Federal Court  Cour fédérale

Date: 20201110

Docket: T-2023-18

Citation: 2020 FC 1047

Toronto, Ontario, November 10, 2020

PRESENT: The Honourable Mr. Justice Barnes

BETWEEN:

ALLERGAN INC.

Plaintiff / Defendant by Counterclaim

and

SANDOZ CANADA INC.

Defendant / Plaintiff by Counterclaim

and

KISSEI PHARMACEUTICAL CO., LTD.

Defendant / Patent Owner

PUBLIC TRANSCRIPT OF ORDER AND REASONS
(Confidential Transcript of Order and Reasons issued November 10, 2020)

Let the attached edited version of the transcript of my Order and Reasons delivered orally from the bench at Halifax, Nova Scotia, on November 4, 2020, be filed to comply with section 51 of the *Federal Courts Act,* RSC, 1985, c F-7.

ORDER IN T-2023-18

THIS COURT ORDERS that the two motions are dismissed.

"R.L. Barnes"

Judge

Court File No. T-2023-18

FEDERAL COURT

BETWEEN:

ALLERGAN INC.

Plaintiff

- and -

SANDOZ CANADA INC.

Defendant

- and -

KISSEI PHARMACEUTICAL CO., LTD.

Defendant/Patent Owner

AND BETWEEN:

SANDOZ CANADA INC.

Plaintiff by Counterclaim

- and -

ALLERGAN INC. and KISSEI PHARMACEUTICAL CO., LTD.

Defendants by Counterclaim

TRANSCRIPT OF PROCEEDINGS
HEARD BEFORE THE HONOURABLE JUSTICE BARNES
held virtually,
on Wednesday, November 4, 2020, at 9:30 a.m. EST

APPEARANCES:

David Tait	for the Plaintiff
Sanjaya Mendis	
Kendra Levasseur	
Warren Sprigings	for the Defendant
Meghan A. Dureen	
Anissa Kwok	
Rae Daddon	

Also Present:

Shirley Aciro	Court Registrar
Lisa Lamberti	Court Reporter

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This is a motion by the plaintiff, Allergan Inc., seeking to enforce what it contends is a partial settlement of this proceeding. The proceeding is a PM(NOC) action brought by Allergan against Sandoz Canada Inc. concerning Sandoz's generic drug submission for its proposed silodosin capsules. The trial is presently underway before the Chief Justice but has been paused pending the determination of this motion. Out of an abundance of caution, it was agreed that the Chief Justice ought not to hear the motion. Because time is of the essence, these reasons will be brief and delivered orally.

The action was commenced with a Statement of Claim issued on November 23rd, 2018. Sandoz answered with a notice of intention to respond, indicating that it would defend by challenging the validity of the patent in issue, and it would counterclaim seeking a declaration of invalidity and the impeachment of the asserted claims.

A defence and counterclaim was filed later. The defence mostly includes particulars of non-infringement, but it includes one paragraph referencing an invalidity argument, paragraph 18. That paragraph reads as follows:

"If any of the claims of the 002 Patent is found to be infringed by the Sandoz product, then the claims must be invalid in accordance with the principles set out in the decision of the House of Lords in Gillette Safety Razor Company and Anglo Trading Company Ltd. and the decision of J.K. Sniff and Sons -- "[as read]

I think that is perhaps an incorrect reference to the case. I think it's Smit is the case. But in any event:

"J.K. Sniff and Sons Inc. and Richard McClintock."[as read]

End of quote.

The counterclaim includes detailed invalidity assertions, pleading obviousness, and it includes a Schedule A listing 107 prior art references.

Obviousness remained a live issue in the lead-up to trial and during the presentation of Allergan's expert evidence in the first few days of trial. On the morning of October 28th, 2020, counsel for Sandoz delivered to counsel for Allergan a copy of its PowerPoint presentation intended to be used during the direct examination of its two witnesses. Included in that material were references to the prosecution of the subject patent in the patent office and to the issue of obviousness. The materials to be presented during the examination of the Sandoz expert witness focused largely on issues of obviousness as informed by the prior art.

What followed next is at the heart of this motion. On October 28th, at 1:23 p.m., counsel for Sandoz sent a cryptic email to counsel for Allergan stating:

"Sandoz hereby offers to withdraw the counterclaim on a without costs basis. Kindly advise if you consent, and we will prepare a discontinuance."[as read]

At 4:35 p.m., counsel for Allergan responded with the following:

"Sandoz's offer is hereby accepted, and you can take this as consent to discontinue the counterclaim on a without costs basis."[as read]

On the morning of the next day, counsel for Allergan emailed counsel for Sandoz asking about Sandoz's plan to narrow its evidence in light of the discontinuance of the counterclaim. Within a matter of minutes, counsel for Sandoz replied by saying that the invalidity defence remained active and, in the result, there would be no narrowing of its evidence.

The present dispute concerns the scope of the purported settlement agreement. Allergan maintains that, viewed objectively, the clear effect of the email exchange between counsel was to remove the obviousness allegations from the proceeding, at least insofar as they were included in the counterclaim. That is so, it says, because the live invalidity allegations were solely contained within the counterclaim and not incorporated by reference or otherwise into the Sandoz defence.

I will add that the two documents are contained -- the two -- both the counterclaim and the defence are contained within one document.

Sandoz contends that its offer to withdraw its counterclaim was, when viewed objectively, only intended to remove its claim to *in rem* relief and did not affect its invalidity case.

I want to begin by saying that there is nothing in the record to suggest that either party intended by their actions to take advantage of the other. It is also very clear that, subjectively, there was no meeting of the minds as to what was understood or intended by the opposite side. [redacted]

Subjectivity, however, is not the standard by which such things are measured. The test for ascertaining whether a settlement agreement was reached in the course of litigation was discussed in some detail in Allergan versus Apotex, 2016 FCA 155, and I will quote a bit of length from paragraphs 25, 26, 27, 28 and 32 as follows:

"Second, like all other agreements, a settlement agreement must satisfy the requirement that there be consideration flowing in return for a promise. In settlement agreements, this is almost certainly never a problem. By definition, settlements are compromises, and so there will be consideration flowing both ways.

"The Court must also find, as an objective matter, that the terms of the agreement are sufficiently certain: see Bawitko Investments Limited versus Kernels Popcorn Limited, Olivieri versus Sherman et al. -- "[as

read]

I am removing the citations here:

"Where the parties 'express themselves in such fashion that their intentions cannot be divined by the court...the agreement will fail for lack of certainty of terms': John McCamus, The Law of Contracts (Toronto: Irwin Law, 2005) at page 91. Another way of putting this is that the court must be satisfied that the parties were objectively ad idem or were objectively of a common mind.

"It is not for the courts to amend the parties' offer and acceptance and make the terms certain. The court will not make 'a new agreement for the parties' where they 'were never ad idem'.

"That being said, where the parties were objectively of a common mind and 'intended some legal relationship to exist between them', often their reasonable expectations can be discerned and the 'courts will generally strive to give effect to them'."[as read]

Again removing the citations from the quotation.

And then the final paragraph, 32, that I intend to read is the following:

"The court is to view the specific facts of the case objectively in light of the practical circumstances of the case and ask whether the parties intended to be legally bound by what was already agreed to or, in other words, whether an 'honest, sensible businessperson when objectively considering the parties'

conduct would reasonably conclude that the parties intended to be bound or not' by the agreed-to terms. Put another way, looking not through the eyes of lawyers, but through the eyes of reasonable businesspeople stepping into the parties' shoes, was there something essential left to be worked out? Another way of putting it is to ask how 'a reasonable person, versed in the business, would have understood the exchanges between the parties'."[as read]

End of quote from that decision.

The parties do not disagree about these basic principles.

It would, of course, have been helpful and perhaps advisable if counsel for Allergan had sought to clarify what it was exactly that was being taken off the table by the Sandoz offer. It was only after the email exchange that additional clarity was sought. The problem could also have been avoided entirely if Sandoz had incorporated into its defence by simple reference the invalidity particulars contained in its counterclaim. That was not done, leaving only paragraph 18 as the foundation for the invalidity defence in the event that the counterclaim was to be struck in its entirety.

Standing alone, the bare email exchange between counsel could be taken to represent a binding agreement to withdraw the counterclaim and, with it, the obviousness issue. I am not of the view, however, that when viewed in the broader context of all of the communications and conduct of the parties through their

counsel leading up to that email exchange or, as it's described in the Allergan case quoted above, considering the practical circumstances of the case, the reasonable objective observer would not conclude that there was meeting of the minds as to the essential character or scope of the purported agreement.

In the face of what Sandoz had pleaded and having appropriate regard to what it was saying and doing leading up to and in the course of the trial, an objective observer could not conclude on a balance of probabilities that Sandoz's offer to settle included the abandonment of its long-asserted obviousness case. Sandoz had also just cross-examined the Allergan witnesses on this issue and had, on the same day as the offer, delivered to Allergan outlines of the validity evidence it intended to elicit from its own witnesses. Against this history, the objective observer would, in all probability, be unsure about the scope of the Sandoz offer and would seek clarification.

I would add that there is no suggestion that paragraph 18 of the Sandoz defence was taken off the table by the email exchange. That point is conceded by Allergan.

Allergan has other arguments for why paragraph 18 is of no consequence, but it remains in the pleading, and its presence has relevance to the motion.

That paragraph was joined by Allergan at paragraph 8 of its Reply and Defence to Counterclaim. That assertion keeps the issue of obviousness in play, albeit

without the specificity employed by the counterclaim. As I understand it, the Gillette defence is made out where the allegedly infringing product is shown to practice the prior art. In that situation, a finding of infringement necessarily leads to a finding of invalidity.

Allergan's further argument that the Gillette defence was abandoned or is now unavailable to be advanced because of Rule 248 is not persuasive. Admittedly, the Gillette defence is not specifically mentioned in the joint list of issues, but that document includes clear references to obviousness. On this record, this is not the place to determine the appropriateness of Sandoz's discovery objections or to decide whether Rule 248 is engaged.

I also disagree with Allergan's argument that the Gillette defence is limited to a pleading of anticipation and not obviousness. As Sandoz points out, it never put anticipation in issue but, instead, based paragraph 18 on a pleading of obviousness. The authorities relied on upon by Allergan do not support its position. The Gillette defence is available if the allegedly infringing product is no more than part of the common stock of knowledge in the art at large.

The remaining presence of paragraph 18 and Sandoz's defence is a factor that the objective observer would be required to take into account in determining if the parties were ad idem with respect to the scope of their ostensible agreement and specifically whether Sandoz was

abandoning its obviousness case.

Based on the foregoing, I have concluded that no agreement was reached by the parties as to the essential terms of a partial settlement so that the extant pleadings remain intact. This seemingly obviates the need for the amendments that Sandoz has proposed in its cross-motion pleaded in the alternative. Were it necessary, that would be, in any event, an issue better left to the trial judge.

Notwithstanding Sandoz's success, I am not disposed in these circumstances to make an award of costs in its favour. The importance of careful pleading in these days is sometimes underestimated. Greater care in the drafting of Sandoz's defence would have avoided this problem. In the result, there are no costs of these motions.

The two motions are accordingly dismissed.

MR. SPRIGINGS: Thank you very much, Justice Barnes.

MR. TAIT: Thank you.

THE REGISTRAR: Thank you. This court is now concluded.

--- Whereupon matter adjourned at 2:09 p.m.

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I HEREBY CERTIFY THAT I have, to the best
of my skill and ability, accurately recorded
by Shorthand and transcribed therefrom,
the foregoing proceeding.

Lisa Lamberti, CSR, RPR.

November 5, 2020

FEDERAL COURT

SOLICITORS OF RECORD

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