
1943
 *Mar. 15, 16.
 *June 29.

TRUBENIZING PROCESS CORPORA-
 TION (PLAINTIFF) } APPELLANT;

AND

JOHN FORSYTH, LIMITED (DEFEND-
 ANT) } RESPONDENT.

ON APPEAL FROM THE COURT OF APPEAL FOR ONTARIO

Contracts—Patents—License agreement between owner of patents and defendant—Effect of subsequent adjudications as to validity of the patents, and of filing of a disclaimer, on defendant's liability for royalties under the agreement—Plaintiff, as assignee of owner of the patents, suing defendant for royalties—Sufficiency of assignment—Sufficiency of notice thereof to defendant.

Plaintiff sued as assignee of C. Co. to recover from defendant minimum monthly royalties claimed under an agreement of May 28, 1935, whereby C. Co. granted to defendant a non-exclusive and non-transferable license to use the improvements under two Canadian letters patent, no. 265960 and no. 311185, to make and sell certain goods, and defendant agreed to pay C. Co. monthly in advance a minimum monthly royalty, and certain royalties, so far as these exceeded in

PRESENT:—Duff C.J. and Rinfret, Davis, Hudson and Taschereau JJ.

any year the minimum monthly royalties, for shirts manufactured by defendant with parts, etc., "made with or containing cellulose acetate or other derivative of cellulose". C. Co. agreed that as long as the license remained in effect and defendant paid the royalties, it would not sue defendant for infringement of any patent then owned or controlled or thereafter acquired or controlled by C. Co. and relating to the specified goods. In the agreement, defendant admitted the validity of the patents and agreed not to contest their validity and not to become voluntarily a party to any procedure disputing the validity or tending to impair the value of any of the inventions or letters patent covering the same, during the period of the license and at all times thereafter "except as to such patent or patents as may be adjudicated invalid by a court of competent jurisdiction from whose decision no appeal is or can be taken".

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Patent no. 311185 was held invalid by a judgment of the Exchequer Court of Canada on March 26, 1936, and no appeal was taken from that decision. During litigation as to patent no. 265960, C. Co., on April 3, 1937, filed a disclaimer restricting in terms the scope of the claims, and by judgment of the Judicial Committee of the Privy Council, of January 23, 1939, the claims in the patent "as made by the patentee in the specification as originally filed" were declared invalid. Defendant paid royalties down to July, 1937, but not thereafter.

Plaintiff claimed that the right which it now sought to enforce was acquired by it under what was called a "participation agreement", of May 1, 1939, between C. Co. and plaintiff, in which, *inter alia*, C. Co. covenanted that it was the owner of some 17 named Canadian patents, among which was included patent no. 265960 (but not patent no. 311185), and granted to plaintiff an exclusive license throughout Canada, with the right to grant sub-licenses, "to make, use or sell articles of apparel under said letters patent or any other patent * * * owned by [C. Co.] relating to the uniting of fabrics by fusion for use in articles of apparel" (para. 1 (a)); and C. Co. assigned to plaintiff all claims for royalties which C. Co. might have against the licensees "under licenses heretofore granted by it under any of the patents referred to in paragraph 1 (a) hereof * * * on account of manufacture or sale * * * occurring before May 1, 1939" and "all royalties and claims for royalties on account of manufacture or sale * * * occurring from and after May 1, 1939, which [C. Co.] may have against its licensees under licenses heretofore granted by it under any of the patents within the field of the exclusive license granted in paragraph 1 (a) hereof".

Plaintiff claimed the amount of minimum monthly royalties from August 1, 1937, to April 1, 1940, inclusive, with interest.

Held (Rinfret J. dissenting): Plaintiff should have judgment against defendant for the amount claimed, with interest. (Judgment of the Court of Appeal for Ontario, [1942] O.R. 271, reversed).

Defendant's covenant in the agreement of May 28, 1935, to pay to C. Co. a fixed monthly sum, irrespective of the exercise of any of the rights granted to it, was an independent covenant and remained operative and effective notwithstanding the adjudications made with respect to the two patents specifically mentioned in the agreement.

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The agreement of May 1, 1939, was sufficient to make over the debt now sued for, and, if proper notice of the assignment was given to defendant, plaintiff was entitled to sue in its own name; and a letter from plaintiff's solicitors to defendant before action, reading: "Our clients, [naming the plaintiff], have had some correspondence with you with respect to the royalties due under the agreement of May 28th, 1935, between yourselves and [C. Co.], the royalties under which have been assigned to our client" and demanding settlement, was sufficient notice under the relevant statute (R.S.O. 1937, c. 152, s. 52); all that is necessary is that the express notice in writing to the debtor should give him to understand that the debt has been made over by the creditor to some third person; if the debtor ignores such notice, he does so at his peril.

APPEAL by the plaintiff from the judgment of the Court of Appeal for Ontario (1) dismissing the plaintiff's appeal from the judgment of Chevrier J. (2) dismissing the action.

In the action the plaintiff sought to recover from the defendant the sum of \$9,900, being \$300 due on the 1st day of August, 1937, and \$300 on the 1st day of each month thereafter up to and including April 1, 1940; and interest. The writ was issued on April 4, 1940.

The said claim was for minimum monthly royalties alleged to be due under a certain agreement between Canadian Celanese Ltd. (hereinafter sometimes referred to as "Celanese") and defendant, dated May 28, 1935, by which Celanese granted to defendant, subject to the provisions thereof, a non-exclusive and non-transferable license to use the improvements under two Canadian letters patent, no. 265960 and no. 311185. Certain terms of this agreement are dealt with in detail in the judgment of Davis J. *infra*, and the agreement is set out in full in the judgment of Gillanders J.A. in the Court of Appeal for Ontario (3). The defendant paid royalties under the agreement down to July, 1937, but not thereafter.

In an action, *B.V.D. Co. Ltd. v. Canadian Celanese Ltd.*, by judgment in the Exchequer Court of Canada of March 26, 1936 (4), patent no. 311185 was held invalid, and no appeal was taken from that decision. By the same judgment, patent no. 265960 was held valid, but on appeal to the Supreme Court of Canada, it was, by judgment of

(1) [1942] O.R. 271; [1942] 2 D.L.R. 539; 2 Fox Pat. C. 128.

(2) [1942] O.R. 271, at 278-287; 2 Fox Pat. C. 11.

(3) [1942] O.R. at 274-278; [1942] 2 D.L.R. at 541-544; 2 Fox Pat. C. at 134-137.

(4) [1936] Ex.C.R. 139; [1936] 4 D.L.R. 159.

March 19, 1937 (1), declared to be invalid. After delivery of the latter judgment, Celanese, on April 3, 1937, filed in the Patent Office a disclaimer restricting in terms the scope of the claims of patent no. 265960; and subsequently applied to the Supreme Court of Canada for an order for a rehearing of the appeal by reason of the filing of the disclaimer and for an order providing in the formal judgment of the Court for the filing of said disclaimer, which application was, by judgment of June 1, 1937, dismissed (2). On appeal (from both said judgments of the Supreme Court of Canada) to the Judicial Committee of the Privy Council, the judgment of the Supreme Court of Canada (of March 19, 1937) declaring "the respondent's [Celanese] patent no. 265960 in question in this appeal" to be invalid, was varied by substituting for the said words "the respondent's patent no. 265960 in question in this appeal" the words "the claims in Patent 265960 as made by the patentee in the specification as originally filed", and in all other respects the said judgment, and also said judgment of June 1, 1937, were affirmed (3). The judgment of the Judicial Committee of the Privy Council was delivered on January 23, 1939.

The plaintiff claimed to have acquired the rights, which by the present action it sought to enforce, under what was called a "participation agreement", dated May 1, 1939, between Celanese and plaintiff. By this agreement, in paragraph 1 (a), Celanese covenanted that it was the owner of some seventeen named Canadian patents, among which was included patent no. 265960, but not patent no 311185, and granted to plaintiff an exclusive license throughout Canada, with the right to grant sub-licenses, to make, use or sell articles of apparel "under said letters patent or any other patent in the territory owned by Celanese relating to the uniting of fabrics by fusion for use in articles of apparel"; and, in paragraphs 1 (b) and 1 (c), Celanese assigned to plaintiff

all claims for royalties which Celanese may have against its licensees under licenses heretofore granted by it under any of the patents referred to in paragraph 1 (a) hereof for the uniting of fabrics by fusion for use in articles of apparel on account of manufacture or sale (upon which ever royalty payments are based) of articles of apparel occurring before May 1, 1939,

(1) [1937] S.C.R. 221; [1937] 2 D.L.R. 481.

(2) [1937] S.C.R. 441; [1937] 3 D.L.R. 449.

(3) [1939] 1 All E.R. 410; [1939] 2 D.L.R. 289.

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all royalties and claims for royalties on account of manufacture or sale (upon whichever royalty payments are based) of articles of apparel occurring from and after May 1, 1939, which Celanese may have against its licensees under licenses heretofore granted by it under any of the patents within the field of the exclusive license granted in paragraph 1 (a) hereof.

The main questions dealt with in the judgment now reported are: whether defendant remained liable for payment of royalties under the said agreement of May 28, 1935; and, if so, whether the said agreement of May 1, 1939, operated to assign to plaintiff the royalties claimed, sufficiently, if proper notice of the assignment was given to defendant under the relevant Ontario statute, to entitle plaintiff to sue for the royalties in its own name. (No application was made to this Court to have the assignor added as a party). The question whether there was such notice was in dispute. The letter of February 12, 1940 (before action was begun), referred to in the judgment of Davis J. *infra* as being sufficient notice under the statute, was written by plaintiff's solicitors to defendant and was as follows:

Our clients, the Trubenizing Process Corporation, have had some correspondence with you with respect to the royalties due under the agreement of May 28th, 1935, between yourselves and the Canadian Celanese Limited, the royalties under which have been assigned to our client. Under this contract there is a minimum payment of royalty of \$300 per month, and we are informed that no payments have been made since July, 1937. If the earned royalty would exceed the minimum payment our client is entitled to an accounting thereof.

We should be glad, therefore, if you would send the settlement due under the contract within seven days of this letter, otherwise our client will have no alternative but to bring proceedings.

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

C. F. H. Carson K.C. and *J. G. Middleton* for the respondent.

The judgment of the Chief Justice and Davis and Hudson JJ. was delivered by

DAVIS J.—The appellant (plaintiff) sued in its own name as assignee to recover from the respondent (defendant) certain royalties alleged to be due and payable under and by virtue of a certain license agreement made May 28th,

1935, by and between Canadian Celanese Limited and the respondent covering certain rights under two Canadian patents, one No. 265,960, issued November 16th, 1926, and the other No. 311,185, issued May 12th, 1931, the royalties payable under the said licence agreement being alleged to have been assigned by Canadian Celanese Limited to the appellant, Trubenizing Process Corporation, by an agreement in writing dated May 1st, 1939. The amount claimed in the action, \$9,900, is made up of monthly minimum royalties of \$300 from the 1st of August, 1937, to the first day of April, 1940, inclusive, with interest. If the respondent is liable to the appellant, the amount is not, as I understand it, in dispute.

The substantial point in the case is whether or not, quite apart from the alleged assignment, the respondent remains liable under the licence agreement for the payment of the minimum royalties therein provided, or any royalties in fact, from and after August 1st, 1937 (the respondent's last payment being made in July, 1937), because one of the two patents, No. 311,185, was declared invalid by a judgment of the Exchequer Court of Canada delivered March 26th, 1936, after trial in that Court, and from which judgment no appeal was taken in respect of that patent. The respondent, while taking the position that the invalidity of one of the two patents was sufficient to release it from payment of the royalties under the licence agreement, relies upon the judgment of this Court in the same action, in which the other patent, No. 265,960, was held to be invalid (reversing in that respect the judgment of the Exchequer Court), although on appeal to the Judicial Committee, whose judgment was delivered January 23rd, 1939, the judgment of this Court was varied by substituting therein for the words "the respondent's patent No. 265,960 in question in this appeal" the words "the claims in patent No. 265,960 as made by the patentee in the specification as originally filed". The variation of the judgment gave recognition to a disclaimer that had been filed and recorded in the Patent Office, Ottawa, on April 3rd, 1937, subsequent to the delivery of the judgment in this Court. Their Lordships observed:

In its present form the order [i.e., of the Supreme Court of Canada] declares the whole patent avoided; but the patent as it now exists is a patent protecting the invention which is described in the specification

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as amended by virtue of the disclaimer. It is obvious that no risk should be run of the patent, as it now exists, being avoided as a result of the present litigation.

It may be convenient here to observe that sec. 50 (2) of *The Patent Act, 1935*, provides that:

The disclaimer shall thereafter be deemed to be part of the original specification.

There is the preliminary question of the scope and effect of the assignment and of the sufficiency of the notice of it before action to the respondent (defendant). I think the notice in the letter from Messrs. Smart and Biggar to the respondent dated February 12th, 1940, was a sufficient notice under the statute to entitle the assignee, if the debt claimed was covered by the assignment, to sue in its own name, although one might well have expected in a commercial transaction of this kind that the respondent would have been furnished, if not with a copy of the assignment, at least with some particulars of its date and provisions. The statutory law of Ontario as to assignment of choses in action is now to be found in *The Conveyancing and Law of Property Act, R.S.O. 1937*, ch. 152, sec. 52, and is almost word for word the same as the English statutory provision now found in the *Law of Property Act, 1925*, ch. 20, sec. 136 (which re-enacted sec. 25 (6) of the *Judicature Act, 1873*). The Ontario provision was in *The Judicature Act, R.S.O. 1897*, ch. 51, sec. 58 (5) and (6), until 1911, when it was repealed and re-enacted in *The Conveyancing and Law of Property Act, 1 Geo. V*, ch. 25, secs. 45 and 53. All that is necessary (as to notice) is that the debtor should be given to understand by express notice in writing that the debt has been made over by the creditor to some third person. If the debtor ignores such notice, he does so at his peril. In *Torkington v. Magee* (1) (reversed on appeal without deciding the point of law, the Court of Appeal holding there was no breach of contract by the defendant (2)), the meaning of the term "legal chose in action" came up for discussion. It was held that the benefit of a contract for the sale of an interest in property could be assigned so as to entitle the assignee to sue in his own name for a subsequent breach of the contract to sell; but that the assignee could not sue unless his assignor was in a position to do so.

(1) [1902] 2 K.B. 427.

(2) [1903] 1 K.B. 644.

Cozens-Hardy, L.J., in *Tolhurst v. Associated Portland Cement Manufacturers* (1), said:

The section relates to procedure only. It does not enlarge the class of choses in action, the assignability of which was previously recognized either at law or in equity.

This case went to the House of Lords (2). Although equity would not assist an assignee to whom a debt or other legal chose in action had been transferred without valuable consideration, where the provisions of the section have been complied with a voluntary assignment will confer the legal right to sue. See *In re Westerton* (3).

It is contended by the respondent that the assignment here does not operate to assign the royalties provided for by the licence agreement. This is on the basis that only one of the two patents is specifically mentioned in the assignment—the one we may for convenience call “the disclaimer patent”, i.e., No. 265,960. But the other patent, No. 311,185, had been declared invalid on March 26th, 1936, over three years before the assignment agreement. The exact provision relating to the assignment (the agreement itself is styled “participation agreement”), after reciting specifically (paragraph 1 (a)) some seventeen Canadian patents, including the disclaimer patent, of which Canadian Celanese said it was the owner, is as follows:

(b) Celanese hereby assigns to Trubenizing all claims for royalties which Celanese may have against its licensees under licenses heretofore granted by it under any of the patents referred to in paragraph 1 (a) hereof for the uniting of fabrics by fusion for use in articles of apparel on account of manufacture or sale (upon whichever royalty payments are based) of articles of apparel occurring before May 1st, 1939, and Celanese hereby constitutes and appoints irrevocably Trubenizing its agent with power to give full and complete releases to such licensees, or any of them, of all such claims. * * * Trubenizing, within thirty days after the receipt thereof, shall pay to Celanese one-half of any and all sums, if any, which Trubenizing may collect from any of said licensees in settlement of any of said claims.

(c) Celanese hereby assigns to Trubenizing all royalties and claims for royalties on account of manufacture or sale (upon whichever royalty payments are based) of articles of apparel occurring from and after May 1st, 1939, which Celanese may have against its licensees under licenses heretofore granted by it under any of the patents within the field of the exclusive license granted in paragraph 1 (a) hereof. * * *

By paragraph 3 (a) the Canadian royalties from and after May 1st, 1939, are to be divided in the proportion of 60 per cent. to Trubenizing and 40 per cent. to Celanese.

(1) [1902] 2 K.B. 660 at 676.

(2) [1903] A.C. 414.

(3) [1919] 2 Ch. 104.

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It would have been much better had the agreement assigned, *inter alia*, all the royalties due and payable or to become due and payable under the particular licence agreement with which we are concerned, but I think the document quite sufficient between assignor and assignee in a commercial transaction of this kind to make over the debt, if there was one, between the assignor and the respondent. For reasons which will emerge upon a consideration of the terms and provisions of the licence agreement itself, my conclusion is that the assignment is good and sufficient to permit the assignee (appellant) to sue in its own name if its assignor was in a position to do so. No application was made to us to have the assignor added as a party.

Turning now to the licence agreement dated the 28th of May, 1935, made between Canadian Celanese Limited and the respondent, under which payment of the minimum royalties claimed in this action are sought to be recovered. By paragraph 1, Celanese granted to the respondent a non-exclusive and non-transferable licence to use the improvements under the two recited Canadian Letters Patent (those hereinbefore referred to, No. 265,960 and No. 311,185; at the date of the licence agreement neither of the said patents had, of course, been declared invalid) as fully as Celanese might by virtue of such patents, for the full term for which said Letters Patent had been granted. By paragraph 3 the respondent agreed to pay to Celanese a minimum monthly royalty of \$300 in advance on the first day of August, 1935, and on the first day of each month thereafter. By paragraph 4 the respondent as licensee agreed to pay Celanese the following royalties:

(a) for shirts manufactured by the Licensee with stiffened attached or "matched" collars and/or cuffs (but not bosoms) made with or containing cellulose acetate or other derivative of cellulose a royalty of Twenty-five (25c) per dozen for each dozen shirts so manufactured by the Licensee.

(b) a royalty of fifty cents (50c) per dozen for each dozen shirts manufactured by the Licensee with stiffened attached bosoms with or without attached or "matched" collars or attached cuffs, made with or containing cellulose acetate or other derivative of cellulose.

The intention of the parties was expressed in paragraph 3 as being that in any calendar year the aggregate of all royalty payments by the licensee shall equal (a) the total of the minimum royalty payments specified for that year, or (b) the total of the earned royalties payable in that

year under the provisions of paragraph 4, whichever of said totals is the larger. In the present action the plaintiff merely sued for the amount of the minimum monthly royalties.

One difficulty in the case, in so far as the licence agreement is concerned, is that while two specific Canadian patents are covered by the licence, the payment of royalties, either the minimum monthly royalties under paragraph 3 or what are called the earned royalties under paragraph 4, are not expressly made referable to the said patents or to either of them.

By paragraph 7 (a) Celanese agreed that as long as the licence remains in effect and the licensee pays the royalties as in the agreement provided, it will not sue the licensee for infringement of any patent then owned or controlled or thereafter acquired or controlled by Celanese and relating to the goods specified in paragraph 4.

Paragraph 11 has given rise to the real controversy in this action. It reads as follows:

11. The Licensee admits the validity of the patents referred to herein and agrees not to contest the validity of any of the aforesaid patents and agrees not to become voluntarily a party directly or indirectly to any procedure disputing the validity or tending to impair the value of any of said inventions or Letters Patent covering the same, during the period of this licence and at all times thereafter except as to such patent or patents as may be adjudicated invalid by a court of competent jurisdiction from whose decision no appeal is or can be taken.

The respondent's contention is that, the patent No. 311,185 having been adjudicated invalid by the Exchequer Court of Canada and from whose decision no appeal was or can now be taken, no further royalties remain payable under the agreement. And the respondent says this notwithstanding that the patent was declared invalid in March, 1936, and the respondent continued thereafter down to and including July, 1937, to make the minimum monthly royalty payments. The respondent, while contending that it is not necessary to its defence to rely upon the fact that the other patent was subsequently declared invalid by this Court, whose order was merely varied by the Judicial Committee to preserve the patent as it now exists limited by the disclaimer recorded after the judgment in this Court, argues that its defence is fortified by the declaration of invalidity of "the claims in the patent

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as made by the patentee in the specification as originally filed", which was the state of the patent at the date of the making of the licence agreement; and that it, the respondent, cannot under the licence agreement be adversely affected by the subsequent disclaimer. But that does not give effect to the statutory provision of section 50 (2) of *The Patent Act* above mentioned, which provides that "The disclaimer shall thereafter be deemed to be part of the original specification".

Notwithstanding the course of the disclaimer patent in the earlier litigation, the respondent not only continued to pay the royalties under the licence agreement down to July, 1937, but continued, at least down to the time of the trial of this action, to manufacture and sell shirts that fell within the specification of the patent. Some 36,800 dozen shirts were made between July, 1937, and September, 1940. A disclaimer may well save a patent for a licensee's enjoyment and protection. The disclaimer in this case did not affect the invention as disclosed by the specification; it merely limited the claims to the invention.

In my opinion, the respondent's covenant in the agreement to pay Celanese a fixed monthly sum, irrespective of the exercise of any of the rights granted to it, is an independent covenant and remains operative and effective notwithstanding the adjudications that have been made with respect to the two patents specifically mentioned in the agreement. Paragraph 7 (a) of the agreement, to which I have already referred, is not to be overlooked in this connection. By that sub-paragraph Celanese agreed that as long as the licence remains in effect and the licensee pays the royalties as in the agreement provided, it will not sue the licensee for infringement of any patent "now owned or controlled or hereafter acquired or controlled by Celanese" and relating to the goods specified in paragraph numbered 4. A licence under an unspecified patent owned by Celanese at the time of the making of the agreement or under one or more patents subsequently acquired by Celanese might well have turned out or may well turn out to be of far greater value to the respondent than the licence under either of the specifically mentioned patents. And the provision of paragraph 7 (a) remains unless the whole agreement has fallen. The respondent acquired the benefit of that provision when it agreed to pay the fixed monthly sums.

Further, by paragraph 14 of the agreement, the respondent had the right at its election to be relieved of the obligation to pay the minimum monthly royalties upon the conditions therein provided. But no notice was given by the respondent to Celanese under that paragraph and no advantage was taken of its provisions if it were in fact of advantage to the respondent.

I should therefore allow the appeal and direct judgment to be entered for the appellant against the respondent for the amount claimed, with interest and costs.

RINFRET J. (dissenting).—I have reached the conclusion that the judgment of the Court of Appeal for Ontario, which dismissed an appeal by the plaintiff from a judgment of Chevrier J. dismissing the action, is well founded and should not be disturbed.

The appeal should be dismissed with costs.

TASCHEREAU J.—For the reasons given by my brother Davis, I think that this appeal should be allowed with costs.

Appeal allowed with costs.

Solicitors for the appellant: *Smart & Biggar.*

Solicitors for the respondent: *Macfarlane, Thompson, Littlejohn & Martin.*

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