

NU GLUE  
~~BIKA~~



NU GLUE ADHESIVES LIMITED

and

BIKA (IRELAND) LIMITED

-v-

BURGESS GALVIN & COMPANY LIMITED

Judgment delivered by Mr. Justice McWilliam on the 23rd day of March 1982

The Plaintiffs claim an injunction to restrain the Defendant from manufacturing or selling an adhesive substance made to a formula alleged by the Plaintiffs to have been invented by and to be secret to them and to have been disclosed to the Defendant under an agreement whereby the Defendant agreed not to disclose or use the formula without the authority of the Plaintiffs and also to have been disclosed to the Defendant under circumstances of confidentiality.

The Defendant denies that the adhesive substance it is now manufacturing and marketing is or was secret to the Plaintiffs or invented by them and says that this substance has been developed by the Defendant's own research without obtaining any advantage from the information obtained from the Plaintiffs. The Defendant also counterclaims for the repayment of sums of money alleged to have been advanced by way of loans to the Plaintiffs with interest on such of the loans as

were expressed to bear interest.

Although the Plaintiffs are separate companies, they are closely associated and have the same directors and their interests are identical in so far as this case is concerned. Both the Plaintiffs and the Defendant were in the business of manufacturing and dealing in adhesives for a number of years although the Defendant was in a more substantial way of business than the Plaintiffs were.

The case is principally concerned with two adhesive substances produced by the Plaintiffs. The first was an adhesive, classified as BG 594, which the Plaintiffs manufactured and supplied to Gypsum Industries for use in connection with the manufacture of gypsum board. It is in connection with this adhesive that the improper use of confidential information is alleged. The second, described as impregnation and classified as N 900, had been developed for Wiggins Teape Ltd. and negotiations with Wiggins Teape Ltd., indicated the possibility of very substantial business being done with that firm. The abuse of confidential information does not arise in connection with this product but the development and proposed commercial production of it was very much in the minds of the parties when reaching the agreement to which these proceedings relate.

The Plaintiffs and the Defendant, being in the same business, were

trading in opposition to each other but the Plaintiffs seem to have concentrated more on research than on manufacture and, when it became apparent that the production of substantial quantities of the product N 900 might be required for Wiggins Teape, the Defendant's auditors (of whom Mr. McKeon was a director of the Plaintiffs) brought the parties together and the Plaintiffs made a proposal that the Defendant would take over the manufacture of this product and other products which might be developed and that the parties would join in the formation of a new export company through which the profits of the enterprise would be distributed between them.

In the event an agreement was signed on behalf of the parties in which the operative date was expressed to be 15th February, 1972, and the period of the agreement was expressed to be for three years from that date. The agreement was probably signed on this date although one of the witnesses for the Defendant stated in evidence that he had anticipated that it would not be signed until a more formal agreement had been drawn up by solicitors. By the first part of this agreement it was provided that the Defendant would manufacture and sell the adhesive products then manufactured by the Plaintiffs and the Plaintiffs agreed to cease the manufacture and sale of these products within thirty days. The Plaintiffs also agreed to supply the Defendant with the names and

addresses of all their customers and other relevant information.

This part of the agreement also contained the following paragraphs:-

4. Bika of Ireland Ltd. agree to grant to Burgess Galvin & Co., Ltd., a licence to manufacture the products presently manufactured by Nu-Glue adhesives Ltd. for the Irish market, and will make known to Burgess Galvin on the operative date, the full formula for each product.
7. Burgess Galvin & Co. Ltd. agree to maintain secrecy on the "know how" of all formula supplied to them, during the period of this agreement, and in the event of termination of the Agreement, will not disclose or use the product formula without authority from Bika of Ireland Limited.
8. Bika of Ireland Limited, and Nu-Glue Adhesives Limited, agree to undertake a development programme to up date existing and new products and to evaluate markets, and agree to give first option during the Agreement to Burgess Galvin for the manufacture and sale of those products in the Republic of Ireland.

In the second part of the Agreement, expressed to be made in consideration of the matters in the first part, the Defendant agreed, at paragraph 1, to pay the Plaintiffs a royalty of 5% on the sales of the Plaintiffs' range.

Paragraph 2 contains a number of clauses:-

- (a) Burgess Galvin & Co. Ltd., agree to pay to Bika of Ireland Ltd., on the operative date the sum of £5,000. This sum being repayable by Bika of Ireland Ltd., within the period of the agreement as follows:-

£1,000 on or before the 15th February, 1973.

£1,500 " " " " " " 1974.

£2,500 " " " " " " 1975.

Interest calculated at the rate of 5% on the outstanding balance will be paid by Bika of Ireland to Burgess Galvin & Co. Limited.

- (b) Burgess Galvin & Co. Ltd., also agree to pay Bika of Ireland Limited on the operative date, the sum of £1,500. This amount will be repaid by Bika of Ireland within the first year, or thereafter on demand from Burgess Galvin & Co. Limited. No interest will apply to this payment. It is agreed between the Parties that any sums outstanding by Bika of Ireland Ltd., beyond the due dates, may be recovered by Burgess Galvin & Co. Ltd., by deductions from Royalty payments to Bika of Ireland Limited. (This clause continued with a provision regarding government grants which is not relevant to these proceedings).

This consideration is made by Burgess Galvin & Co. Ltd., expressly to promote and assist the development work being undertaken by

Bika of Ireland Limited and Nu-Glue Adhesives Limited.

(c) As a further consideration of this development work, Burgess Galvin agree to make quarterly payments to Bika of Ireland Limited at a sum equivalent to 5% on sales of adhesive products, manufactured by Burgess Galvin, but excluding such sales as are already liable to royalty payment to Bika of Ireland.

By paragraph (3) the Defendant agreed to purchase all current raw material stocks of the Plaintiff available on 15th February, 1972.

The business of the Plaintiffs had three branches. (1) The manufacture and supply to customers in Ireland of adhesive materials. (2) A reciprocal arrangement with a firm (Findley) in America whereby this firm manufactured and marketed the Plaintiffs' products in America and the Plaintiffs manufactured and marketed its products in Europe and paid royalties on this business. (3) Research carried on by Mr. Brian McCarthy, a director and the founder of the Plaintiffs. This work was attributed to Bika. As a result of the agreement with the Defendant, (1) and (2) were taken over by the Defendant and (3) was to be continued by the Plaintiffs.

There is no evidence before me as to what was discussed or intended with regard to manufacturing or marketing by the parties upon the termination of the agreement. Although paragraph 7 of the first part

of the agreement provides for disclosure and use of formula by the Defendant after the termination of the agreement, no provision was made with regard to retaining or disclaiming customers taken over from the Plaintiffs. Nor was there any evidence as to what happened to the manufacturing equipment of the Plaintiffs after February, 1972, or whether they were or are in a position to manufacture and trade as apart from carrying out research. No claim is made in respect of these matters and I do not suggest that any such claim could be made successfully, but they are matters which should have been considered and for which provision should have been made at the time of the agreement.

I am satisfied that the Wiggins Teape product was the main factor which influenced the Defendant when entering into the agreement. I am also satisfied that it was considered by the Plaintiffs to be a very important factor in the negotiations although they do not now think that this was so. In the event, Wiggins Teape did not confirm the contract for the product, the Defendant was disappointed by the small size of the other business of the Plaintiffs and, during the period of the agreement, difficulties arose between the Defendant's directors and Mr. McCarthy with regard to Mr. McCarthy's attendances and his general effort on research. Meanwhile, the Defendant was continuing to supply adhesive to Gypsum according to the formula prepared by Mr. McCarthy and supplied

to it by the Plaintiffs under the terms of the agreement, but the adhesive prepared according to this formula was not proving satisfactory to Gypsum.

It was difficult to follow the evidence of Mr. McCarthy as to the number of formulas he prepared. A notebook was produced which showed clearly that he started from a formula published by Vinyl Products Limited, the manufacturers and suppliers of the various ingredients. I got the impression at first that he was claiming to have produced this formula himself. However this may be, he certainly prepared a somewhat different formula which was supplied to the Defendant who manufactured adhesive for Gypsum in accordance with it. This adhesive did not prove satisfactory to Gypsum and a further formula was prepared and used by the Defendant. There is a conflict of evidence whether this formula was prepared by a chemist in the employment of the Defendant or by Mr. McCarthy. In either event it was prepared with full knowledge of the advantages and limitations of the previous formula and its composition and method of preparation were, at least, communicated to Mr. McCarthy. The agreement terminated by efflux of time on 15th February, 1975. It appears that, for some time previously, the Defendant had been dissatisfied with the contribution being made by way of research by Mr. McCarthy and Bika Ireland Limited and an increase in prices made it unprofitable for the Defendant to continue



to supply Gypsum at the previous price. In these circumstances, the Defendant purported to terminate the agreement by letter of 5th September, 1974. This step resulted in discussions with Mr. McCarthy with regard to alternative arrangements, the principal suggestion being that Mr. McCarthy would do research for the Defendant at a salary. These discussions continued after the legal termination of the agreement in February, 1975, but came to nothing and the Defendant continued to manufacture adhesive for Gypsum and are still continuing to do so.

In 1976 the Defendant employed a new chemist and, the last formula having also proved unsatisfactory to Gypsum, this chemist prepared a new formula which is still being used by the Defendant. This chemist stated in evidence that he went back to the manufacturer's formula and produced his formula without any assistance from any of the previous formulas although he was fully aware of the constitution and method of preparation of the adhesive being used when he arrived. He stated that he was not aware of any of the previous formulas which had been prepared or used.

Between the summer of 1975 and the summer of 1977 neither party appears to have made any claim against the other with regard to the matters in issue in these proceedings although there was a certain amount of accounting between the parties with regard to the period of the currency of the agreement. The only reference to the payment of royalties

was in December, 1975, at which time, according to the evidence of Mr. McCarthy, Mr. Galvin told him that the Defendant would not be paying royalties. Mr. Galvin thinks he had no meeting with Mr. McCarthy after May, 1975. On the other hand, in reply to me, Mr. Galvin said that if there was no agreement with Mr. McCarthy at the termination of the 1972 agreement, he would have made a new agreement (presumably with the Plaintiffs) or stopped using the formula. He also stated in evidence that, during the discussions in April, 1975, he had suggested forgetting the whole experience and wiping out all liabilities.

In the summer of 1977 there were further discussions with regard to the employment of Mr. McCarthy by the Defendant but the position was no longer open and, by letter of 3rd June, 1977, Mr. McCarthy wrote to say that, unless some compromise were reached, he would have to take back his formulations and notify his former customers that he would be supplying them in future. The Defendant replied to this by letter of 10th June, 1977, in which it was pointed out that the Defendant had not had any agreement with Mr. McCarthy personally but only with the Plaintiffs.

A considerable amount of evidence was tendered with regard to the composition and method of manufacture of the adhesive supplied to Gypsum but the relevant part of this evidence is that the formula was

derived from a formula which had been published to the trade by the manufacturers of the ingredients and that a properly qualified chemist could always have prepared the final and successful formula by making variations of and alterations to the manufacturer's formula although this would have taken time.

I have been referred to a number of cases but there is no dispute as to the principles applicable to the use of information given in confidence. The equitable principle is that he who has received information in confidence shall not take unfair advantage of it. Here the equitable principle was, in effect, repeated in the express terms of the agreement and the problem presented to me is to decide whether the equitable principle and the terms of the agreement have continued in full force and effect or whether they have been rescinded or varied by the circumstances of the case.

As happens from time to time, the cases made at the hearing departed somewhat from the pleadings. The defence, as pleaded, relied solely on the fact that the formula used by the Defendant was based on the Defendant's own research, but the case was also made on the hearing that the Defendant had authority to use the Plaintiff's formula after the termination of the agreement. The defence to the counterclaim denied that the money claimed by the Defendant to have been advanced by way of

loans was advanced and alleged that all monies, if any, advanced by the Defendant had been repaid, but, at the hearing, the case was made that the repayment of the loans had been waived by the Defendant.

Had it been sought to enforce the agreement immediately on its termination, the Plaintiffs would have been entitled to the sole use of their formulas or damages for such use as was improperly made of them and the Defendant would have been entitled to recover the amount of their loans outstanding in accordance with the terms of the agreement. Neither party then sought to do this, possibly because of the difficulties arising from the transfer of customers and the cessation of manufacturing by the Plaintiffs. Instead, the parties entered into the negotiations to which I have referred with regard to the employment of Mr. McCarthy by the Defendant. At this stage Mr. McCarthy's future seems to have been the principle consideration, and Mr. McCarthy and the representatives of the Defendant were in direct negotiation. When these negotiations fell through in 1975, no further step was taken by any party to resolve the problem until 1977 when Mr. McCarthy made his claim which was met with the comment from the Defendant that there was no contract or agreement with Mr. McCarthy but only with the Plaintiffs. Having regard to this and to the evidence of the negotiations with Mr. McCarthy and the form of the Defendant's accounts which appear to me to suggest that the

Defendant had agreed to waive or write off the amount of the loans, I have come to the conclusion that an agreement must be implied that the Defendant would continue to have the benefit of the business taken over from the Plaintiffs in consideration of waiving the amount outstanding on the loans. It is unfortunate that Mr. McCarthy was not able to take up the offer of employment with the Defendant but this does not appear to me to affect the issues between the parties to the case.

This disposes of the matter and both claim and counterclaim will be dismissed but it is only right that I should refer to the main ground of claim about which so much evidence was given. It is clear that the Plaintiffs' formula was developed from a formula which was published by Vinyl Products Limited for use by all or any manufacturers of adhesives. I am satisfied that any properly qualified industrial chemist could readily have produced the final formula now in use by the Defendant by varying the Vinyl formula but that this would have taken time. I consider that the formulas developed by Mr. McCarthy must have been of value to the Defendant's chemists in saving them time in conducting their own research and I would estimate this time at six weeks. If the Plaintiffs were entitled to succeed on this part of the claim I would refuse to grant the injunction sought and would award damages in a sum amounting to six weeks wages of Mr. Scheumert, the Defendant's chemist.

*Herbert R. Williams*