

Date: 20061108

Docket: T-432-05

Citation: 2006 FC 1343

[ENGLISH TRANSLATION]

BETWEEN:

IPL INC.

**Plaintiff/
Defendant by Counterclaim**

and

HOFMANN PLASTICS CANADA INC.

**Defendant/
Plaintiff by Counterclaim**

REASONS FOR ORDER

PROTHONOTARY MORNEAU

[1] This is a motion by the plaintiff and defendant by counterclaim, Hofmann Plastics Canada Inc. (hereinafter Hofmann Plastics), under Rule 107 of the *Federal Courts Rules* (the Rules), essentially for the Court to order the severance of the proceeding so that the issue of the infringement and validity of the '225 patent be decided first, and the issue of Hofmann Plastics'

potential profits be decided in a separate proceeding if the Court finds that the patent is valid and that it was infringed.

[2] The relevant part of Rule 107 reads as follows:

107. (1) The Court may, at any time, order the trial of an issue or that issues in a proceeding be determined separately.

107. (1) La Cour peut, à tout moment, ordonner que les questions en litige dans une instance soient jugées séparément.

Background

[3] As the Court indicated in a recent interlocutory decision in this case (see 2006 FC 1085), this case involves an action by the plaintiff and defendant by counterclaim (hereinafter IPL) for the infringement of patent '225 and, in turn, a counterclaim by Hofmann Plastics for the invalidity of this patent.

[4] It appears that patent '225 is for a cover and a container equipped with a particular system where a small part of the container breaks and detaches to facilitate the opening of the cover, which enables the user to easily see that the cover was opened and that the content may have been tampered with.

[5] It also appears that it is possible to see, at least at this stage, that the patent at issue includes the following essential elements, namely a combination:

- a. of the cover,
- b. of the container,
- c. of the mechanism that holds the cover on the container,

- d. of the mechanism allowing to visually verify whether the container was opened and whether the content is intact.

[6] Early in the debate, and therefore before affidavits of documents were filed and examinations on discovery were held, IPL chose to pursue the profits that Hofmann Plastics could reap.

Analysis

[7] In a motion such as this one, the test to apply is the one formulated by the Court in *Illva Saronno S.p.A v. Privilegiata Fabbrica Maraschino Exclesior* (F.C.T.D.), [1999] 1 F.C. 146, (hereinafter *Saronno*) at page 154, paragraph 14, where the Court established that:

Accordingly, on the basis of previous authority and in light of the changes introduced by the 1998 Rules, I would formulate the test to be applied under rule 107 as follows. On a motion under rule 107, the Court may order the postponement of discovery and the determination of remedial issues until after discovery and trial of the question of liability, if the Court is satisfied on the balance of probabilities that in the light of the evidence and all the circumstances of the case (including the nature of the claim, the conduct of the litigation, the issues and the remedies sought), severance is more likely than not to result in the just, expeditious and least expensive determination of the proceeding on its merits.

[8] For the reasons that follow, I have decided that Hofmann Plastics did not discharge its duty to establish on a balance of probabilities that the opportunity to save time and money and arrive at a just determination of the proceeding on its merits is such that it warrants a derogation from the general principle to the effect that all issues raised in a proceeding should be considered together.

[9] Hofmann Plastics is essentially arguing two major points in favour of its motion.

[10] First, it argues that an assessment of the validity of patent '225 easily supports a finding at this stage that the patent is invalid because it is pre-empted by some five (5) American patents.

Accordingly, it is appropriate to sever the proceeding since the accounting of profits stage will never be reached, given that Hofmann Plastics will prevail at the liability stage, when the patent '225 is declared invalid.

[11] Second, Hofmann Plastics submits that there are issues with determining profits that militate in favour of severing the proceeding.

[12] With respect to patent '225's alleged invalidity, I cannot find that Hofmann Plastics established on a balance of probabilities that the Court can make this finding at this stage for this motion under Rule 107.

[13] In fact, IPL's cross-examination of engineer James D. Sykes' testimony in support of the invalidity allegation put forward by Hofmann Plastics tends to show, as argued in IPL's written submissions, that ultimately there are certain differences between patent '225 and the comparative American patents in terms of the dynamics of the functioning of the cover, of the container, and of the mechanism that holds the cover on the container.

[14] At this stage, it is difficult for the Court to find in favour of either party's position in this case. However, without the experts' enlightened debate on this point, I cannot find that Hofmann Plastics has discharged its burden of proof in support of its invalidity argument.

[15] For the purposes of this finding, I do not consider that PRL's counsel, in assessing the validity of the patent at issue, should have, in her cross-examination of Mr. Sykes, followed the

notice and prevention approach established in *Browne v. Dunn* (1893), 6 L.R. 67 (H.L), referred to by the Supreme Court in *R. v. Lyttle* [2004] 1 S.C.R. 193, at pages 212–13.

[16] IPL, with regard to Mr. Sykes, was not seeking to contradict a specific narrative or factual description. IPL sought simply to establish, in the context of a motion, that the situation of validity is perhaps not as certain as it is in Hofmann Plastic's view.

[17] In the context of this motion, I also do not consider that IPL had to attempt to counter Mr. Sykes' opinion by filing its own expert evidence from a person skilled in the art. A motion under Rule 107 is not a trial on the merits or even a motion for summary judgment.

[18] With respect to the accounting for profits and complexity of establishing them in this case, Hofmann Plastics and IPL each submitted affidavits on this point. In the case of Hofmann Plastics, this was the testimony of its vice president, namely Paul Kalia. In the case of IPL, it was the testimony of a chartered accountant, namely André Giroux.

[19] As stated in the past (see 2006 FC 1085 at paragraphs [6] to [9]):

[6] ... In the first seven paragraphs of his affidavit, Mr. Kalia attempts to establish that Hofmann manufactures a wide range of products, including, but not limited to, the alleged infringing products. According to Mr. Kalia's allegations, it is extremely difficult, if not impossible, to isolate the various production parameters and the costs specifically associated with the alleged infringing products.

[7] In paragraph 8 of his affidavit, Mr. Kalia concludes:

In view of what I set out above, for at least the following types of expenses it would be extremely difficult or impossible to separate out the costs that were specifically associated with tamper-evident pails and containers, and even more difficult to separate out the costs associated with a specific line of tamper-evident pails and containers:

...

[8] It appears that the overall purpose of this affidavit is to establish that it will be impossible or very difficult to adduce evidence of the profits specifically associated with the infringing products.

[9] On August 15, 2006, Mr. Kalia was cross-examined on his affidavit.

[20] At the end of this examination, Mr. Kalia's version held up.

[21] However, to counter this version, IPL filed Mr. Giroux's affidavit.

[22] Mr. Giroux appears to have been a chartered accountant for more than thirty years and has some experience in assessing manufacturing businesses' property and stocks.

[23] Mr. Giroux, after reviewing Paul Kalia's affidavit, concluded at paragraph 20 of his affidavit that he:

[TRANSLATION]

20. ... disagrees with Paul Kalia's conclusion at paragraph 8 of his affidavit to the effect that it is extremely difficult if not impossible to separate out the costs associated with manufacturing "tamper-evident" containers or specifically associated with various types of "tamper-evident" containers.

[24] In arriving at this conclusion, Mr. Giroux states the following at paragraphs 12 and 13 of his affidavit:

[TRANSLATION]

12. On reading Paul Kalia's affidavit and in light of Alain Y. Dussault's explanations, I conclude that the employees' salaries, storage costs, rent, cost of machinery and repairs of that machinery, and office expenses are not directly attributable to the manufacturing and marketing of "tamper-evident" containers. I therefore understand that that they would never be considered by the court as admissible deductions in accounting for profits.
13. In the event that the costs described in paragraph 8 of the affidavit were qualified as direct costs by the court, I would be able to estimate these costs without difficulty and allocate them by "tamper-evident" container type.

[25] I must say that I agree with Mr. Giroux's allegations for the purposes of this motion. His cross-examination on October 10, 2006, does not subtract from the force of these allegations. The fact that Mr. Giroux takes into account principles and evidence that were disclosed to him by IPL's counsel and the fact that he has not done an accounting for profits in the past are not, in my opinion, issues that affect the weight given to his testimony at this stage, under the circumstances.

[26] I therefore also do not consider that Hofmann Plastics has discharged its burden on this issue regarding the complexity of establishing profits.

[27] Therefore, Hofmann Plastics' motion under Rule 107 will be dismissed, with costs in the cause.

[28] With respect to the schedule established in my order dated June 14, 2006, the parties will agree on this matter and send me a new schedule, in the form of a draft order, within fifteen (15) days of the order issued with these reasons.

“Richard Morneau”

Prothonotary

Date: 20061108

Docket: T-432-05

[ENGLISH TRANSLATION]

Montréal, Quebec, November 8, 2006

PRESENT: Richard Morneau, Prothonotary

BETWEEN:

IPL INC.

**Plaintiff/
Defendant by Counterclaim**

and

HOFMANN PLASTICS CANADA INC.

**Defendant/
Plaintiff by Counterclaim**

ORDER

Hofmann Plastic's motion under Rule 107 is dismissed, with costs in the cause.

With respect to the schedule established in my order dated June 14, 2006, the parties will agree on this matter and send me a new schedule, in the form of a draft order, within fifteen (15) days of the order issued with these reasons.

“Richard Morneau”

Prothonotary

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET: T-432-05

STYLE OF CAUSE: IPL INC.

**Plaintiff/
Defendant by Counterclaim**

v.

HOFMANN PLASTICS CANADA INC.

**Defendant/
Plaintiff by Counterclaim**

PLACE OF HEARING: Montréal, Quebec

DATE OF HEARING: October 30, 2006

REASONS FOR ORDER: PROTHONOTARY MORNEAU

DATED: November 8, 2006

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