrappers from packages of such articles as cigarettes and chewing gum. The defendant is a manufacturer of cigarettes, some of which are sold under the trade name of "Spud."

The patent to Lindsey, which is owned by the William Wrigley Jr. Company, was applied for just one year earlier than Van Sickels, and, it was contended by Mr. Richard, Van Sickels would appear to occupy about the same field as Lindsey. However, whether Lindsey anticipated Van Sickels is not of importance in this case because the Imperial Tobacco Company is the exclusive licensee of the Wrigley Company in respect of the sale of tobacco in any form. Furthermore the question of priority as between Lindsey and Van Sickels was not put in issue.

I shall refer first to the Lindsey patent. I reproduce below figures 1 and 2 of that patent which will at once disclose the nature of the invention claimed in this patent, and it will also assist in understanding what Van Sickels claims as invention. They are as follows:—

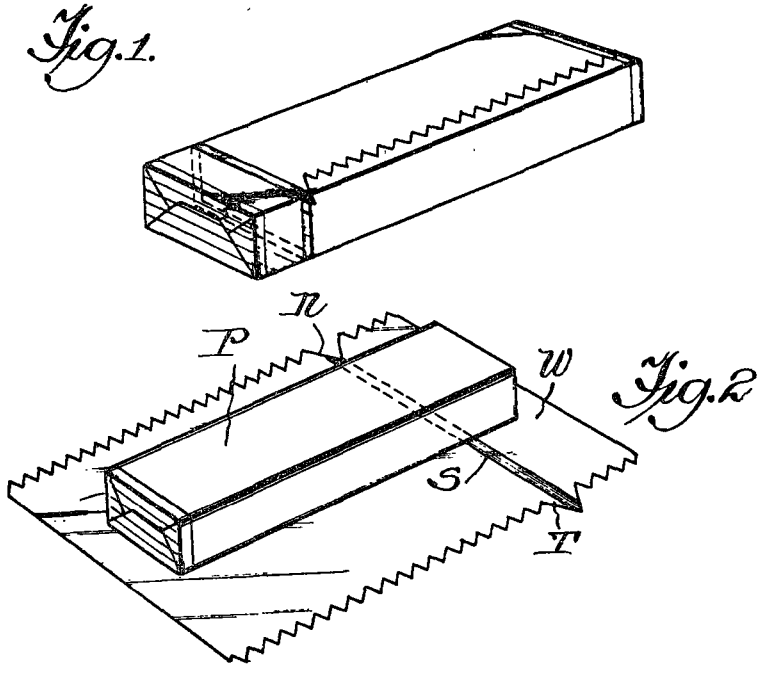

Fig. 1 is a perspective of the package completely wrapped. Fig. 2 is a perspective view of the unwrapped package showing its position relative to the outer wrapper with a gum strip adhering thereto.

In fig. 2, along one of the edges of the wrapper W, the one which lies exterior the package when the wrapper is folded and sealed, there is shown a pointed tab T spaced inwardly from one end thereof a distance corresponding to the predetermined location of the strip S. The tab is one of the serrations increased to at least three times the width and length of the remaining serrations and is formed when the wrappers are cut by providing the cutting members with an enlarged cutting tooth, and consequently as each wrapper is severed from the web of wrapping material fed between the cutting members the leading edge will have the enlarged tab T, and the trailing edge will have a corresponding recess or notch N. Thus with the tab T located in line with the strip and the gummed strip adhered to the tab, the outer end will be extended beyond the edge of the wrapper and the loose projecting end can be grasped between the fingers and pulled with a following movement around the package thus severing the wrapper. The whole operation, as I understand it, is performed mechanically in both patents but this mechanism is not claimed by either patentee.

Some portions of the specification state the object of the invention, and the invention claimed, more clearly than I have done and accordingly it might be useful to quote from the specification the following:

> It is common practice at the present time to enclose package consumable goods, such as chewing gum, confections and the like, in an outer wrapper of a moisture-proof material, that bearing the Registered Trade-mark "CELLOPHANE" being a very satisfactory material for this purpose, for in addition to being moisture-proof, it is perfectly transparent and very durable, as is exhibited in its tenacity against breakage or rupture, although once a break has been made, it tears very readily and in all directions, since it has no definite texture. Thus a sheet of such "CELLOPHANE" material tightly wrapped about a package and sealed, offers considerable resistance to rupture and to such extent that numerous schemes have been devised for assisting in the breaking open of a package so wrapped, such as projecting tabs and unsealed edge portions which may be grasped for the purpose of tearing open the end of the package. Owing to the nature of the material as above stated, however, it is quite likely that, in tearing open the wrapper at one end of the package, the entire wrapper will be torn away and the protection afforded thereby is lost during the period of consumption.
>
> * * * * * * * * *
>
> For the purpose of this disclosure, the package P may be any package consumable product or article to which is to be applied an additional outer wrapper W of moisture-proof material such as that bearing the Registered Trade-mark "CELLOPHANE" although the familiar pack-

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age of chewing gum has been illustrated as one to which the improved method and means of opening is particularly adaptable. Like most package consumable products, chewing gum ordinarily lasts for a period of time before the contents of the package are consumed, and hence it is customary to break open one end of the package and remove the contents therefrom. Consequently, on applying an outer moisture-proof wrapper, it is desirable to provide for opening the package in the usual manner, and hence the outer wrapper with the auxiliary opening member is applied accordingly. Thus as shown in Figure 2, the outer wrapper is a rectangular sheet, enough longer and wider than the package to completely envelope it with the longer edges overlapping each other and the protruding ends tucked in and folded neatly against the ends of the package in a regular square end fold.

* * * * * * * * *

The opening member S as previously explained is preferably a narrow ribbon-like strip of the same material as the outer wrapper of, say 1/16 or 3/32 of an inch in width, and of a colour that is readily visible in contrast with that of the package and the outer wrapper. Thus for example, if a colourless clear material is used for the wrapper, the strips may be red or some other colour.

The specification states that the strips may be incorporated in the packages during the wrapping operation in several different ways, two of which are illustrated in the drawings but it will be sufficient to refer to one, fig. 2. The specification states:

By one method (Figure 2) the strip material has the form of a gummed tape fed from a roll or spool toward the web of outer wrapping material as it travels toward the cutter, the gummed surface of the tape being moistened as it is fed into contact with such web, and just before the latter passes between the cutters. In short, by the method of using a gummed tape, the wrapper and strip materials are assembled before the individual wrappers are cut.

Claim 7 is typical and might be quoted:

A package wrap comprising a package having a wrapper wrapped tightly around the same and sealed at its ends and along overlapping marginal portions, the edge of the outer overlapping marginal portion of the wrapper extending parallel with and adjacent to one of the longitudinal corner edges of the package and having a loose tab projecting toward and beyond said corner edge, and a narrow strip of the wrapper material extending around said package beneath the wrapper and with its end portion lying between the overlapping marginal portions and adhering to said tab.

The object of Van Sickels is stated in one paragraph in the specification and it is as follows:

The object of this invention is to facilitate the removal of the transparent moisture-proof outer wrappers used on cigarette and other packages. To this end the invention comprises a tearing strip extending around the package inside the wrapper so that one of its terminals may be conveniently grasped and pulled to tear away the overlying part of the wrapper. The tearing strip is preferably located to divide the wrapper into two half sections which are easily slipped off the package to permit the latter to be opened in the usual manner.

There is but one claim in this patent and as it specifically defines what is claimed as the invention it had better be quoted. It is as follows:

1. A package comprising a container, a wrapper folded about the container to completely enclose the same, said wrapper presenting overlapping inner and outer flap portions overlying one wall of said container, a narrow tearing strip extending around the package inside the wrapper with one end of the strip disposed between said inner flap and the underlying wall of the container and the other end of the strip disposed between the two overlapping flaps, the outer of said overlapping flaps being provided with slits extending inwardly from its free edge along opposite sides of the tearing strip.

The wrapper, which comprises a sheet of regenerated cellulose, such as that sold under the trade-mark "Cellophane," is wrapped around the package in the usual manner, to provide, it is said, a moisture-proof enclosure therefor. The tearing strip, which may be a narrow flat band of paper, regenerated cellulose or other suitable sheet material, extends completely around the package inside the wrapper, with one end of the strip disposed between the inner flap and the package or container itself and the other end disposed between the two overlapping flaps, and ordinarily projecting outwardly therefrom; the projecting end may be grasped and pulled to tear away the overlying part of the wrapper. The outer of the overlapping flaps of the wrapper is provided with two slits, one on either side of the strip, forming a sort of tab. These slits extend inwardly a short distance from the edge of the wrapper and serve to facilitate the tearing of the wrapper when the end of the strip is pulled for that purpose. The slits also enable the end of the strip to be grasped when the end of the strip terminates flush with the edges of the flaps of the wrapper material instead of being projected beyond the same. The pulling of the tearing strip serves to remove a portion of the wrapper corresponding to the width of the tearing strip and thus dividing the wrapper into two sections, one or both may be removed. It is the presence of the slits that distinguish Van Sickels from Lindsey.

The claim to validity in Lindsey and Van Sickels is based on the combination of the wrapper material, the tearing strip adhered to the inside of the wrapper, and the tab, and this combination is said to constitute subject-matter in each case. The defendant claims that what is described

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in both patents was anticipated by prior publications, and was obvious. To initiate a rupture or tear in cellophane is difficult, but when once started it tears very easily by the finger or otherwise, for example, by a strip or band adhesively attached to the inside of the wrapper. There can be no doubt as to the utility of the tearing strip, and probably the tab, however formed. The difficult question to decide is whether there is novelty and utility in the combination in the degree requisite to constitute subject-matter. A thing may be new and useful without being suggestive of invention.

The defendant for a few days used the same wrapper and tearing strip described by Van Sickels, that is to say, there was a slit on each side of the strip which formed a tab, but I am not sure whether the strip projected beyond the edge of the wrapper material. When Van Sickels issued, the defendant thereafter used but one slit, and still does as I understand it. The one slit assists in tearing off one end of the cellophane wrapper, that is to say, the tear follows the side of the strip on which is the slit, and the end of the wrapper comes away with it. The severance is not the width of the strip as in Lindsey and Van Sickels, but a definite severance is effected and one end of the wrapper is removed.

We may now turn to a review of some of the cited prior publications. I shall first refer to Boyd, a British patent, accepted in 1902. The patentee states in his specification:

> In the practice of my invention I provide a sheet of paper (*a*) or any other suitable material of any length and width desired and cover it on one side with adhesive material the whole of its length. At a predetermined distance from one of the side edges of this sheet in the direction of its length I seal thereto by means of the adhesive material with which the sheet is provided a tape or ribbon (*b*) of any suitable material, one end of which may or may not extend slightly beyond end of sheet (*a*).

There is more than one embodiment of the invention described in the specification. Where Boyd suggests only the use of a sheet of paper, that is as a wrapper, he covers it with adhesive material only to a predetermined distance on the edge of one side. At the inside edge of this adhesive material he seals a tape or ribbon, the remaining and large portion of the sheet being uncovered and in its natural state. Later he directs that before the covers or wrappers are placed around articles that a slit or notch should be

made on them, on each side of the end of the tape or ribbon, unless such tape or ribbon extends slightly beyond one end of the covers or wrappers. The slit or notch, he states, enables one to take hold of the tape or ribbon and by pulling it remove the wrapper from the package instantly. Evidently Boyd contemplated that the ribbon normally would extend beyond one end of the covers or wrappers, or it might be flush with the same, and in the latter event he suggests the slit or notch should be adopted. He suggests that his device is suitable for tubes of various kinds, also magazines, newspapers, etc., and other articles, and the device is not to be limited to the construction described in his specification. What Boyd claimed was:—

(1) A wrapper or case consisting of a sheet of paper or other suitable material to one side of which at a predetermined distance from one or more of the edges thereof is sealed or attached by means of adhesive material a tape or ribbon of any suitable material for the purpose of enabling such wrapper or case to be instantly removed from any goods which it covers, all as substantially and for the purposes as hereinbefore described.

The United States patent to de Escobales (1916) relates to an intricate machine designed for the purpose of mechanically folding wrappers over packages. The machine functions in such a way as to cause a paste secured wrapper and a narrow tape—which is inside the wrapper—to be folded upon the article or container, so that in the end the unpasted end of the tape protrudes beyond the edges of the wrapper when it is finally folded. I only refer to this patent for the purpose of pointing out that in applying the wrapper to the article there is an accompanying narrow tape between the wrapper and the article, one end of which protrudes beyond the end of the wrapper when it is folded, and which is used as a tearing strip, which is not, however, claimed by the patentee—at least I do not think it is.

Martinez, a French patent, issued in 1914, refers to a wrapper, which may be of paper, thin cardboard or of any other material. Upon the sheet constituting the wrapper, and on the inside, is secured a tongue, which may be a cord, a textile or metallic thread, a belt of resistant paper or any other suitable material. The tongue which is destined to facilitate the opening of the package is arranged in such a manner that, after the article is wrapped up and

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the parts of the wrapper secured by some suitable adhesive, the tongue protrudes and permits of its being seized so that when pulling it the wrapper, which encloses any article, may be undone.

I might refer to the United States patent to Panza (1923). This invention relates particularly to receptacles for containing cigarettes. In general, the patentee states that his invention consists in securing to the wrapper portion of the package a thin strip of ribbon, so arranged that when one end of the ribbon is pulled the wrapper may be severed or torn along a plane, that corresponds with one that is parallel to the closed or upper end of the package and a short distance below the ends of the cigarettes, leaving the upper ends of the cigarettes exposed. The patentee states that any suitable means may be employed for securing the strip of ribbon to the paper and tinfoil parts which make up the wrapper.

Other cited prior publications suggest in various forms the use of strips, ribbons or strings, to sever wrappers which are applied to various types of articles and containers but it is not, I think, necessary to refer to them. I might however add that wrappers were in the past and still are severed from packages by a protruding thread or string, particularly where the wrapper is wholly pasted upon the article, and this form is illustrated by a package of cigarettes, put in evidence by the defendant, wherein a protruding thread or string is used to sever the wrapper at the point where the two parts of the box or container come together and are closed.

Mr. Thomas, factory manager for the Wrigley Company in Canada, speaking more specifically to the Lindsey patent, but not as an expert, stated that Wrigley experimented with a thread or string with unsatisfactory results because there was no means of attaching the thread or string to the cellophane wrapper and that it would not tear because there was nothing to guide it; that the use of a string or thread was feasible in the case of a paper wrapper but not in the case of a cellophane wrapper which had no grain; that the tab with the ribbon attached gave the lead to tearing the wrapper, and that the ribbon formed a cutting edge; that if the tab were used without a ribbon it would be difficult to see the tab because it is colourless, and that it would not

tear straight because there was no cutting edge and the wrapper would tear itself in an oval form; that if a ribbon alone, flush with the edge of the wrapper, were used, it would be impossible to grasp the ribbon so that it would tear; and that if a protruding ribbon were used without a tab it was possible at times to make some type of tear, but in the majority of cases, owing to the toughness of the cellophane wrapper, it would not tear properly. I might observe that it does not appear who did the experimental work for Wrigley. Neither patentee was called to give evidence.

I find it difficult to accept much of the evidence of Thomas. If cellophane were applied to cigarette packages, similar to that shown in the defendant's Exhibit E, I have no doubt a string would tear the cellophane in a straight line if a single slit were employed, and I am inclined to think that under certain conditions this would occur even if there were no slit at all. It is quite true, I should think, that a cellophane tab alone, that is without a ribbon attached, would not tear in a straight line, but in oval form, but that question does not arise in this controversy and I do not quite understand why it was introduced. It may or may not be correct to say that if a ribbon alone were used, flush with the edge of the wrapper and without a protruding end or tab, that the tear would be unsatisfactory, but it certainly would be satisfactory if slits were used just as Boyd suggests, and a single slit would effect the same result just as in the defendant's case. Then it seems to me to be very doubtful to say that if a protruding strip were used without a tab it would not be possible at all times to effect a proper tear; the defendant's Exhibit C shows a cellophane wrapper will tear along the plane of the ribbon; and Van Sickels would seem to suggest that this could be done without the use of slits. If a cellophane tab by itself is objectionable because it is colourless and invisible I should not think there were invention in doing something which would make it visible to the eye. On the whole, I do not think this evidence is particularly helpful and it appears to me too much like straining the facts to support a contention that is debatable. At least it does not strike at the root

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of the issue, namely, whether there is invention in Lindsey and Van Sickels over and above what was before known.

Whether or not there is invention in Lindsey and Van Sickels is not a question entirely free of difficulty. In cases of this kind the line of demarcation between validity and invalidity is always difficult to define and determine. Validity is not claimed for Lindsey or Van Sickels upon the ground that the wrapper may be cellophane, or that it is transparent, or grainless, or moisture-proof, or that it is outwardly attractive, or that the cellophane ribbon is colourless or may be coloured, or that the wrapper and ribbon are cut, relatively positioned, made adhesive, wrapped, folded and sealed by automatic mechanical means. These features are not claimed by either patent. In Lindsey invention is claimed for the combination of a wrapper material, a tab projecting at a predetermined point beyond the edge of one of the overlapping marginal portions of the wrapper when folded and sealed, and a band extending around the package transversely of the overlapping marginal portions the end thereof adhering to the projecting tab. In Van Sickels the substantial difference in the combination is that when the ribbon does not project beyond the edge of the overlapping marginal portions there is a slit in the wrapper on either side of the ribbon thus forming a sort of tab which may be grasped by the hand. The objective of each patent is similar, generally the means are the same, but the precise arrangement of means are slightly different. The prior art, in a variety of arrangements, discloses the principle or method of severing a sealed wrapper overlying a container by means of a tearing thread or ribbon.

If a principle is not new, a patent for a method of applying it only secures to the patentee protection in respect of the particular method specified, and he cannot restrain the use of different methods of carrying the same principle into effect, which may be fit subject-matter for other valid patents. Therefore the only ground upon which the validity of the patents in suit may be maintained is that they each disclose particular means, which are new and useful and contain subject-matter, for carrying out an old principle. What each patentee here claims is in fact a

particular arrangement of means for carrying out an old principle. A new principle with old means of putting it into effect, or the reverse, might afford subject-matter, but if the principle is old and the means for carrying it out are old, or fail in subject-matter, then there cannot, I think, be invention. Nor does a combination of well-known elements without any new functions, or accomplishment of any new results constitute invention. See *Chamberlain and Hookham Ltd.* v. *Mayor ..... of Bradford* (1), and *Proctor* v. *Bennis* (2). Then the sole question for decision here is whether the patents in question disclose new and patentable means for severing a package wrapper, or, whether they each describe a new combination which performs new functions or accomplishes new results. Is there such a difference between the means described and claimed by Lindsey and Van Sickels, over that already known, so important as to constitute subject-matter? The answer to such question affords, in my opinion, the proper line of enquiry in this case.

A tearing strip attached by some adhesive to the inside of a wrapper was not new. Boyd and others suggested this in one form or other. In some cases it was a string or thread; in others a band, a ribbon, a strip, adhered partially or wholly to the inside of the wrapper. Boyd evidently intended that the end of his ribbon would ordinarily protrude outside the sealed ends of the wrapper, so that it might be grasped, and he states that when it does not so protrude, slits should be made on either side of the end of the ribbon,—forming a sort of tab,—so that it may be grasped by the fingers, which is precisely what Van Sickels suggests, and in the practical sense just what Lindsey suggests; it was necessary that the end of the ribbon could be grasped by the finger, and so that on being pulled it would first rupture the edge of the wrapper and then sever the whole wrapper. That there is variation between the tearing means of Lindsey and Van Sickels and that disclosed in the prior published art, is not necessarily of importance or conclusive of invention; the means might vary slightly or considerably without there being anything like invention

(1) (1903) 20 R.P.C. 673 at p. 684.

(2) (1887) 4 R.P.C. 333 at p. 354.

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in any of them; to maintain validity in such cases there must be a substantial exercise of the inventive power or inventive genius, but, of course, invention may result from slight alterations if they produce important results.

Subject-matter is stressed here on the ground that in a cellophane wrapper it is difficult to start the tear, and that it required invention to devise means of doing so. Once a start in a tear is made in cellophane it will readily tear, as easily or more so than most paper, in any way in which it is guided by the fingers or otherwise. Some one in Wrigley's employ experimented with a string or thread, but unsuccessfully it was said because there was no means of attaching the thread to the cellophane; but why did he not experiment with a ribbon, a band or strip or something of that sort, which obviously could be attached to the cellophane by some adhesive? The latter would be as obvious as the string or thread, I should think, particularly where it was in the mind of the patentee that the tearing means was to be affixed to the inside of the wrapper by some adhesive. I think the person attacking the problem, if there were one, could have found the key to the solution in the prior art. True, he could not find in the prior published art reference to the employment of cellophane as a wrapper, it then being unknown, but with Boyd and other publications before him I can hardly believe that he would not at once see that the application of one or more of the methods and means therein described would quickly lead him to the solution, with a minimum of trial and experiment. It is correct to say that in order to render a document a prior publication of an invention it must be shown that it publishes to the world the whole invention, that is, all that is material to instruct the public how to put the invention into practice. See Lord Moulton in *British Ore Concentration Syndicate Ltd.* v. *Minerals Separation Ltd.* (1). It seems to me that some of the prior publications cited here did give to the public all that was necessary to put Lindsey and Van Sickels into practice because they disclose the principle involved in each, and substantially the means are much alike. That it was difficult to start a rupture in a sheet of cellophane became obvious to all as

(1) (1909) 26 R.P.C. 124 at p. 147.

soon as that material came into use. That being known, I think it was obvious for a person grappling with that problem to turn to the suggestions of the prior art and to use a band or strip adhered to the wrapper, slightly projecting from the edge of the folded wrapper, or by making slits on either side of the band or strip, as suggested by Boyd, in the event of the end of the band or strip not extending beyond the edge of the wrapper. It seems to me that the principle being old, that the projecting tab carrying the ribbon or strip, or the band or strip slitted on both sides at the end, was not a step that constituted subject-matter, which is always a question of fact determinable on practical considerations.

If a principle or method is known, it should not be possible for one to be the recipient of a grant of monopoly for every variation in the means for carrying out that principle or method, unless it involved means that strongly pointed to invention and required the exercise of the inventive faculty. Whatever variation there be between either Lindsey or Van Sickels and what was previously known to the art, I do not think that variation constitutes such a step that merits monopoly. The case is not an easy one and I am not unmindful of the force of the argument of Mr. Smart in support of the patents in suit. However, my conclusion is that there is no subject-matter in the patents in question and the plaintiffs must fail.

Having found that there is no subject-matter in Lindsey or Van Sickels it is not necessary to discuss the matter of infringement, but I might express briefly my opinion on this point in case another court may take a different view as to the validity of Van Sickels and Lindsey. As already stated, the defendant at first employed two slits in the cellophane wrapper, one on either side of the end of the ribbon. If there be invention in Van Sickels or Lindsey, or both, then I would be inclined to the view that there was infringement. The defendant knew of Lindsey being on the market and it apparently was attempting to avoid an attack of infringement of that patent by adopting the two slit arrangement, and learning of Van Sickels it quickly abandoned that, adopting, as I have already stated, the one slit, again no doubt in the hope of avoiding infringe-

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ment of Van Sickels. I do not think infringement can be avoided in that way, that is, by resorting to a less attractive and satisfactory method of severing the wrapper. On the other hand, the principle being old, Lindsey and Van Sickels claim, and could only claim, in my opinion, a particular arrangement of means, that described by each, and the defendant's means of severing the wrapper is slightly different. It is settled law that in a narrow invention, involving an old principle, if a patentee adopts a particular means or arrangement, such as Lindsey or Van Sickels, he is restricted to that and that alone, and it is arguable that the defendant is to be protected as to its particular means or arrangement, because it is different from Lindsey and Van Sickels in the respect mentioned. But this point was not sufficiently developed by counsel on behalf of the defendant, and I do not propose relying on it; something, however, may be said for that view though I doubt it is of substance.

The defendant will have its costs of the action.

Judgment accordingly.

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2.——*Infringement — Anticipation — Invention.* The patent for invention herein relates to tunnels, more particularly to tube tunnels adapted to be constructed in sections which are mounted bodily in position and connected one with the other. One of its stated objects is the provision of a novel coupling structure for connecting the sections, and another object is to provide a coupling structure that will permit the sections to be shifted or swung into line after one side is coupled, thereby facilitating the coupling operation. The construction alleged to infringe plaintiffs' patent relates to a steel intake pipe built by the City of Toronto, extending some 4,200 feet into Lake Ontario. The Court found that the form of coupling employed by the defendants was precisely that suggested by a prior patent other than that of the plaintiffs; that the patent in suit had been anticipated; that plaintiffs' patent did not disclose invention. *Held:* That it is not invention to adopt a method to accomplish a result when that method is simply a case of engineering judgment or skill. ROBERT P. PORTER *et al. v.* CORPN. OF CITY OF TORONTO **217**

3.——*Impeachment action — Patent invalid—Sec. 61, ss. (1) (a) of Patent Act not applicable where one party to action does not claim invention—Person interested.* Defendant is the grantee and owner of two patents; number 338,100 relates to the production of buttons and similar articles and more particularly to an improved method of producing such articles, preferably from a material which is composed principally of casein; and number 341,399 relates to an improved composite casein material peculiarly adapted for the production of buttons therefrom. The plaintiff's action is to impeach both patents on the ground that the Letters Patent are and always have been null and void. The Court found that the plaintiff is an "interested person" within the meaning of the Patent Act; that as to patent number 341,399 it lacked invention, since the composition was known and used previously by others, and what is described and claimed did not call for the exercise of the inventive faculty; that as to patent number 338,100, the method or methods described therein lacked subject-matter, that practically every step in the method was substantially known and practised

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by others, prior to any date claimed by the defendant; that the method described and claimed is a mere aggregation of known distinct and interdependent steps in the manufacture of buttons from casein; that the invention is a mere aggregation of methods, a series of distinct and different steps—not a combination—in the manufacture of buttons, each of which is carried out independently of the others, and none of which was invented by the defendant. *Held:* That if a process of manufacture is known the industrialist must be free to use his skill in the art in working it and modifying it. 2. That if any variation of an existing process could be made the subject of a monopoly, merely because it had not been done before, patents would exist and be supported for innumerable trivial details and industrial effort would be hampered. 3. That s. 61 (1) (a) of the Patent Act is not applicable since the plaintiff lays no claim to invention, seeking instead to impeach two patents on the ground that they are and always were invalid and void. S. 61 presupposes that there are two inventions and two inventors, each of whom claims priority, and that a patent has issued to one only. UNIVERSAL BUTTON FASTENING & BUTTON CO. OF CANADA LTD. *v.* PETER C. CHRISTENSEN **185**

4.——*Impeachment—Anticipation—Prior publication — Specification — Patent Act, s. 61 (1), ss. (a)—Ambiguity—Sufficiency of specification — Novelty — Subject-matter — Invention — Infringement.* Defendant is the owner by assignment from the patentee, of two Canadian patents, one of which, No. 265,960, is for a process for making a composite sheet material by heat and pressure in which one fabric at least contains a "thermoplastic derivative of cellulose," or "an organic derivative of cellulose," or a "cellulose ester," or a "cellulose acetate," and contains a claim for the product. The second patent in suit, No. 311,185, states that the object of the alleged invention is to produce a fabric containing organic derivatives of cellulose that is suitable for use as a stiffening material wherever such a fabric is necessary. Plaintiff's action is one to impeach both patents. *Held:* That a prior published patent must be read as it would have been read without the knowledge of subsequent researches or improvements disclosed in subsequent patents or publications. 2. That s. 61 (1) and ss. (*a*) of the Patent Act require that before a patent shall be declared void on the

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ground of anticipation it must be established that before the date of the application for such patent another inventor had disclosed or used the invention in such manner that it had become available to the public. 3. That ambiguity, whether deliberate or avoidable, voids a patent, since a specification must be sufficiently explicit in describing the nature and ambit of the invention to ensure to the public the benefit of the discovery, when the period fixed in the grant as the period of monopoly comes to an end. 4. That a specification will be sufficient which contains directions enabling a person having a reasonable competent knowledge and skill of the subject to make the article described without further invention. 5. That a patentee need not state the effects and advantages of his invention. B.V.D. Co. LTD. *v.* CANADIAN CELANESE LTD. **139**

5.——*Action to impeach—Patent Act—Exchequer Court Act—Exchequer Court Rule 11—Anticipation—Prior art—Prior user — Validity — Subject-matter — Invention — Burden of proof. Held:* That the present action to impeach and annul a patent of invention instituted in this Court by Information in the name of the Attorney-General of Canada was properly instituted under s. 60 of The Patent Act, 25-26 Geo. V, c. 32, and rule 11 of The General Rules and Orders of this Court. 2. That the grant of letters patent is *prima facie* evidence that the patentee invented the device or process covered by the patent, and the burden of proof rests upon the person seeking to destroy the patent. The plaintiff herein did not succeed in proving beyond a doubt anticipation of the patent in suit. 3. That narrowness and simplicity of invention will not invalidate a patent. Here there was that scintilla of invention which is sufficient to render the patent valid. THE KING *v.* SMITH INCUBATOR CO. *et al.* **105**

6.——*Infringement — Anticipation — Invention—Reissue patent not restricted to invention claimed in original patent—Patent Act 1906, section 24.* The patent in suit has to do with the amplification of electric signals by means of a thermionic amplifier consisting of a number of audions connected in cascade whereby the original signal impressed upon the input of the first audion is successively amplified and reproduced in the output of the last audion, in a substantially undistorted but highly magnified or strengthened form. The patent was a

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re-issue of an earlier patent. The Court found that the original patent lacked invention, and further that the re-issue patent is not confined to the invention described in the original specification, there being introduced additional descriptive matter, new subject-matter, and many of the new claims in the re-issue being based on the new subject-matter described in the specification of the re-issue patent. *Held:* That the re-issue patent must be confined to the invention which the patentee attempted to describe and claim in his original specification, but which owing to "inadvertence, error or mistake," he failed to do perfectly; he is not to be granted a new patent but an amended patent. 2. That no patent is "defective or inoperative" within the meaning of the Act, by reason of its failure to describe and claim subject-matter outside the limits of that invention, as conceived or perceived by the inventor, at the time of his invention. NORTHERN ELECTRIC CO. LTD. *et al. v.* PHOTO SOUND CORPN. *et al.* **75**

7.——*Conflict—Abandonment at trial of application by one party—Disposition of matter. Held:* That the defendant in a conflict action having abandoned his application for a patent at trial, and consequently there then being no conflict in the claims of rival applicants to consider, the proper disposition of the matter is to declare that the plaintiff is entitled to a patent or refer the matter back to be disposed of by the Commissioner of Patents. AKTIENGESELLSCHAFT FUER STICKSTOFFDUENGER *v.* SHAWINIGAN CHEMICALS LTD. **56**

8.——*Infringement — Damages — Burden of proof—Measure of damages—Sales by infringers—Loss of profits on actual sales—Royalty—Reduction in price of patentee—Trade competition—Interest—Costs.* In an action for infringement of a patented machine it was held that infringement had been proved, and an inquiry as to damages was ordered, the Registrar of this Court being appointed Referee. The product of the patented machine is what is known as *stringers*, and when two opposing stringers are connected by what is called a *slider* and a *bottom stop* they are then ready for application to articles of use and are then called *fasteners*. The plaintiff elected for damages rather than profits. By his report the Referee, after disallowing certain claims for damages, found substantially (1) that the general principle of basing plaintiff's loss of profits on the loss of the sales of the completed fast-

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ener is the proper one, and (2) that for those sales which the plaintiff could not have made in any event, but which were made by defendant, the proper basis of compensation is a fair royalty, and (3) that plaintiff is entitled to a claim for loss due to reduction of prices by defendant. Both parties appealed. *Held:* That in the assessment of damages in patent matters the plaintiff should be compensated for the loss caused him by the infringer's acts; he should be restored by monetary compensation to the position which he would have occupied but for the wrongful acts of the defendant. 2. That defendant's acts being tortious the burden of proof on plaintiff is lightened by the presumption that invasion of a patentee's monopoly will cause him damage. 3. That in the assessment of damages every article that is manufactured or sold which infringes the rights of the patentee, is a wrong to him, and the patentee is entitled to recover in respect of each one of those wrongs. 4. That where a patentee uses his monopoly by manufacturing the object covered by his patent in order to get the increased profits, his loss, generally speaking, is to be calculated on the basis of the loss of profits to him on the sales of the object made and sold by the defendant, which the patentee would have sold. 5. That in case of sales by the defendant which would not have been made by the plaintiff, the basis for damage is a fair royalty. 6. That the basis for assessing damages in this case should be the profit that the plaintiff would have obtained had it sold the completed fastener, and not the stringer alone, since the stringer is not only an integral part of the article but is the main part, and what the plaintiff lost by means of the defendants' breach of its monopoly is the sale of the article as a whole. 7. That where the infringement is a part only of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that part alone, if the infringing part is clearly separable and does not co-operate with the rest to produce the new effect which is the feature of the patented invention in question. 8. That the plaintiff cannot claim to have suffered a loss of profit on sales it refused to make or for any other reason it would not have made. 9. That since the plaintiff had not a monopoly of the Canadian market, it cannot obtain damages from defendants on the ground that it was forced to reduce the price of its articles to meet price reduction by defendants. 10. That loss by plaintiff due

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to the establishment of an office in the City of Montreal, Quebec, allegedly to meet free delivery in that city by defendants, is not a natural and direct consequence of defendants' act, and therefore a claim for such loss must be refused. LIGHTNING FASTENER CO. LTD. *v.* COLONIAL FASTENER CO. LTD. *et al.* 1

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REVENUE—*Income—Family Corporation—Jurisdiction—Decision of the Minister final on matters of fact only—Income War Tax Act Amendment Act, 20-21 Geo. V, c. 24, s. 22, ss. 1.* The Income War Tax Act, as amended by 20-21 Geo. V, c. 24, s. 5, provided that:—22. (1) The shareholders of a family corporation may elect any time within thirty days after the date on which returns of income by corporations are to be made that in lieu of the corporation being assessed as a corporation, the income of the corporation be dealt with under this Act as if such corporation were a partnership, and each shareholder resident in Canada shall then be deemed to be a partner and shall be taxable in respect of the income of the corporation according to his interest as a shareholder. Provided however that the corporation, notwithstanding any such election, shall continue to be liable in respect of the interest of any non-resident shareholder in the income of the corporation. This enactment was made applicable to the year 1930. Appellant, his wife, and four other members of his family held in equal parts the shares of Atlas Coal Company Limited, a family corporation for purposes of income tax. The Minister of National Revenue assessed all of the income of Atlas Coal Company Limited against four of the shareholders, assessing appellant for 21·22 per cent and his wife for 2·12 per cent of said income. Appellant contends that the assessment is erroneous and that he should have been assessed only for one-sixth of the income of Atlas Coal Company Limited. *Held:* That s. 22 of the Income War Tax Act is complete in itself and must be interpreted independently of sections 30 and 31 of the Act, dealing with partnerships. 2. That the shareholders of a family corporation having elected that the income of the corporation be dealt with as if the corporation were a partnership, each shareholder shall be deemed to be a partner and shall be taxable in respect of the income of the corporation *according to his interest as a shareholder.* The assessment herein is, therefore, illegal. 3. That ss. 4 of s. 22 renders the decision of the Minister final and conclusive solely in matters involving questions of fact; it does not vest the Minister with the power to adjudicate finally on questions of law, to the exclusion of the courts. OMER H. PATRICK *v.* MINISTER OF NATIONAL REVENUE **38**

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2.——*Special War Revenue Act—Sales tax—Limited companies controlled by same person dealing with each other—Agency.* S. 86 of c. 179, R.S.C. 1927, the Special War Revenue Act, reads in part as follows:—In addition to any duty or tax that may be payable under this Act or any other statute or law, there shall be imposed, levied and collected a consumption or sales tax of four per cent on the sale price of all goods. (*a*) produced or manufactured in Canada, payable by the producer or manufacturer at the time of the sale thereof by him; * * * Defendant company manufactured bricks and sold its entire output to the Victoria Tile and Brick Supply Company Limited, paying the sales tax on the sale price of such bricks. The Victoria Company sold these bricks by retail together with other builders' supplies, and bricks purchased from other manufacturers. For all practical purposes the control of both companies was in one J. A. Wickson and his wife. The Crown contends that the Victoria company was merely the agent of the defendant company in the sale of its bricks and that defendant company was therefore taxable on the sales price of the Victoria company. *Held:* That the two companies are separate entities even though controlled by the same persons, and though the officers and shareholders of the two companies are much the same and the companies have business relations with each other those facts alone do not constitute the one company the agent of the other. THE KING *v.* B.C. BRICK & TILE CO. LTD. **71**

3.——*Income War Tax Act—Income—Payment to executor for services—Accumulation of salary taxable in year received.* A testator appointed his sons, R. J. and J. M., together with a third person executors of his will, and by codicils named additional executors and directed that "my son J. M. shall be

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to comply with the first part of Article 16 of the International Rules of the Road, and in proceeding through a dense fog at a speed which was immoderate having regard to the existing conditions, they were equally at fault and the total damage occasioned by that joint fault should be borne equally by the parties. SS. *Princess Alice v.* CORPN. OF DISTRICT OF WEST VANCOUVER **115**

2.—*Merchant Shipping Act, 1894, 57 & 58 Vict., c. 60, s. 67 (2), s. 69 and s. 76—False declaration touching owner's qualification to own ship—Unlawfully cause the ship to fly the British flag and assume a British character—Matters occurring "on board a ship"—Bona fide mortgage of ship—Transfer of mortgage—Right of transferee to intervene—Disposition of proceeds of sale of ship to protect interest of mortgagee and transferee.* The ship *Emma K*, having been seized by the Collector of Customs for infringement of the Merchant Shipping Act and on the same day arrested by the marshal at the instance of certain seamen for wages, was sold on the 25th April, 1934, by order of the Court, and after the wage claims were satisfied, the balance of the proceeds of the sale, deposited in Court, was claimed by the Crown as forfeited because the owner had made a false declaration touching his qualification to own the said ship contrary to s. 67, ss. 2, of the Merchant Shipping Act, 1894, 57 & 58 Vict., c. 60, and further because the owner "did unlawfully cause the ship to fly the British flag and assume a British character contrary to s. 69" of the said Act. One Barrett was given leave to come in as a defendant as being a "person interested" as the unregistered transferee on December 10, 1934, of a registered mortgage to secure $5,000, given on the 23rd March, 1933, by the owner to one Allender, Barrett being given leave, as transferee and agent representing in British Columbia the interest of Allender of San Francisco in the ship, to be heard in support of his principal's alleged interest. The Court found that the owner had wilfully made a false declaration of ownership contrary to s. 67 (2) but that the mortgage of which Barrett was the transferee was a *bona fide* transaction entered into without knowledge of the offence. *Held:* That the mortgagee and transferee are, as regards this forfeiture, in as favourable a position under ss. 2 which states that the "ship or share shall be subject to forfeiture under this Act to the extent of the interest therein of the declarant," as though they were in possession of the

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ship and therefore that interest should be protected in the order that should be made under s. 76, and the balance of the proceeds of the sale of the ship should be paid to the intervener to be applied in reduction of the mortgage. 2. That the owner procuring registration of himself as a British owner by fraudulent means under ss. 2 of s. 67 is not sufficient to establish a use and assumption of flag and character for the prohibited purpose since ss. 2 is obviously directed to matters occurring "on board a ship" and of such a kind as to "make the ship appear to be a British ship" as the result of something done "on board" of her in the course of her use as a ship and not something done in a registry in relation to the "Procedure for Registration" of her and the claim for forfeiture under s. 69 must be dismissed. THE KING *v.* SHIP *Emma K* **92**

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2. FAILURE TO REGISTER TRADE-MARK WITHIN PERIOD PRESCRIBED BY UNFAIR COMPETITION ACT, No. 1.

TRADE-MARKS — *Expunging—Failure to register trade-mark within period prescribed by Unfair Competition Act.* Petitioner commenced the use of the word "Peacock" and the representation of a peacock as a trade-mark in July, 1926, but failed to apply for registration of such trade-mark until April 7, 1934. On February 21, 1933, respondent, acting in good faith, obtained registration of its trade-mark, similar in appearance to that of petitioner, which it had been using since December, 1932. The Unfair Competition Act, 22-23 Geo. V, c. 38, came into force on September 1, 1932. Petitioner applied to have respondent's trade-mark expunged or amended. *Held:* That, since petitioner had not applied for registration of its trade-mark within six months from the date on which the Unfair Competition Act came into force, as required by s. 4 of said Act, the action should be dismissed. CANADA CRAYON CO. LTD. *v.* PEACOCK PRODUCTS LTD. **178**