Date: 20060309

Dockets: A-328-05
A-480-05

Citation: 2006 FCA 100

CORAM: **EVANS J.A.**
SHARLOW J.A.
MALONE J.A.

BETWEEN:

PASON SYSTEMS CORP. and PASON SYSTEMS INC.

Appellants

and

VARCO CANADA LIMITED
VARCO L.P.
WILDCAT SERVICES L.P. and
WILDCAT SERVICES CANADA, ULC

Respondents

Heard at Toronto, Ontario on March 8, 2006.

Judgment delivered at Toronto, Ontario on March 9, 2006.

REASONS FOR JUDGMENT BY: SHARLOW J.A.

CONCURRED IN BY: EVANS J.A.
MALONE J.A.

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REASONS FOR JUDGMENT

SHARLOW J.A.

[1] These are two appeals from interlocutory judgments of the Federal Court in an action by the respondents (collectively, "Varco") for patent infringement. The appellants (collectively, "Pason") deny infringement and have counterclaimed on the basis that the patent is invalid and void. Both of the judgments under appeal relate to Pason's argument that the patent is void by virtue of the combined operation of section 59 and paragraph 73(1)(a) of the *Patent Act*, R.S.C. 1985, c. P-5. That argument is based on allegations that Varco's representative did not reply in

good faith to a request by the patent examiner for certain information about prior art in relation to applications for the same invention in the United States and in Europe.

[2] Section 59 and paragraph 73(1)(a) read as follows:

59. The defendant, in any action for infringement of a patent may plead as matter of defence any fact or default which by this Act or by law renders the patent void, and the court shall take cognizance of that pleading and of the relevant facts and decide accordingly.	59. Dans toute action en contrefaçon de brevet, le défendeur peut invoquer comme moyen de défense tout fait ou manquement qui, d'après la présente loi ou en droit, entraîne la nullité du brevet; le tribunal prend connaissance de cette défense et des faits pertinents et statue en conséquence.
[...]	[...]
73. (1) An application for a patent in Canada shall be deemed to be abandoned if the applicant does not	73. (1) La demande de brevet est considérée comme abandonnée si le demandeur omet, selon le cas :
(a) reply in good faith to any requisition made by an examiner in connection with an examination, within six months after the requisition is made or within any shorter period established by the Commissioner [...].	a) de répondre de bonne foi, dans le cadre d'un examen, à toute demande de l'examinateur, dans les six mois suivant cette demande ou dans le délai plus court déterminé par le commissaire [...].

[3] Varco argues that as a matter of law, Pason cannot rely on paragraph 73(1)(a) in its defence and counterclaim, because in substance Pason’s allegation is that there was a misrepresentation in the patent application, and the effect of such a misrepresentation is

governed by subsection 53(1) of the *Patent Act*, which is not part of Pason's pleadings. Subsection 53(1) reads as follows:

> 53. (1) A patent is void if any material allegation in the petition of the applicant in respect of the patent is untrue, or if the specification and drawings contain more or less than is necessary for obtaining the end for which they purport to be made, and the omission or addition is wilfully made for the purpose of misleading.
>
> 53. (1) Le brevet est nul si la pétition du demandeur, relative à ce brevet, contient quelque allégation importante qui n'est pas conforme à la vérité, ou si le mémoire descriptif et les dessins contiennent plus ou moins qu'il n'est nécessaire pour démontrer ce qu'ils sont censés démontrer, et si l'omission ou l'addition est volontairement faite pour induire en erreur.

[4] Varco cites a number of cases for the proposition that an alleged misrepresentation in the prosecution of a patent before the Canadian Patent Office cannot form a basis for a defence of invalidity: *Eli Lilly and Co. v. Apotex Inc.* (1998) 80 C.P.R. (3d) 80 (reversed on other grounds (2000), 8 C.P.R. (4th) 52 (F.C.A.), *Lovell Manufacturing Co. v. Beatty Bros. Ltd.* (1962), 41 C.P.R. 18 (Ex. Ct.), *Bayer AG v. Apotex Inc.* (1998), 84 C.P.R. (3d) 23 (F.C.T.D.) (affirmed 2001 FCA 263), *Eli Lilly & Co. Canada v. O'Hara Manufacturing Ltd.* (1998), 20 C.P.R. (3d) 342 (F.C.T.D.), reversed on other grounds (1989), 26 C.P.R. (3d) 1 (F.C.A.), *Bourgault Industries Ltd. v. Flexi-Coil Ltd.* (1999), 86 C.P.R. (3d) 221 (F.C.A.), leave to appeal dismissed, [1999] S.C.C.A. No. 223.

[5] There is no debate as to the correct test for striking a pleading. A pleading is not to be struck unless it is plain and obvious that it has no chance of success, even though it may call for

a complex or novel application of the law: *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959. The judge concluded that this test had been met, that the impugned pleadings should be struck and that leave to amend be denied. For the reasons that follow, I have concluded that the judge erred in his application of the test.

[6] All of the cases cited by Varco were decided under the *Patent Act* as it read before the enactment of paragraph 73(1)(a). Since the enactment of that provision, there have been at least two cases where, after the issuance of a patent, a party argued successfully that the statutory conditions for its issuance had not been met because the patent applicant had not complied with paragraph 73(1)(c): *Dutch Industries Ltd. v. Canada (Commissioner of Patents) (C.A.)*, [2003] 4 F.C. 67, leave to appeal dismissed, [2003] S.C.C.A. No. 204 (QL), and *Johnson & Johnson Inc. v. Boston Scientific Ltd. (F.C.)*, [2005] 4 F.C.R. 110 (under appeal).

[7] Varco submits that the enactment of paragraph 73(1)(a) was not intended to have the same effect. In my view, that submission raises the possibility of a debate that should not be foreclosed by striking the pleadings in this case. The question of whether a defendant in an infringement action may use paragraph 73(1)(a) as a defence is an open one, as is the question of whether the particular facts alleged in this case fall within the language of that provision. Pason should be entitled to raise paragraph 73(1)(a) in its statement of defence and counterclaim, and state the supporting factual allegations, so that the legal questions raised in these motions can be argued in the context of a trial on the merits.

[8] The matter of the appropriate remedy on these appeals is not straightforward. As I understand it, the amended statement of defence and counterclaim that was filed by Pason on July 12, 2005 includes all of the allegations relating to subsection 73(1) of the *Patent Act* that Pason now wishes to make, both in relation to the argument that the patent is void (paragraph 14.1) and the argument that Varco should be denied equitable relief (paragraph 2.1). No useful purpose would be served by reviving the previous statement of defence and counterclaim, which contains paragraph 14(e), Pason's first attempt to express its subsection 73(1) argument, which was ordered struck in the Federal Court order dated July 5, 2005 (the subject of the first appeal, A-328-05)

[9] Therefore, I would dismiss as moot the appeal from the order of the Federal Court dated July 5, 2005 (A-328-05). I would allow the appeal from the order of the Federal Court dated October 4, 2005 (A-480-05), which denied Pason leave to amend its pleadings, and make an order granting leave. I would grant the appellant its costs of both appeals. Costs of the motions in the Federal Court should be costs in the cause.

"K. Sharlow"

J.A.

"I agree
John M. Evans"

"I agree
B. Malone"

FEDERAL COURT OF APPEAL

NAME OF COUNSEL AND SOLICITORS OF RECORD

DOCKETS:	A-328-05 A-480-05
STYLE OF CAUSE:	PASON SYSTEMS CORP. and PASON SYSTEMS INC. Appellants and VARCO CANADA LIMITED, VARCO L.P. WILDCAT SERVICES L.P. and WILDCAT SERVICES CANADA, ULC Respondents
PLACE OF HEARING:	TORONTO, ONTARIO
DATE OF HEARING:	MARCH 7, 2006
REASONS FOR JUDGMENT:	SHARLOW J.A.
CONCURRED IN BY:	EVANS J.A. MALONE J.A.
DATED:	MARCH 9, 2006

APPEARANCES:

Kelly Gill Stewart Hayne	FOR THE APPELLANTS
Andrew Shaughnessy Conor McCourt	FOR THE RESPONDENTS

SOLICITORS OF RECORD:

Gowling Lafleur Henderson LLP Toronto, Ontario	FOR THE APPELLANTS
Torys LLP Toronto, Ontario	FOR THE RESPONDENTS