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 *Oct. 29,
 Nov. 2.
 1910
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 *March 11.

THE ELECTRIC FIREPROOFING
 COMPANY OF CANADA (DE-
 FENDANTS)

APPELLANTS;

AND

THE ELECTRIC FIREPROOFING
 COMPANY (PLAINTIFFS)

RESPONDENTS.

ON APPEAL FROM THE SUPERIOR COURT OF THE PROVINCE
 OF QUEBEC SITTING IN REVIEW AT MONTREAL.

*Contract—Assignment of patent rights—Implied warranty—Privity—
 Validity of patent—Caveat emptor—Novelty—Combination—
 New and useful results.*

In the absence of an express agreement or of special circumstances from which warranty might be implied, an assignment of "all the right, title and interest" in a patent of invention does not import any warranty on the part of the assignor as to the validity of the patent. Judgment appealed from (Q.R. 34 S.C. 388) affirmed.

Per Idington J.—In the present case the patents were valid.

APPEAL from the judgment of the Superior Court, sitting in review (1) at Montreal, by which the judgment of Dunlop J., at the trial (2), was affirmed.

The appellants were incorporated, in Canada, for the purpose of purchasing and exploiting two Canadian patents of invention of which the respondents, an American company, were owners. The firm of Stillman & Hall, acting as brokers or agents, were the intermediaries through whom the sale of the patent

*PRESENT: Sir Charles Fitzpatrick C.J. and Girouard, Davies, Idington, Duff and Anglin JJ.

rights was effected. They obtained an assignment of the patent rights from the American company and afterwards transferred them to the Canadian company. The consideration for which these rights were sold to the Canadian company was \$100,000, of which \$25,000 was paid in cash and \$75,000 in first mortgage bonds of that company. The bonds were handed over to the American company, and, on default in payment, they brought an action to recover \$9,870.81 for overdue interest thereon, and, by an admission subsequently filed, credited the Canadian company with \$5,653.14, leaving a balance of \$4,217.67 due on their claim. The Canadian company pleaded that the patents, on the sale of which the bonds were delivered, were invalid and that there was, therefore, no consideration given for the bonds. By a cross-demand the Canadian company sought to recover back the \$5,653.14 which they had paid. They also instituted a separate action against the American company to have the invalidity of the patents declared and the sale and transfer of the patent rights cancelled and set aside for want of consideration; they claimed the return of the \$25,000 paid in cash on account of the purchase price and that the bonds should be declared null and void and delivered up for cancellation. The firm of Stillman & Hall were made parties to the latter action, as were likewise the Montreal Trust and Deposit Company, the trustees for the bondholders, and the bonds were attached by means of a conservatory order. Stillman & Hall appeared to the action and submitted themselves to justice. The American company pleaded that there was no privity of contract between them and the Canadian company in regard to the sale of the patent rights; that they had sold direct to Still-

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man & Hall who, in turn, had sold to the Canadian company, and that there was no warranty as to the validity of the patents.

At the trial, Dunlop J. entered a judgment for the balance of \$4,217.67 in the action by the American company, and dismissed the cross-demand and the action by the Canadian company. By the judgment appealed from, the Court of Review confirmed these judgments but on different grounds, the question as to the validity of the patents not being considered, and it was held that there was no privity of contract between the American and Canadian companies and that there had been no warranty as to the validity of the patents.

Atwater K.C. and *Duclos K.C.* appeared for the appellants.

J. E. Martin K.C. for the respondents.

THE CHIEF JUSTICE and GIROUARD J. were of opinion that the appeal should be dismissed with costs for the reasons given in the court below.

DAVIES J.—One of the grounds upon which Archibald J., speaking for the Court of Review, dismissed this appeal substantially was that, in the absence of special language in the assignment of a patent or of special circumstances giving rise to an implication of warranty, there is in law no such implication of warranty of the indefeasibility of the patent arising out of its assignment. There was no special language in the assignment in this appeal and no special circumstances which could give rise to any such implied warranty. On the contrary the language in the assignment from the respondents to Stillman & Hall only purports to transfer “all the right, title and interest”

of the assignors, while the assignment from Stillman & Hall to the appellants is an ordinary one containing no special language whatever.

On this ground and for the reasons given by Archibald J. in support of it, I would, without expressing any opinion upon the validity of the patents, dismiss this appeal with costs.

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Davies J.

IDINGTON J.—I think the patents in question herein are both valid.

It is therefore unnecessary for me to follow the several other matters dealt with at such length in argument.

Nor do I see any useful purpose I can serve by following at great length the question of the validity of these patents.

The subject can be made a wide one. The mazes we are invited in this case to follow, by some of the quotations, snatched from their surroundings in cases that had come under the adjudication of some of the highest authorities, ought to warn us.

We have, amongst others, an apparent quotation, accidentally no doubt attributed to Lord Cairns, which was not his production at all, but a deduction of Lord Davey from what Lord Cairns had said.

I am not quite sure whether or not that master mind would have adopted it as amplified and I submit extended.

Nor am I quite sure that other high authorities would subscribe to and find applicable to this case arising on our statute some of the quotations given and attributed respectively to each of them.

Our statute defines what is patentable. I am not clear that the ground it covers is identical with that

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portion of the Royal Prerogative reserved and preserved by statute as the foundation in England for grants of the like kind of rights.

Invaluable as is the long line of authority moulding the limits of the latter basis for a grant we must not forget that the basis here rests upon an express statutory limitation, not by any means quite identical with the other.

These different foundations for grants of patents are liable to produce and perhaps are producing widely different results.

Our statute provides for a patent issuing to

any person who has invented any new and useful art, machine, manufacture or composition of matter or any new and useful improvement in any art, machine, manufacture or composition of matter which was not known or used by any other person before his invention thereof and which has not been in public use or on sale with the consent or allowance of the inventor thereof, etc.

Apply this to the Lina Schuler patent and we have to find in her specification a description of some new "manufacture or composition of matter" which will answer thereto as that is the only one of the several subjects given which may cover it.

It is admitted the composition need not be a chemical, but may be a mechanical one. Yet stress is laid on the objection that it is claimed in a solidified form. When the necessity for a chemical composition is abandoned I fail to comprehend this objection. It is explained in evidence how it operates when brought in contact with heat and how the consequent dissolution of each element varying in length of time and shape of results helps to supplement and aid the action of the other.

It is obvious that the reduction to a fluid state at that stage of its existence before use and up to a cer-

tain point of use might render or be supposed to render the composition less effective.

It is equally obvious that this reduction may be permissible in an attempt to apply the material to any substance preparatively and in anticipation of heat reaching it.

No composition of matter can of itself and without some directing intelligence avail anything.

It is objected that the mere discovery of some natural law is not patentable and the high authority of Lord Lindley is cited in one of these inapt quotations I have referred to.

When we have regard to the fact that he illustrated his meaning by reference to Volta's discovery of the effect of an electric current from the battery upon a frog's leg its relevance here is not quite apparent.

This claim to invention is not of that nature at all; yet the other alternative is with curious inconsistency put in argument against this patentee's claim that it does not disclose any discovery but uses things and principles of action therein already discovered.

That process or combination of such processes of reasoning would, if logically extended, destroy any patent for or in relation to composition of matter.

The appellant is on safer ground when attacking the claim to novelty in this case.

The allusion in the course of the trial to the chemical discoveries of Gay-Lussac fell short for want of any allusion in the report thereof to this combination claimed here.

The article in the Journal of the Society of Arts in 1859 came nearer, but for obvious reasons seems to have been abandoned before us.

The bald nature of the claim was much and rightly pressed upon our consideration.

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It seems to me we must, as in regard to all other documents of this kind, in order to understand the claim, read the whole specification.

And when we do that the claim appears clear enough I think.

Meaning is thus given to the words "in about the proportions specified."

It would have been unwise to lay down any proportionate line requiring the observance of absolute mathematical precision for mixing the composition. Indeed, it might have rendered the workability of the process an impossibility and thus have been self-destructive.

However that may be, the substantial nature of what is to be done and adhered to is clear enough I think.

The objections taken to the other patent of Bachert and O'Neill seem to be, if they mean anything, that which would logically deprive any one applying for a process patent of the right to use common knowledge in working out the design intended.

It does not seem to me that the using of all this common knowledge that appears resorted to would have enabled any ordinary man, possessed of the same and ordinarily skilled in the subject, to turn such knowledge as of course and without some inventive faculty to account in the way these patentees have done.

I think, assuming all that has been urged on us, that real inventive faculty is shewn.

What Lord Cairns in fact did say in the case of *Harrison v. The Anderston Foundry Company* (1), is herein helpful and most instructive, and especially so

(1) 1 App. Cas. 574.

when we have regard to the matters to be solved relative to these objections to this latter patent.

And the amplification and extension thereof made and applied by Lord Davey relying thereon in the case of *Patent Exploitation Ltd. v. Siemens Bros. & Co.* (1), where he says,

the combination itself constitutes the novelty and merit of the invention. It is sufficient for the validity of the patent if the combination, being the result of thought and experience, is new, and produces some new result or an old result in a more useful and beneficial way,

may well be applied as to both patents here in question.

I think the appeal must be dismissed with costs.

DUFF J.—In the absence of some language or some surrounding circumstances indicating a contrary intention the parties to the assignment of a patent of invention are, I think, presumed to be selling and buying such rights only as the letters patent themselves conferred upon the patentee. If, for want of novelty in the alleged invention, or upon other grounds, it should happen that the letters patent did not operate to vest in the patentee the monopoly it proposed to create, the assignor is presumed to have said *caveat emptor*. This presumption — which is really the basis of the English rule upon the subject — is no artificial rule, but arises inevitably from considering the transaction in the way in which mercantile contracts must be considered for the purpose of arriving at the intention of the parties in a particular event respecting which they have made no express stipulation, there being no specific rule of law applicable, viz.: of assuming that the parties both intended

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to stipulate what was fair and reasonable having regard to the character of the transaction and the subject-matter dealt with. Looking at such a transaction in this way the question is: What would the parties, as reasonable business men, be expected to stipulate as to the burden of the risk of attack if the point should be raised during the negotiations? Nobody can doubt that in the absence of special circumstances, unless the matter was not to be made the subject of a special bargain involving a special consideration moving to the vendor, the parties to the sale of a Canadian patent would agree that the risk should be borne by the vendee.

The judgment of Archibald J. demonstrates, I think, that this is the rule in force in the Province of Quebec.

ANGLIN J.—A perusal of the documents and correspondence filed as exhibits has satisfied me that it is not possible to interfere with the finding of the Court of Review that Stillman & Hall, Limited, did not act as agents for the respondents, as the appellants allege, but were in fact purchasers from the respondents and vendors to the appellants of the Canadian patents in question. If there were any agency on the part of Stillman & Hall, Limited, the correspondence, with the exception of one letter, Exhibit D1, is more consistent with their having been agents of the appellants in these transactions than with their having been, as the appellants contend, agents for the respondents. But the transactions themselves took the form of a sale from the American company to Stillman & Hall and a resale from Stillman & Hall to the Canadian company for a different and a much larger consideration, effected by a contract involving other matters

to which the larger consideration also related. No adequate or satisfactory explanation why the transactions should have assumed this form, if Stillman & Hall acted merely as brokers, is given by the appellants or by the witnesses who assert that there was a direct sale from the American company to the Canadian company through Stillman & Hall acting as agents for the former.

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Having regard to the nature of and the circumstances attending the transaction, there is nothing in the facts, that the cheque of the Canadian company in their favour was immediately indorsed over by Stillman & Hall to the American company and that the bonds in question remained in the possession of Stillman & Hall only for a few hours and were then handed over by them to the American company, inconsistent with their having been in fact purchasers from the American company and vendors to the Canadian company.

The evidence of Mr. Stillman asserting that Stillman & Hall acted as agents for the American company is flatly contradicted by Mr. Pressinger, who says that in no sense did Stillman & Hall act as agents for the American company, and, again contradicting Mr. Stillman, that no commission was paid to Stillman & Hall by the American company.

The finding of the learned trial judge that Stillman & Hall were in fact agents for the American company does not rest upon the credibility of the witnesses whose testimony he heard, but is an inference drawn by him from the admitted facts and the documents in evidence. The proper inference on this question the Court of Review was in quite as favourable a position to draw as was the trial judge. I am therefore of opinion that the finding of the Court of Review that there

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is no *lien de droit*, or privity of contract, between the appellants and the respondents, which entitles the former to plead failure of consideration or breach of warranty as a defence to the claim of the latter, should be maintained.

I also agree in the conclusion of the Court of Review that on an ordinary mere assignment of a patent, and in this case *a fortiori* having regard to the form of the respondents' contract, which imports merely a sale of "all the right, title and interest" of the vendors, the invalidity of the patents, if established, would not amount to such a total failure of consideration, or breach of implied warranty of title as would enable the appellants to resist the claim of the respondents for payment according to the tenor of the bonds held by them. Only proof of fraud would entitle the appellants in the circumstances of this case to relief on these grounds; and of fraud there is not a scintilla of evidence.

The sale and the assignments of the patents by the respondents took place in New York and were made to a New Jersey corporation. The construction of the contract of sale and of the assignments is therefore governed by the law of one or other of these States. Upon a personal examination of the authorities I find that the law in both these States in regard to the effect of an assignment of patents appears to be the same as the law of England. *Caveat emptor* is the rule which obtains. The leading American cases are collected in Walker on Patents (4 ed.), secs. 283-4. The leading English authorities will be found in Terrell on Patents (4 ed.), pp. 214 *et seq.*, and Frost on Patents (3 ed.), Vol. 2, pp. 118 *et seq.* But the fact of the similarity of the law of the States of New York and New Jersey to that of England was not proved as it should have

been by expert evidence. In the absence of such evidence, however, there is a presumption, on which the Court of Review may have proceeded, that the foreign law applicable to any contract with which the court is called upon to deal is similar to the *lex fori*.

If the question under consideration were the validity of the patents or their assignability I should have no hesitation in holding that, although this action was tried in a civil court of the Province of Quebec, the *lex fori* applicable was that of England. As pointed out by Archibald J., the patent law of Lower Canada is English in its origin. See *The Ottawa and Hull Power and Manufacturing Co. v. Murphy* (1), at page 231, and *Bondier v. Dépatie* (2), at page 237. "Patents of invention and discovery" are enumerated in the 91st section of the "British North America Act, 1867," as a subject within the exclusive legislative authority of the Parliament of Canada and that Parliament has legislated with regard to the nature and effect of patents and their assignability. Upon these matters the law is the same in my opinion throughout Canada and so far as it is not declared by Dominion legislation must be determined by the principles of English law as defined in English decisions and in those of our own courts.

We are not, however, now dealing with a question of the validity of the patents, of their assignability, or of the efficacy of the assignments executed. The matter under consideration is the proper construction to be given to contracts of sale and assignment. Although the subject-matter of these contracts happens to be patent rights it is difficult to understand on what ground in determining this question of construc-

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(1) Q.R. 15 K.B. 230.

(2) 3 Dor. Q.B. 233.

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tion the courts of the Province of Quebec, or we as an appellate court for that province, would be justified in disregarding the principles of the civil law.

Three Quebec cases have been cited to us in each of which it is alleged the invalidity of a patent has been held to be a good defence to an action to recover the consideration or part of the consideration for its sale. These cases are *Déry et al. v. Hamel*(1) ; *Perrault v. Normandin*(2) ; and *Almour v. Cable*(3). In the first case the court found in the document of assignment "une description qui équivaut à une garantie." In the second, the sale was not of a patent but of a pretended secret process. In the third case the Court of King's Bench held

that the appellant has proved that no value was given for the promissory note sued upon in this case and that the pretended patent right sold to the appellant was not for any new or useful invention.

These appear to be two distinct findings. The court does not assign as its reason for holding that there was no value given for the note the other fact found that the patent was not for a new and useful invention. The report of the case is exceedingly meagre and it may well be that the court deemed the conduct of the respondents fraudulent. I would hesitate to regard this case as an authority for the proposition that upon a bare assignment of patent, in the absence of any evidence of fraud, its invalidity would afford a defence on the ground of a complete failure of consideration or a breach of implied warranty of title.

Turning from the jurisprudence of the Province of Quebec to that of France, there has been no doubt a considerable mass of judicial opinion in support of

(1) 11 Q.L.R. 24.

(2) 31 L.C. Jur. 118.

(3) 31 L.C. Jur. 157.

the proposition that an assignment of a patent does import a warranty of its validity. But in France the doctrine of the civil law on this question appears to be in a state of mutation. According to the opinions of such distinguished modern writers as Pouillet (*Brevets d'Invention*, 4 ed., pp. 246-7, 250), *Allart and Pataille*, cited by Pouillet and referred to by Archibald J., in the Court of Review and by counsel for the respondents in their factum, the assignment of a patent does not *per se* import any warranty of its validity. A contract for the sale of a patent is regarded by these authors as speculative in character, the purchaser acquiring the claim of his vendor for what it may be worth and taking all chances as to its validity. This seems to me to be the true view of the nature of the contracts here in question.

Looking at the matter in the light of what should, I think, be deemed common knowledge—that upon the sale of a patent right the real subject of sale is the vendor's claim to the exclusive rights which the patent, if valid, gives to him, and that the purchaser acquires that claim knowing that it is subject to attack and that the patent itself carries no guarantee of validity—the “thing sold,” in the case of the ordinary assignment of patent rights, should in my opinion be deemed to be not a patent impliedly warranted valid but the claim of the vendor, be it good or bad, for what it may be worth. That this is the true subject of sale is in my opinion indisputable where, as here, the assignment is not of the patent itself, but of all the “right, title and interest” of the assignor therein.

Moreover, it is highly desirable, inasmuch as the validity of patents, their assignability and the form in which assignments may be made are subjects of Dominion legislation, that upon such an incident of

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the assignment of a patent as the implication of a warranty of its validity the *lex fori* throughout Canada should be the same. In my opinion, in view of the opinions of French authors to which I have referred, it may be held to be the same; and, whether we look to the civil law to ascertain the proper construction of the assignments of patents here in question because this action was brought in the courts of Quebec, or to the principles of English law for the reason suggested by Archibald J., that the patent law administered in Quebec is English in its origin, the result will be the same.

I therefore agree with the conclusion of the Court of Review, that invalidity of the patents, if established, would not amount either to a failure of consideration or to a breach of warranty which would serve as a defence to this action.

In the view I have taken it is unnecessary to express an opinion upon the validity of the patents. But I do not wish it to be understood that I have formed a view adverse to the respondents on this question.

I would dismiss this appeal with costs.

Appeal dismissed with costs.

Solicitors for the appellants: *Atwater, Duclos, Bond & Meagher.*

Solicitors for the respondents: *Foster, Martin, Mann & MacKinnon.*