Federal Court Cour fédérale

Date: 20150324

Docket: T-1267-10

Citation: 2015 FC 367

Toronto, Ontario, March 24, 2015

PRESENT: The Honourable Mr. Justice Hughes

BETWEEN:

ALLERGAN, INC. AND ALLERGAN SALES, LLC. AND ALLERGAN USA, INC. AND KYORIN PHARMACEUTICAL CO., LTD.

Plaintiffs

and

APOTEX INC. AND APOTEX PHARMACHEM INC.

Defendants

ORDER AND REASONS

[1] The Plaintiffs have brought a motion for an Order enforcing what they argue are the terms of a settlement of this action made as between the parties. The Defendants deny that any settlement was reached.

[2] This action brought by the Plaintiffs alleges that the Defendants have infringed Canadian Patent numbered 1,340, 316 ("the '316 Patent"). That patent claims certain chemical compounds the commercially important of which is gatifloxacin used as the active ingredient in ophthalmic solutions. The term of the '316 Patent will expire on January 12, 2016.

[3] The Statement of Claim in this action was filed on August 5, 2010 in which it was alleged that the Defendants were infringing the '316 Patent by making or having made for it, constructing, importing, exporting and using gatifloxacin and gatifloxacin ophthalmic solutions. The Defendants filed a Defence on May 2, 2011 denying infringement and stating that any manufacture or use of gatifloxacin was for experimental and fair use, and relied on certain statutory exemptions provided in subsections 55.2(1) and (6) of the *Patent Act*, RSC 1985, c.P-4.

[4] The action has proceeded to the initial phases of discovery.

I. <u>THE EVIDENCE</u>

[5] The evidence provided consists of the affidavit of a law clerk from Plaintiffs' Counsel's office and an affidavit from a lawyer from Defendants' Counsel's office, each of which affidavits attached numerous documents as exhibits. There was no cross-examination upon either affidavit. The following is a synopsis of the relevant correspondence.

[6] On April 9, 2012, the Defendants' Counsel wrote a without prejudice letter to Plaintiffs' Counsel presenting an Offer to Settle; it said:

> *We are writing to present the following offer to settle.*

> *As you know, our clients have not carried out any commercial production of gatifloxacin in Canada but only development work that is exempt from infringement. Our clients thus offer to settle the above-captioned action on the following basis:*
>
> 1. *The offer shall remain open for acceptance until 1 minute after the commencement of trial or until such time prior thereto that it is withdrawn in writing.*
> 2. *The Plaintiffs will discontinue the action on a without costs basis.*
> 3. *The Defendants will undertake:*
>   a. *that no gatifloxacin containing formulations will be manufactured for commercial sale by the Defendants in Canada until expiry of Canadian Patent No. 1,340,316 (the "316 patent")*
>   b. *that any use of gatifloxacin API in Canada by the Defendants to expiry of the 316 patent will be solely for regulatory and/or experimental use.*
>   c. *that no gatifloxacin containing formulations manufactured by the Defendants for regulatory or experimental use to expiry of the 316 patent will be sold commercially; and*
>   d. *that any gatifloxacin API has not been used for regulatory and/or experimental use by the expiry of the 316 patent will be destroyed on expiry of the 316 patent.*
>
> *We look forward to hearing from you.*

[7] Plaintiffs' Counsel responded by letter dated April 20, 2012 seeking clarification as to two points; the first was whether export from Canada would occur, the second was whether the undertaking would extend to any company controlled or affiliated with the Defendants.

[8] Defendant's Counsel replied by letter dated April 29, 2012 stating that the undertaking extended to manufacture for commercial sale anywhere in the world and that companies under the power or control or affiliated with the Defendants were included.

[9] On April 27, 2012, the Plaintiffs' lawyers sent an e-mail to Defendants' lawyers saying *"it appears that we are making good progress in settlement discussions…"* and proposing an adjournment of a motion then before the Court.

[10] On June 6, 2012, the Plaintiffs' lawyers sent an e-mail to the Defendants' lawyers saying *"in order to get the ball rolling"* they had drafted and were attaching draft Minutes of Settlement.

[11] On June 12, 2012, Defendants' lawyers sent an e-mail to Plaintiffs' lawyers attaching a revised draft Minutes of Settlement requesting that the Plaintiffs seek instructions. Plaintiffs' lawyers responded by an e-mail dated June 27, 2012 stating that the draft appeared to be acceptable save for a missing comma, and that they would forward the document to their clients for instructions.

[12] On July 30, 2012, Plaintiffs' lawyers e-mailed Defendants' lawyers providing an amended draft Minutes of Settlement saying that it was prepared *"as we discussed on Friday"*.

[13] Defendants' lawyers responded by e-mail dated August 14, 2012 commenting on the revisions, agreeing to some revisions but not others and ending by stating *"Please advise*

whether your client remains interested in settling…”. Plaintiffs' lawyers responded by e-mail the same day stating that their clients *“… remain interested in settling this case”*.

[14] On November 15, 2012, Plaintiffs' lawyers e-mailed Defendants' lawyers enclosing clean and marked-up copies of the most recent draft Minutes of Settlement and a proposed draft letter to the Court. Such a letter was sent by Plaintiffs' lawyers on November 16, 2012, apparently responding to a status request, stating *“The parties are at an advanced stage and are hopeful that they will come to an agreement within the next two or three weeks”*.

[15] On December 11, 2012, Defendants' lawyers sent an e-mail to Plaintiffs' lawyers providing a revised document.

[16] On January 21, 2013, Plaintiffs' lawyers e-mailed Defendants' lawyers enclosing a further draft Minutes of Settlement inserting terms *“inadvertently omitted on previous drafts”*.

[17] On January 28, 2013, Plaintiffs' lawyers wrote to the Court stating *“The parties …are continuing to negotiate the terms of settlement”*.

[18] From that period to June 17, 2013, Plaintiffs' lawyers sent various reminders to the Defendants' lawyers and Defendants' lawyers responded seeking more time.

[19] On June 17, 2013, Defendants' lawyers sent an e-mail to Plaintiffs' lawyers with a revised draft of the Minutes of Settlement. Plaintiffs' lawyers responded by e-mail on August 16, 2013 proposing a mediation conference with the Court.

[20] On September 18, 2013, Plaintiffs' lawyers wrote to the Court with a status update saying *"...progress is being made in respect of the terms of settlement ...there are currently a small number of outstanding points"*.

[21] On December 13, 2013, Defendants' lawyers sent an e-mail to Plaintiffs' lawyers saying *"We are prepared to recommend to our client that your proposed changes be accepted save for (small grammar changes)"*.

[22] On January 13, 2014, Plaintiffs' lawyers sent an e-mail to the Defendants' lawyers with an attached draft saying:

> *We have recommended that our client accept the revisions as set out below and as encapsulated in the attached and our client is inclined to accept subject to completing on additional step on their end. Can you please confirm that the attached is acceptable to your client.*

[23] On January 14, 2014, Plaintiffs' Counsel sent an e-mail to the Court providing a status update saying that the Plaintiffs have agreed to the latest draft subject to confirmation from one group and inviting Defendants' Counsel to confirm.

[24] On February 24, 2014, Plaintiffs' Counsel e-mailed Defendants' Counsel saying:

> *Further to our discussions this morning, our clients agree to accept the terms that you put forward in your email dated December 14, 2013 and as captured in the draft circulated Jan. 13, 2014.*

[25] On March 17, 2014, Plaintiffs' Counsel wrote a status update letter to the Court saying *"It is the Plaintiffs' view that an agreement has been reached…"*. The same day, Defendants' Counsel wrote to the Court saying *"we do not agree that a settlement has been reached"*.

[26] On March 18, 2014, Plaintiffs' Counsel sent an e-mail to Defendants' Counsel saying:

> *Attached please find further information demonstrating Apotex' offer and the Plaintiffs' acceptance. It is clear that there is an agreement between the parties. Moreover, this offer and acceptance is mirrored by the current Minutes of Settlement, which you proposed on December 13, 2013. Thus, it is incumbent upon the parties to sign the current Minutes of Settlement. Thus, we believe it is you who should retract your communications to the Court especially your statement « we do not believe that a settlement has been reached ».*
>
> *If helpful, we can provide these letters to the Court as well as the current Minutes of Settlement seeking its assistance in resolving this matter. Regardless, please provide your dates of availability over the next two weeks for a case management call.*

[27] A further e-mail was sent by Plaintiffs' Counsel to Defendants' Counsel on March 18th demanding that the Defendants' assertion to the Court as to no settlement, be retracted.

[28] On March 19, 2014, Defendants' Counsel replied to Plaintiffs' Counsel be e-mail saying:

> *Your email below appears nothing more than a colourable attempt to justify your previously incorrect position. Contrary to your earlier assertion of settlement in February of 2014, you are instead asserting settlement in April of 2012. Neither assertion is correct. All the correspondence between the parties is only consistent with*

> *there having not yet been a meeting of the minds regarding the terms of any settlement. As a result, we will not be writing to the Court as you suggested.*
>
> *To avoid any confusion, the offer to settle dated April 9, 2012 is hereby withdrawn.*

[29] On March 19, 2014, Plaintiffs' Counsel wrote a letter to the Court seeking an appointment to speak to the Case Management Prothonotary.

[30] On October 29, 2014, the Plaintiffs filed the present motion seeking enforcement of what they terms as the settlement agreement.

II. THE ISSUE

[31] The issue before the Court is whether there has been a settlement for this action and, if so, what Order should be given.

III. JURISDICTION

[32] No party challenged the jurisdiction of this Court to determine whether there has been a settlement of the action. The subject matter of the action, that of patent infringement, is clearly within the jurisdiction of this Court (*Federal Courts Act*, R.S.C., 1985, c. F-7, section 20; *Patent Act*, R.S.C., 1985, c. P-4, section 54(2)).

[33] In cases such as *Kellogg Co. v Kellogg*, [1941] S.C.R. 242 and *Flexi-Coil Ltd. v Smith-Roles Ltd.* (1980), 50 C.P.R. (2d) 29 (FC); *Bandag Inc. v Vulcan Equipment Co.* (1977), 32

C.P.R. (2d) 1 (FC) and *Bauer Nike Hockey Inc. v Tour Hockey* (2003), 25 C.P.R. (4th) 336, the jurisdiction of this Court to determine if actions such as this have been settled has been recognized.

IV. LEGAL PRINCIPLES AS TO WHETHER A CONTRACT HAS BEEN ENTERED INTO

[34] The essential questions as to whether a contract has been entered into in circumstances such as the present has been succinctly stated by Professor S.M. Waddams in the 6th edition of his *The Law of Contracts*, Canada Law Book, Toronto, 2010 at paragraph 52:

> *A similar analysis may be employed where an agreement is made that contemplates a further document such as a formal contract. Is execution of the formal contract as step in carrying out an already enforceable agreement, like a conveyance under an agreement to buy land, or is it a prerequisite of any enforceable agreement at all? Again, the test must be the reasonableness of the parties' expectations. Has the promisor committed himself to a firm agreement or does he retain an element of discretion whether or not to execute the formal agreement? In the former case there is an enforceable agreement. In the later there is none. If the promisee's expectation of a firm commitment is a reasonable one it will be protected even though the formal document is never executed. Again, the courts seem particularly ready to protect such an expectation when it is manifested in conduct in reliance on the agreement.*

[35] This is the approach that has been taken by the Supreme Court of Canada in *Calvan Consolidated Oil and Gas Co. Ltd. v Manning*, [1959] S.C.R. 253 per Judson J. for the Court at page 261:

> *…Whether the parties intend to hold themselves bound until the execution of a formal agreement is a question of construction and I have no doubt in this case. The principle is well stated by Parker J. in Hatzfeldt-Wildenburg v. Alexander, in these terms:*

> *It appears to be well settled by the authorities that if the documents or letters relied on as constituting a contract contemplate the execution of a further contract between the parties, it is a question of construction whether the execution of the further contract is a condition or term of the bargain, or whether it is a mere expression of the desire of the parties as to the manner in which the transaction already agreed to will in fact go through. In the former case there is no enforceable contract either because the condition is unfulfilled or because the law does not recognise a contract to enter into a contract. In the latter case there is a binding contact and the reference to the more formal document may be ignored.*

[36] A similar approach has been taken by the Ontario Supreme Court in *Bryant v Bryant Estate*, 2015 ONSC 161 where Gauthier J. wrote at paragraphs 96 to 98:

> *96 When parties have a mutual intention to create a legally binding agreement and have reached agreement on all of the essential terms of the agreement, they create a contract. Bawitko Investments Ltd. v. Kernels Popcorn Ltd. (1991), 79 D.L.R. (4th) 97 (Ont. C.A.).*
>
> *97 A settlement agreement is a contract. Olivieri v. Sherman, 2007 ONCA 491.*
>
> *98 As was stated at paragraph 44 of Rawlins v. Rawlins, 2014 ONSC 5649: A determination as to whether a concluded agreement exists does not depend on an inquiry into the actual state of mind of one of the parties or on the parole evidence of one party's subjective intention.*

[37] The Plaintiffs rely particularly on two decisions of Appellate Courts in Canada where it was held that the parties had reached an agreement notwithstanding the contemplation of further documents to be prepared and signed. One is the decision of the British Columbia Court of

Appeal in *Fieguth v Acklands Ltd.* (1989), 59 D.L.R. (4th) 114 in which Chief Justice McEachern for the Court wrote at pages 122 to 123:

> *It should not be thought that every disagreement over documentation consequent upon a settlement, even if insisted upon, amounts to a repudiation of a settlement. Many such settlements are very complicated such as structured settlements, and the deal is usually struck before the documentation can be completed. In such cases the settlement will be binding if there is agreement on the essential terms. When disputes arise in this connection the question will seldom be one of repudiation as the test cited above is a strict one, but rather whether a final agreement has been reached which the parties intend to record in formal documentation, or whether the parties have only reached a tentative agreement which will not be binding upon them until the documentation is complete. Generally speaking, litigation is settled on the former rather than on the latter basis and, parties who reach a settlement should usually be held to their bargains. Subsequent disputes should be resolved by application to the court or by common sense within the framework of the settlement to which the parties have agreed and in accordance with the common practices which prevail amongst members of the bar. It will be rare for conduct subsequent to a settlement agreement to amount to repudiation.*

[38] The other is a decision of the Ontario Court of Appeal in *Bawitko Investments Ltd. v Kernels Popcorn Ltd.* (1991), 79 D.L.R. (4th) 97 where Robins J.A. for the Court wrote at pages 103 to 104:

> *As a matter of normal business practice, parties planning to make a formal written document the expression of their agreement, necessarily discuss and negotiate the proposed terms of the agreement before they enter into it. They frequently agree upon all of the terms to be incorporated into the intended written document before it is prepared. Their agreement may be expressed orally or by way of memorandum, by exchange of correspondence, or other informal writings. The parties may "contract to make a contract", that is to say, they may bind themselves to execute at a future date a formal written agreement containing specific terms and conditions. When they agree on all of the essential provisions to be incorporated in a formal document with the intention that their agreement shall thereupon become binding, they will have fulfilled*

> *all the requisites for the formation of a contract. The fact that a formal written document to the same effect is to be thereafter prepared and signed does not alter the binding validity of the original contract.*
>
> *However, when the original contract is incomplete because essential provisions intended to govern the contractual relationship have not been settled or agreed upon; or the contract is too general or uncertain to be valid in itself and is dependent on the making of a formal contract; or the understanding or intention of the parties, even if there is no uncertainty as to the terms of their agreement, is that their legal obligations are to be deferred until a formal contract has been approved and executed, the original or preliminary agreement cannot constitute an enforceable contract. In other words, in such circumstances the "contract to make a contract" is not a contract at all. The execution of the contemplated formal document is not intended only as a solemn record or memorial of an already complete and binding contract but is essential to the formation of the contract itself.*

[39] The Defendants argue that there was no contract. In particular, they say that there was never a meeting of the minds; no offer was ever matched in equal terms by acceptance. They cite Professor McCamus' book, *The Law of Contracts*, 2nd ed., Irwin Law, Chapter 2 at page 31:

> *In the calculus of offer and acceptance, the communications of the parties must have created an "offer" that sets out the offeror's willingness to enter into an agreement on certain terms; this is then matched with a corresponding agreement or "acceptance" forthcoming from the other party, the offeree, which also communicates a willingness to enter into an agreement on the proffered terms. The acceptance must precisely match the terms of the offer, a proposition often referred to as "the mirror image rule". A purported acceptance that indicates different terms cannot create the required consensus. Under the orthodox analysis, the offeree must intend to accept the offer.*

[40] As an illustration of a discussion concerning absolute and unequivocal offer and acceptance, the Defendants provide the decision of the Supreme Court of Canada in *Harvey v Perry*, [1953] 1 S.C.R. 233 where Justice Estey (as he then was) for the Court wrote at page 237:

> *With great respect to the learned judges who hold a contrary opinion, there does not appear to be here present either in the letter of August 24 or in the conduct of the appellant that absolute and unequivocal acceptance of terms required by the authorities to conclude a contract. McIntyre v. Hood [(1884) 9 Can. S.C.R. 556.]; District of North Vancouver v. Tracy [(1903) 34 Can. S.C.R. 132.]; Harvey v. Facey [[1893] A.C. 552.]; Fulton Bros. v. Upper Canada Furniture Company [(1883) 9 O.A.R. 211.]. Moreover, when the whole of the correspondence and conversations are considered it is clear that the parties had not agreed upon the terms of a contract.*

[41] From this jurisprudence, I draw the following principles:

- for there to be a binding contract, there must be an offer and acceptance wherein the terms of the offer are matched by the terms of the acceptance;
- the acceptance must be unequivocal;
- there can be an offer and acceptance so as to create a binding contract even where the parties contemplate the execution of a more formal document;
- negotiations as to the more formal document do not necessarily mean that an offer or acceptance has been repudiated.

[42] The Court must apply a subjective standard, not an objective one, as to whether there has been a binding contract. The matter is fact-specific. A determination is to be made on a case-by-case basis.

V. APPLYING THE PRINCIPLES OF THIS CASE

[43] This case illustrates how solicitors, with their fussing and wordsmithing can mess up the clearest of cases.

[44] The Offer to Settle letter of April 9, 2012 was clear and unequivocal; particularly as clarified by a further letter of April 24, 2012. A simple letter in response saying *"We accept your offer"* would have ended the matter. The action would have been discontinued without costs and, if Apotex breached the terms of the Offer, it could have been sued for breach of contract.

[45] Instead, the response was *"to get the ball rolling"* here is a draft Minutes of Settlement (e-mail of June 6, 2012). This and every succeeding draft clearly incorporate the terms of the Offer to Settle, as clarified. The differences between the Minutes and clarified Order lie simply in added preamble and words such as that the agreement is binding on heirs, assigns, etc. In other words, solicitors are fussing and wordsmithing. The essential terms are the same.

[46] The back and forth as to the draft Minutes is directed largely to trivia, a misplaced comma, use of words such as "*for or*" and "*by or for*" or "*or for*". In the back and forth, the solicitors are careful to protect their backsides by using words such as "*subject to my client's instructions"* or "*I will seek instructions"*.

[47] This action was case managed and this Court asked for period status updates. These updates vaguely stated that, for instance, that progress was being made in terms of settlement.

[48] In other words, the parties appeared to be content to coast along at least until February 2014. Something must have happened at this time that created a sense of urgency. On February 14, 2014, the Defendants' Counsel sent an e-mail to the Plaintiffs' Counsel:

> *We have now had an opportunity to review your revised language. We do not believe that these amendments are suitable. We are, however, willing to recommend to our clients that we accept your prior draft, circulated January 13, 2014. Please advise whether you would like us to seek these instructions.*

[49] Plaintiffs' Counsel replied by e-mail on February 24, 2014.

> *Further to our discussions this morning, our clients agree to accept the terms that you put forward in your email dated Dec. 14, 2013 and as captured in the draft circulated Jan. 13, 2014.*

[50] These e-mails were followed by an exchange between Counsel and e-mails with the Court as to whether a settlement had been reached. I find that:

- as of February 24, 2014, the Defendants' Offer to Settle had not been withdrawn;
- as of February 24, 2014, the substance of the Offer to Settle had not been changed; there was only fussing as to the wording of the Minutes of Settlement;
- Plaintiffs' Counsel's e-mail of February 24, 2014 constituted not only an acceptance of the terms of the Offer to Settle, which I find was implicit throughout, but also an acceptance as to the form of the Minutes of Settlement.

[51] I find, therefore, that there has been an offer and acceptance of the clarified Offer to Settle, and that the Plaintiffs are entitled to an Order in terms as provided in the Motion Record.

ORDER

UPON the motion of the Plaintiffs for an Order enforcing the terms of the settlement agreement offered by the Defendants;

AND WHEREAS the settlement offer put forth by the Defendants in its letters dated April 9, 2012 and April 24, 2012 was accepted by the Plaintiffs;

THIS COURT ORDERS FOR THE REASONS PROVIDED that:

1. This action is discontinued without costs.
2. No gatifloxacin containing formulations shall be manufactured in Canada for commercial sale anywhere in the world by the Defendants, as well as any company under the power and control of or affiliated with the Defendants, until expiry of Canadian Patent No. 1,340,316 (the "316 patent").
3. Any use of gatifloxacin API in Canada by the Defendants, as well as any company under the power and control of or affiliated with the Defendants, to expiry of the 316 patent will be solely for regulatory and/or experimental use.
4. No gatifloxacin containing formulations manufactured by the Defendants, as well as any company under the power or control of or affiliated with the Defendants, for regulatory and/or experimental use up to expiry date of the 316 patent shall be sold commercially.

5. Any gatifloxacin API that has not been used for regulatory and/or experimental use by expiry of the 316 patent will be destroyed on expiry of the 316 patent.

"Roger T. Hughes"

Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-1267-10
STYLE OF CAUSE:	ALLERGAN, INC. AND ALLERGAN SALES, LLC. AND ALLERGAN USA, INC. AND KYORIN PHARMACEUTICAL CO., LTD. v APOTEX INC. AND APOTEX PHARMACHEM INC.
PLACE OF HEARING:	TORONTO, ONTARIO
DATE OF HEARING:	MARCH 20, 2015
ORDER AND REASONS:	HUGHES J.
DATED:	MARCH 24, 2015

APPEARANCES:

Jay Zakaib Adam Heckman	FOR THE PLAINTIFFS
Andrew Brodkin	FOR THE DEFENDANTS

SOLICITORS OF RECORD:

Gowling Lafleur Henderson LLP Barristers and Solicitors Ottawa, Ontario	FOR THE PLAINTIFFS
Goodmans LLP Barristers and Solicitors Toronto, Ontario	FOR THE DEFENDANTS