See para. 32

R.L. Crain Limited v. Ashton and Ashton Press Manufacturing Company Limited

[1949] O.J. No. 500

[1950] O.R. 62

[1950] 1 D.L.R. 601

11 C.P.R. 53

9 Fox Pat. C. 201

1949 CarswellOnt 87

Ontario
Court of Appeal

Henderson, Hogg and Bowlby JJ.A.

December 19, 1949.

J.D. Watt, K.C. (G.F. Henderson, with him), for the plaintiff, appellant: Prior to Ashton's employment by the plaintiff he had never seen a continuous form press. The trial judge found as a fact that some features of our press contained secrets during the time that Ashton was in our employ, and there is evidence to support that finding. Once we establish that they were at any time secret, the onus shifts to the defendant to show that they had been disclosed by us, so as to cease to be secrets. There is no evidence to show that our presses were exposed for sale on the open market: Robb v.

Green, [1895] 2 Q.B. 315 at 319. The evidence establishes each of the four elements required according to Amber Size and Chemical Company, Limited v. Menzel, [1913] 2 Ch. 239, viz.: (1) we possessed and exercised a secret process; (2) the defendant, during the course of his employment, acquired knowledge of the secret or a material part thereof; (3) the defendant knew at that time that the process was secret; and (4) the defendant, since leaving our employ, has made an improper use of the knowledge so acquired by him.

For a secret to become public property there must be a general disclosrue: Sachs v. Cluett, Peabody

& Co., Inc. (1941), 177 Misc. 695, 31 N.Y.S. 2d 718 at 721; Fairchild Engine & Airplane Corporation et al. v. Cox (1944), 50 N.Y.S. 2d 643 at 653. A "secret" is a "private matter": Kaumagraph Company v. Stampagraph Co., Inc. et al (1923), 235 N.Y. 1 at 7. Once it is shown that there was a trade secret, the onus is on the defendant to show by positive evidence that there was in fact a disclosure: Phipson on Evidence, 8th ed. 1942, p. 27.

Joseph Sedgwick, K.C., for the defendants, respondents: Prior to Ashton's employment with the plaintiff, that company had used the Meisel press, a standard press. Ashton had mechanical genius, and used his own skill to make improvements. The press as improved was not patented. There are many other presses on the market that perform the same functions as that of the plaintiff. Ashton's own business, set up after he left the plaintiff, was that of manufacturing machinery, and was not in competition with the business of the plaintiff, which did not sell presses. The plaintiff now seeks to obtain a protection wider in ambit and longer in time than it would have obtained from patents. It is also seeking to prevent the individual defendant from making a living. The witness Crain could not even say what were the secrets he wished to prevent us from using.

The proper principles to be applied in these cases are set out in Measures Brothers Limited v. Measures, [1910] 1 Ch. 336, and Sultman Engineering Coy., Ld. et al. v. Campbell Engineering Coy., Ld. (1948), 65 R.P.C. 203. Robb v. Green, [1895] 2 Q.B. 315, shows that "filching" is an essential element.

J.D. Watt, K.C., in reply: On the question of applying for a patent, see Fox, Canadian Patent Law, 3rd ed. 1948, p. 1116, and Morison v. Moat (1851), 9 Hare 241 at 258, 68 E.R. 492. As to our tying up valuable machinery, I refer to E.I. Du Pont de Nemours Powder Company et al. v. Masland et al. (1917), 244 U.S. 100.

Cur. adv. vult.

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1 **HOGG J.A.**:-- This is an appeal from the judgment of Mr. Justice Chevrier, dated 21st March 1949, dismissing the action brought by the appellant company against the respondents, with costs.

2 In the action from which this appeal arises, the appellant claimed an injunction restraining the respondents, R.W. Ashton and Ashton Press Manufacturing Company Limited, from disclosing certain alleged trade secrets of the appellant, "by selling machines or soliciting orders for machines similar to those used by the Plaintiff Company and embodying the secret processes and advancements developed by the Plaintiff Company".

3 The respondent R.W. Ashton entered the employ of the appellant company in the year 1930. He subsequently became the machine-shop foreman, and later became the mechanical superintendent

of the appellant company. In the 1937 he was made a director of the company. Almost all of the business carried on by the appellant company is the manufacture of what are termed "continuous forms". Examples of such form are the way-bill forms used by railway companies, and the forms are produced by what is termed a continuous form press. The evidence demonstrates that this is a large and complicated machine, the price of which is somewhere in the neighbourhood of $26,000.

4 Prior to the time when the respondent Ashton first became associated with the appellant company, the company did not build or construct continuous form presses or machines but used presses made by The Meisel Press Co. of Boston in the State of Massachusetts, and I think it is a fair statement to make, that the evidence establishes that it was due to the mechanical ability of Ashton that the appellant company commenced to construct, and did construct, its own presses. The business carried on by the appellant company is that of printer and not the manufactory of printing machinery.

5 In or about the year 1944 the appellant company issued a pamphlet or booklet, which was distributed to its staff, entitled "You and your Company", in which the respondent Ashton is referred to as follows:

> "He is responsible for having developed our exclusive printing plate technique, having designed and supervised the building of all our continuous presses and companion equipment. The maintenance of these precision machines is also under his supervision. Since February 1930 he has constantly been working on new methods, both in the field and factory and developing new ideas and improving present methods."

6 Mr. Harold Crain, who is the vice-president of the appellant company, testified that the statements made in this booklet with respect to the respondent Ashton were correct.

7 Practically all of the improvements, consisting of the various devices embodied from time to time in the presses, were either originated by the appellant Ashton, or were developed and perfected by him, and it is these devices and the manner in which the component parts of the press in question are assembled, which the appellant claims to be secret.

8 The respondent Ashton left the employ of the appellant company in October 1946, and with its assistance established his own business for the construction of continuous form presses. Certain negotiations and correspondence ensued between the appellant and Ashton, which are referred to at some length in the evidence given at the trial. It was sought by the appellant to establish that Ashton had entered into a contract with the appellant to the effect that he had agreed not to supply appellant company's competitors with presses equipped to produce continuous forms. I cannot hold that the correspondence between the parties established a firm contract between them.

9 As a result of the before-mentioned negotiations, the appellant company rented or leased premises owned by it to Ashton and loaned to him drawings, blueprints, jigs and patterns used in the

manufacture of the machine in question. Ashton made such alterations in these drawings and blueprints as were necessary to produce an improved form of press and to bring the drawings and blueprints up to date, and he completed a press, the manufacture of which had been commenced by the appellant company, as well as constructing three additional complete continuous form presses, which became part of the appellant's printing plant.

10 In January 1947 the appellant wrote to the respondent Ashton complaining that he had offered to make for, or to sell, certain of his competitors, continuous form presses. Ashton, on his part, complained to the appellant that it was not giving him orders for presses or other machinery such as he expected to have received, and which were necessary if the new company was to continue to carry on successfully. However, in September 1947 the appellant company cancelled any contemplated orders for presses for the year 1948. The evidence shows that Ashton returned all of the drawings, blueprints, jigs and patterns that he had received from the appellant, embodying the changes he had made in order to produce an improved press. He retained copies of these amended or altered drawings. As a result of the respondents not having received further orders for presses, they endeavoured to dispose of a press which they had completed but which had not been accepted by the appellant company, to a Toronto firm called Business Systems.

11 The next step was the present action and an application for an interim injunction which was subsquently granted, restraining the respondents in practically the same terms as are claimed with respect to the injunction requested in the action.

12 Mr. Harold Crain was of the opinion that the respondent Ashton was competent to construct a press such as that in question in this appeal, with the knowledge and skill which he possessed, without the assistance of the drawings or blueprints to which reference has been made, and a part of his testimony is as follows:

> "Q. And then he returned everything to you -- the blueprints, jigs and patterns -- and would you agree with me that so far as this machine is concerned, Mr. Ashton is quite competent to build it with the knowledge that is in his head; that is, he could design and build a machine of this kind without any assistance at all from the Crain company? A. You mean, with the knowledge that he has now? Q. With the knowledge in his head, yes? A. That he has gained over the years? Q. Yes? A. Yes." The trade secrets in question in the action, as alleged by the appellant, are set out in the answer to the demand for particulars of the respondents, as, for exmaple, the way or ways in which the components parts of the continuous form presses were assembled, the method of controlling the paper as it passes through the machine, the method of mounting the printing plates, holding the dies and punches and the method of re-winding. Although not mentioned specifically in the demand for particulars, evidence was given, subject to objection by counsel for the respondents, of certain other machines used by the appellant company, which it was claimed should be embraced by the injunction.

> These other machines, one of which is called a collating machine, were used in connection with certain operations upon the continuous forms after they had left the press. The evidence shows that these supplementary machines were developed and constructed under the supervisin of the respondent Ashton. Whether this evidence should not have been admitted is not of moment in view of the disposition which I have made of the appeal.

13 There are certain principles of law which are applicable to contracts or implied contracts between an employer and his employee, that are of such character that prima facie they are in restraint of trade, and these principles have as their background, to use the words of Lord Macnaghten in Trego and Smith v. Hunt, [1896] A.C. 7, in the House of Lords, that: "The common law has always been jealous of any interference with trade."

14 In Bowler v. Lovegrove, [1921] 1 Ch. 642, P.C. Lawrence J., referring to two of the leading cases on the subject under consideration: Herbert Morris, Limited v. Saxelby, [1916] 1 A.C. 688, and Attwood v. Lamont [1920] 3 K.B. 571, said:

> "These decisions show clearly that, as the present case is one between employer and employee, ... it is incumbent on the plaintiffs to prove that there existed some special circumstances which rendered it reasonably necessary for the protection of the plaintiffs' business."

15 The onus of proof is upon the party supporting a claim based upon an alleged trade secret, to show that the restraint requested in the form of an injunction goes no further than is reasonably necessary to protect the employer.

16 The cases on this subject of trade secrets establish that independently of any express covenant or contract, an ex- employee who, in the course of his employment, acquired a knowledge of a secret process belonging to his employer, arising out of the confidential relation between an employer and his employee, is under an implied obligation not to use that knowledge upon leaving his employment.

17 Lord Esher M.R. in Robb v. Green, [1895] 2 Q.B. 315, said at p. 317: "It is impossible to suppose that a master would have put a servant into a confidential position of this kind, unless he thought that the servant would be bound to use good faith towards him; or that the servant would not know, when he entered into that position, that the master would rely on his observance of good faith in the confidential relation between them ... there is such an implication in a contract of service."

18 In Herbert Morris, Limited v. Saxelby, supra, the action out of which the appeal arose was brought to restrain the respondent, a former employee of the appellants, from being interested in the sale of manufacture of certain machines such as overhead travelling cranes or parts thereof, and from divulging or using confidential information acquired by him while in the service of the

appellants, who were makers of such machines. Lord Atkinson expressed the following opinion:

> "In all cases such as this, one has to ask oneself what are the interests of the employer that are to be protected, and against what is he entitled to have them protected.
>
> "He is undoubtedly entitled to have his interest in his trade secrets protected, such as secret processes of manufacture which may be of value. And that protection may be secured by restraining the employee from divulging these secrets or putting them to his own use. He is also entitled not to have his old customers by solicitation or such other means enticed away from him. But freedom from all competition per se apart from both these things, however lucrative it might be to him, he is not entitled to be protected against. He must be prepared to encounter that even at the hands of a former employee."

19 And at p. 704, Lord Atkinson further said: "The case in which the Court interferes for the purpose of protection is where use is made, not of the skill which the man may have acquired, but of the secrets of the trade or profession which he had no right to reveal to any one else -- matters which depend to some extent on good faith." Lord Parker of Waddington in the same appeal said at p. 710: "This argument was rejected by your Lordships' House, and the restraint in question was held bad, as being wider than was necessary to protect the employer from injury by misuse of the employee's acquaintance with customers or knowledge of trade secrets. In fact the reason, and the only reason, for upholding such a restraint on the part of an employee is that the employer has some proprietary right, whether in the nature of trade connection or in the nature of trade secrets, for the protection of which such a restraint is -- having regard to the duties of the employee -- reasonably necessary. Such a restraint has, so far as I know, never been upheld, if directed only to the prevention of competition or against the use of the personal skill and knowledge acquired by the employee in his employer's business."

20 Lord Justice Younger in Attwood v. Lamont, supra, affirmed the principle that an employer could not prevent an ex-employee from making use of his skill and knowledge.

21 In the comparatively recent case of Triplex Safety Glass Company v. Scorah, [1938] Ch. 211, [1937] 4 All E.R. 693, the following passage occurs in the judgment of Mr. Justice Farwell at p. 217:

> " ... apart altogether from any express covenant, ... any invention or discovery made in the course of the employment of the employee in doing that which he was engaged and instructed to do during the time of his employment, and during working hours, and using the materials of his employers, is the property of the employers and not of the employee, and ... having made a discovery or invention in course of such work, the employee becomes a trustee for the employer of that

> invention or discovery, and he is therefore as a trustee bound to give the benefit of any such discovery or invention to his employer".

22 In Amber Size and Chemical Company, Limited v. Menzel [1913] 2 Ch. 239, it was held that the principle of non-disclosure on the part of an employee applies to information acquired and retained in the servant's memory as well as to information committed to writing and existing in tangible form.

23 The later case of United Indigo Chemical Company Limited v. Robinson (1931), 49 R.P.C. 178, appears to attempt to limit to some extent the principle as it is expressed in the Amber Size case. It was there said that an injunction would not be granted to prevent an employee using knowledge that had become his own, but dishonest or surreptitious obtaining of knowledge would be upon a different footing. However, no obligation can be implied not to use knowledge honestly acquired.

24 Maguire v. Northland Drug Company Limited, [1935] S.C.R. 412, [1935] 3 D.L.R. 521, refers to the principles set out in the above mentioned cases.

25 The respondent states quite frankly that he realized that the improvements and developments made and originating principally through his own efforts were matters which should be kept from other persons and companies in the same trade.

26 The matter which Lord Esher in Robb v. Green, supra, and Lord Atkinson in Herbert Morris, Limited v. Saxelby, supra, said depended on good faith, is put in a somewhat different form by Mr. Justice Farwell in the Triplex Safety Glass case, supra, where he placed the employee in the position of trustee for the employer of the improvement or invention claimed to be a trade secret by the employer.

27 It was argued by Mr. Sedgwick that the respondent Ashton, in building a continuous form press in his own establishment, was using only the personal skill and knowledge acquired by him while he was an employee of the appellant company, and that the evidence of Mr. Harold Crain, which I have already quoted, demonstrates clearly that the drawings, blueprints and other things of like nature, the property of the appellant, were not required by Ashton in order for him to construct one of the presses with which this appeal is concerned. That this is so, may well be. Nevertheless, I think that the matter goes further than the use by Ashton merely of his personal skill and knowledge or what were termed by Lord Shaw in the Saxelby case "subjective" things, and includes the use of that objective knowledge of those devices made from time to time in improving the appellant's press which had been developed by Ashton while in the appellant's employ, and which, because of his mechanical ability, Ashton could reproduce without having the drawings, blueprints and other aids that were the property of the appellant, in his actual possession. It is quite clear from Ashton's testimony on examination for discovery, which was made part of the appellant's case, that a new improvement or device in connection with the continuous press developed by Ashton while he was an employee of the appellant company, and which was unknown at the time to others outside of the

appellant's staff, was recognized by him to be something which he should preserve solely for his employer. It is my opinion that Ashton had become a trustee for his employer of such devices and improvements developed by him, so that, as he said, each new press was a definite improvement on the older presses. These improvements were matters which are objective in character, and not matters of general skill, ability and experience carried in the brain of the ex-employee, such as were said in Herbert Morris, Limited v. Saxelby and the United Indigo case to be matters in which the Court does not interfere to protect the employers.

28 It was contended by Mr. Watt on behalf of the appellant that although the drawings and plans of the machines in question, that had been lent to Ashton, were returned by him, he kept copies of the same for his own use. However, there is evidence to the effect that these drawings were altered and amended while in the hands of Ashton by incorporating further improvements, so that the machines built with their aid were of a more efficient type than those constructed according to the drawings when received by Ashton and were not just duplicates of the machines described in the original drawings and plans.

29 At the time when some of these successive improvements were originated by Ashton while he was with the appellant company, they are, I think, to be regarded as trade secrets which were the exclusive property of the appellant, for whom Ashton was a trustee. It is trite to state that a secret once disclosed is no longer a secret. If the improvements, devices and developments made to the continuous form press of the appellant company while Ashton was in its employ, and the method in which the component parts of the machine in question were assembled, also the design and improvements to the various other machines used in finishing the continuous forms, became known to others who were interested in the construction or sale of such presses and supplementary machines, that is to say, became known to the trade, the character of secrecy with which these devices and improvements were formerly surrounded would disappear.

30 On his examination for discovery Ashton declared that, with the approval of the appellant, he exchanged information with respect to continuous form presses with the engineers of the Standard Register Company, of Dayton, in the State of Ohio. Mr. Rolla Crain, the president of the appellant company, testified that changes and new designs developed in the company's machines were disclosed, while the respondent Ashton was associated with the appellant, to the said Standard Register Company, which also manufactured continuous forms. There is evidence that the aforesaid presses used by the Standard Register Company were manufactured for them by the Meisel Press Company. Mr. Crain said that none of the features of the appellant's press were kept secret from the board of management and the engineering staff of the Standard Register Company. Mr. Harold Crain said that the appellant company was closely associated with the Standard Register Company, that "both companies exchange information freely, one with the other, with respect to improvements and design of these machines", and that all the information as to appellant's various machines had been made available to the Standard Register Company. Both of the Messrs. Crain testified that all the appellant's drawings and blueprints of the machines had been placed in the hands of W.H. Smith Company, of England, in the year 1945. Mr. Harold Crain said that the respondent Ashton did not

think it advisable to let the Smith company have these drawings, but the rest of the management felt that the English company could be trusted. He further testified that a limited amount of information was supplied to a company called the Sunset McKee Company, of California. He said that the information exchanged with the aforesaid companies "was secret within the group". No evidence was given of any agreement or arrangement with the appellant company to which the Standard Register Company, the Smith company or the Sunset McKee Company were parties, that showed in what manner these companies were associated with the appellant or that secrecy with regard to any matter connected with the appellant company's press was to be observed. The Court is left entirely in the dark as to any obligations imposed upon, or agreed to, by any of the aforesaid firms, except the bald statement of Mr. Harold Crain that the developments in question were secret within the group. There is no evidence to the effect that the Meisel Press Company was a member of the group, although it made the presses used by the Standard Register Company and it is reasonable to infer that it had the information given by the appellant to the Standard Register Company. The fact that disclosure of the alleged trade secrets was made to the several parties mentioned, even though they may not have been at the time in competition with each other, establishes that the element of secrecy no longer existed.

31 Furthermore, that some of the devices claimed to be secret are known to makers of continuous form presses is, I think, clear from the evidence of Mr. Harold Crain on cross-examination; as, for example, the claim that a centre drive-shaft in connection with the continuous form press was originated by the appellant and is exclusive to the appellant's press. He said that a German-built press, called the Schnellhaufer, had, according to the blueprint of such machine, a centre drive-shaft, and he could not say whether Ashton had got the idea from this press of putting the drive-shaft in the centre of the appellant's machine. Another example is a device called a mill roll brake, claimed to be secret. Mr. Crain was of the opinion that the basic principle was obtained from the Standard Register Company, which, as has been said, uses presses built for it by the Meisel Press Company.

32 The evidence adduced by the appellant company was not sufficient to discharge the onus which rested upon it to establish that those matters pertaining to the continuous form press, or that the several machines which supplemented the press in making the forms, claimed by the appellant to be trade secrets, were unknown to others in the trade, but, on the contrary, such evidence did establish, in my opinion, that the alleged secrets were known to others in the trade, whether in the business of producing continuous forms or of building continuous form presses.

33 Ashton expressed the opinion that the presses constructed by him for the appellant were the best machines on the market, not because of the alleged secret devices incorporated in them, but because of the accuracy with which the presses were constructed and the tolerance -- to use Ashton's words -- "built into the machine". These characteristics would mean, I take it, that a high degree of skill and care was taken in the construction of the press.

34 For the reasons given, I have concluded that those improvements, devices and developments

to the continuous form press and the component parts of the appellant's press and the manner in which such parts were assembled, as well as the other supplementary machines, claimed by the appellant to be trade secrets, had been disclosed to, or were knwon to others in the trade before any attempt was made by the respondents to dispose of the press and were not matters known solely to the appellant company, including their staff and employees, and cannot, therefore, be held to be secret to the appellant alone.

35 In view of this conclusion, I think that the judgment of the learned trial judge dismissing the action must be affirmed.

36 The able manner in which this appeal was argued by counsel for both parties facilitated its consideration and disposition.

37 The appeal is to be dismissed with costs.

Appeal dismissed with costs.

38 Solicitors for the plaintiff, appellant: Gowling, MacTavish, Watt, Osborne & Henderson, Ottawa.

Solicitors for the defendants, respondents: McIlraith & McIlraith, Ottawa.