Date: 20061107

Docket: T-753-99

Citation: 2006 FC 853

Ottawa, Ontario, November 7, 2006

PRESENT: The Honourable Mr. Justice Lemieux

BETWEEN:

MERCK & CO., INC. and MERCK FROSST CANADA & CO.

Plaintiffs

and

NU-PHARM INC., BERNARD SHERMAN and RICHARD BENYAK

Defendants

REASONS FOR ORDER AND ORDER

Introduction

[1] Bernard Sherman (Dr. Sherman), a defendant in this action, appeals part of Prothonotary Roza Aronovitch's (the Prothonotary) April 19, 2006 Order (the Compliance Order) upon motion made by Merck & Co, Inc. and Merck Frosst Canada & Co.(Merck or the Plaintiffs) seeking an order to compel Dr. Sherman to comply with the Prothonotary's June 24, 2002 Production Order (the Production Order).

[2] Prothonotary Aronovitch, as part of her Compliance Order, compelled Dr. Sherman to produce all documents in the power, possession and control of Brantford Chemicals Inc. (BCI), a

wholly-owned subsidiary of Apotex Pharmaceutical Holdings Inc. (APHI) which in turn, owns all of the issued and outstanding shares of Apotex Inc. (Apotex). She further ordered the production of specific documents sought by the Plaintiffs in six productions requests which Dr. Sherman had refused at discovery.

[3] The Prothonotary ordered Dr. Sherman to produce the BCI documents because she found BCI was included within the meaning of the expression the "Apotex group of companies" referred to in paragraph 2 of the Production Order.

Background

[4] On April 29,1999, the Plaintiffs issued an amended statement of claim against the defendants seeking a number of declarations and damages in respect of the infringement of Canadian letters Patent 1,275,349 (the 349 Patent) and, in particular,:

> 1. A declaration the 349 Patent was infringed by the acquisition and sale of dosage form enalapril maleate tablets (the tablets) by the defendant Nu-Pharm Inc.;
>
> 2. A declaration that, by the defendant Nu-Pharm engaging in, and the defendants Sherman and Benyak using and inducing the defendant Nu-Pharm to engage, in the acquisition and sale of the tablets with the knowledge the 349 Patent and the judgments of the Federal Court of Canada holding the Patent to be valid and infringed and granting a permanent injunction against its further infringement, the defendants Nu-Pharm, Sherman and Benyak have knowingly and wilfully engaged in activities in infringement of the 349 Patent; and
>
> 3. A declaration that as a result of the activities of the defendants Sherman and Benyak in using and inducing the defendant Nu-Pharm to infringe the 349 Patent and to breach the permanent injunction of the Federal Court of Canada, the said defendants are personally liable for the said infringing activities of the defendant Nu-Pharm.

[5] The Prothonotary issued the Production Order in June of 2002 as a result of a motion by Merck for the delivery of further and better affidavits of documents by the defendants, requiring the defendant Dr. Sherman to disclose documents in the power, possession or control of any

corporations controlled either directly or indirectly by him, and requiring the defendants to submit to cross-examination on their affidavits of documents pursuant to *Rules* 227 and 225 of the *Federal Court Rules, 1998 (the Rules).*

[6] *Rule* 225 of the *Rules* reads:

Order for disclosure	Ordonnance de divulgation
225. On motion, the Court may order a party to disclose in an affidavit of documents all relevant documents that are in the possession, power or control of	**225.** La Cour peut, sur requête, ordonner à une partie de divulguer dans l'affidavit de documents l'existence de tout document pertinent qui est en la possession, sous l'autorité ou sous la garde de l'une ou l'autre des personnes suivantes :
(*a*) where the party is an individual, any corporation that is controlled directly or indirectly by the party; or	*a*) si la partie est un particulier, toute personne morale qui est contrôlée directement ou indirectement par la partie;
(*b*) where the party is a corporation,	*b*) si la partie est une personne morale :
(i) any corporation that is controlled directly or indirectly by the party,	(i) toute personne morale qui est contrôlée directement ou indirectement par la partie,
(ii) any corporation or individual that directly or indirectly controls the party, or	(ii) toute personne morale ou tout particulier qui contrôle directement ou indirectement la partie,
(iii) any corporation that is controlled directly or indirectly by a person who also directly or indirectly controls the party.	(iii) toute personne morale qui est contrôlée directement ou indirectement par une personne qui contrôle aussi la partie, directement ou indirectement.
[Emphasis mine]	

[7] Prothonotary Aronovitch issued an endorsement in conjunction with the Production Order in which she said she essentially endorsed the representations made by Merck in the context of its motion.

[8] Prothonotary Aronovitch found Merck had demonstrated "the insufficiency of the affidavits of documents by reference to the pleadings." She found Merck also "provided sufficient factual foundation to demonstrate to my satisfaction, the availability of further relevant documents that have not been produced." [Emphasis mine]

[9] She stated "certain deficiencies in the affidavits of documents are patent, as for example the paucity of documentation internal to Nu-Pharm." In her assessment, Nu-Pharm "has taken an unjustifiably minimalist approach." She agreed with the Plaintiffs "that the arguments advanced throughout on behalf of Nu-Pharm take a view of relevance which is unduly and inappropriately narrow." In her view, for the purposes of documentary production, relevance is to be broadly construed by reference to the pleadings as a whole. On this point, she concluded:

> "Thus, as an example, Merck alleges in the amended statement of claim that Nu-Pharm was set up and used as a vehicle to obtain an NOC in order to bring an infringing product to the market, with the involvement and for the benefit of the defendants. In light of these allegations, I find no merit in the argument that documents relating to the acquisition or disposal on of any interest in Nu-Pharm that preceded the date of issuance of the NOC to Nu-Pharm need not be produced." [Emphasis mine]

[10] She rejected Nu-Pharm's argument that production ought to be left to be dealt with on discovery. She stated it would be prejudicial to Merck: "to come to discovery, cap in hand, on the basis of production that is evidently insufficient. This is not a matter of a few documents but whole

classes of documents that are broadly relevant and are known or may be presumed to exist." [Emphasis mine]

[11] In her endorsement, Prothonotary Aronovitch also dealt with Dr. Sherman's affidavit of documents. She agreed that it was an appropriate case for the exercise of her discretion pursuant to *Rule* 225(a) since "as I have concluded that a relationship of direct or indirect control exists between Sherman and the "Apotex group of companies." [Emphasis mine]

[12] She then defined the "Apotex group of companies" in the following manner in section 2 of the Production Order:

> "This includes Apotex Inc. and the chain of companies described by Sherman as follows: Apotex Inc. and the various chain of companies that own it, all the way down to a trust of which I am trustee, which is the beneficial owner of the shares of the holding company that holds Apotex through this chain of companies. I have effective control personally over the chain of companies, and I exercise that control."
>
> "In addition to the pleadings and corporate documentation that may be presumed to exist, I find that there is persuasive evidence that documents relevant to the litigation as ordered below are available for production pursuant to *Rule* 225(a)." [Emphasis mine]

[13] It was pointed out to me during argument, the description of the "Apotex group of companies" came from an answer Dr. Sherman gave when being cross-examined on an affidavit he had affirmed on September 30, 1999.

[14] Dr. Sherman had been asked whether there was any agreement in place with Apotex Inc. where the voting rights that have accrued to the shareholder have been transferred to another person. Dr. Sherman answered no. Counsel for Merck then asked "Is the same answer true with respect to Apotex Pharmaceutical Holdings Inc.? Dr. Sherman (motion record of Dr. Sherman,

tab 4, page 53), "Yes, I have told you that I control this whole chain of companies. Apotex Inc., and the various chain of companies that own it, all the way down to a trust of which I am the trustee, which is the beneficial owner of the shares of the holding company that holds Apotex through this chain of companies. I have effective control personally over the chain of companies; and I exercise that control."

[15] After describing the "Apotex group of companies" in her endorsement, Prothonotary Aronovitch denied part of Merck's request as being overbroad:

> "…that said, Merck's request in respect "any corporation" controlled directly or indirectly by Sherman is overbroad and imprecise. I decline to grant it on that basis. I do not say that production on that account is irrelevant and cannot be requested at discovery. I merely leave the matter for discovery. While some corporations connected with Sherman are referenced in Merck's production, Merck has not provided a sufficient evidentiary basis for an order that is as general and comprehensive as requested." [Emphasis mine]

[16] In paragraph 2 of the Production Order, Prothonotary Aronovitch ordered as follows:

> "The defendants deliver further and better affidavits of documents listing all documents in their power, possession and control, including, in the case of Sherman, those in the power, possession or control of the "Apotex group of companies" and produce such documents unexpurgated, in respect of the following subject to any claim of privilege."

[17] Prothonotary Aronovitch then listed nine classes of documents and concluded in paragraph 3 that "the parties shall not be foreclosed by reason of this motion and order from bringing further motions regarding the productions of documents after the close of pleadings and the delivery of further affidavits of documents."

[18] In respect of this issue in her Compliance Order issued on April 19, 2006, the Prothonotary wrote:

> "This Court finds that the phrase the "Apotex group of companies" as contained in the June 24th Order included Brantford Chemicals Inc. (BCI), a wholly-owned subsidiary of Apotex Pharmaceutical Holding Inc. (APHI), and accordingly, Dr. Sherman is required to produce all documents in the power, possession and control of BCI in accordance with paragraph 2 of the June 24 Order (the BCI Ruling)."

[19] She provided no reasons in support of her ruling.

[20] On the other hand, however, Merck in its motion record before her included documentation which Dr. Sherman had produced which purported to show BCI had some involvement in the introduction of a generic version of enalapril on the Canadian market.

[21] During his cross-examination in September of 1999, Dr. Sherman admitted:

> 1. APHI in 1997 owned all of the shares of Nu-pharm and that he controlled Nu-Pharm through APHI which he controlled;
>
> 2. BCI is a wholly-owned subsidiary of APHI which he controls.

[22] Dr. Sherman was examined on discovery over a period of eight days from April 26 to May 5, 2004. He refused to produce the documents Merck seeks in the Compliance Order taking the position the Production Order had been complied with.

Analysis

[23] Counsel for Dr. Sherman argues Prothonotary Aronovitch erred in including BCI as a member of the "Apotex group of companies" because ownership in Apotex Inc. is a necessary defining characteristic of that class. She argues BCI does not fit into that class because it is not

the parent of Apotex Inc. It is only a sister company of Apotex Inc. both being a wholly-owned subsidiary of APHI, the parent.

[24] To come to the conclusion she did, counsel for Dr. Sherman argues the Prothonotary must have erred in one of three ways:

> (a) she made an unsupportable finding of fact that BCI holds a direct or indirect ownership in Apotex Inc.;
> (b) she misinterpreted and misapplied the production order as not containing the ownership interest requirement in the definition of the "Apotex group of companies" and/or;
> (c) she effectively varied the Production Order to include BCI when there was no motion to vary under *Rules* 225, 397 or 399 of the *Rules*.

[25] Insofar as ordering production in answer to six production requests which were refused, counsel for Dr. Sherman argues the Prothonotary erred in compelling answers to those requests because none of them fit within the scope of any of the nine categories of subject-matters provided for in section 2 of the Production Order.

1. The Standard of Review

[26] Both counsel agree the part of the Prothonotary's April 19, 2006 order which is the subject of this appeal did not involve the exercise of her discretion and therefore fell outside the well-known test in *R*.v. *Aqua-Gem Investments Ltd.* [1993] 2 F.C. 425.

[27] In the circumstances, counsel for Dr. Sherman argues the normal appellate standard of review is applicable to appeals from a Prothonotary involving non-discretionary orders: correctness for questions of law and for findings of fact those made in a perverse or capricious

manner or to be the result of some palpable and overriding error citing *Canada (Minister of National Revenue)* v. *Corriveau Estate* 2004 (FC) 1 C.T.C 104.

[28] Counsel for Merck approach on this question is more nuanced. He states the jurisprudence holds a determination that involves the application of a legal test to a set of facts is a question of law. He argues although the task of constructing the Production Order is a question of law, the task of determining whether or not certain documents must be produced pursuant to the Production Order is a question of mixed fact and law relying on *Housen* v. *Nikolaisen* [2002] 2 S.C.R. 235 and *Elder Grain* v. *Ralph Misener* 2005 FCA 139.

[29] He advances the proposition a question of mixed fact and law is subject to the standard of a palpable or overriding error unless it is clear that the Prothonotary made some extricable error in principle with respect to the characterization of the legal test, in which case, the error may amount to an error of law, citing *Housen, supra* and *Corriveau Estate, supra*.

[30] In the context of this particular case, I do not see there is much difference between the parties on the standard of review.

[31] Counsel for Merck recognizes where a question of mixed law and fact exists the standard of correctness may apply where there was “the application of an incorrect standard, a failure to consider a required element of a legal test or a similar error in principle.”, (see *Housen, supra* at paragraph 36).

[32] He argues the Prothonotary applied the correct test the “Apotex group of companies” to a set of available facts concerning the ownership and control of BCI to determine whether BCI fell within it.

[33] Counsel for Dr. Sherman, on the other hand, argues the Prothonotary did not apply the correct test – the ownership test or made a palpable and overriding error of fact when determining BCI had an ownership interest in Apotex Inc.

[34] I am satisfied the main issue in this appeal is whether the Prothonotary applied the proper legal test – a question of law – to be gauged on the correctness standard and any factual finding is assessed on the palpable and overriding standard.

2. Discussion and Conclusions

[35] The Prothonotary issued her Compliance Order while case managing this action. Recently, Justice Evans confirmed the approach to be taken on appeal of decisions of a case management judge in *Sawridge Band* v. *Canada* 2006 FCA 228 at paragraphs 21, 22 and 23:

> ¶ 21 First, this Court is very reluctant to interfere with decisions made by a judge in the course of managing a matter prior to trial, particularly one as complex, lengthy and difficult as this one. As a result of living with the matter over time, the case management judge will have acquired an overall understanding of it which an appellate court, on the basis of hearing an appeal on a particular issue, cannot possibly match in either depth or breadth.
>
> ¶ 22 When performing essentially case management functions judges are appropriately given "elbow room" by appellate courts, so that they can get on with what is often a difficult job, calling for a mix of patience, flexibility, firmness, ingenuity, and an overall sense of fairness to all parties. These qualities are very evident in the way in which both Hugessen and Russell JJ. have performed their tasks in the present matter.
>
> ¶ 23 In my opinion, the Court should bear the above considerations in mind when both determining and applying the standards of review appropriate to the different

> aspects of Russell J.'s decision by virtue of Housen v. Nikolaisen, [2002] 2 S.C.R. 235, 2002 SCC 33.

[36] I would apply this approach to case management decisions of Prothonotaries and, in this respect, follow Justice Gibson's decision in *Microfibres Inc.* v. *Annabel Canada Inc. et. al.* (2001) 16 C.P.R. (4th) 12.

(a)BCI as part of the "Apotex group of companies"

[37] Counsel for Dr. Sherman stated the Prothonotary's Production Order should be strictly construed and its words "Apotex group of companies" should be given a plain and ordinary meaning citing: *Re Afton Food Group Ltd.* [2006] O.J. No. 1950 S.C.J. and *New Era Cap Co.* v. *Capish? Hip-Hop Inc.*, [2006] FCA 66.

[38] Counsel for Merck argues for a contextual and purposive interpretation to the Production Order relying upon the Alberta Court of Appeal's decision in: *Re Smoky River Coal Limited* [2001] ABCA 209.

[39] I favour the contextual and purposive approach to the interpretation of the Prothonotary's Production Order.

[40] The Prothonotary has been case managing this action for over six years now. It is a complex case and the Production Order's purpose was to remedy what she perceived to be a problem of disclosure of documents by the defendants, documents which were relevant to the action and were presumed to exist. Moreover, and of considerable importance, is the fact the

Prothonotary relied upon *Rule* 225 to order Dr. Sherman's production because of his control over the "Apotex group of companies".

[41] The issue on this branch of the appeal is what test governs the interpretation of the Production Order – the ownership test as suggested by counsel for Dr. Sherman or the control test as advocated by counsel for Merck to define those companies within the "Apotex group of companies" which were not specified but which she appreciated were circumscribed by an answer Dr. Sherman gave on cross-examination.

[42] I have no hesitation in concluding the Prothonotary applied the correct test in coming to the conclusion, when issuing her Compliance Order, BCI was included in the "Apotex group of companies" which were defined as those companies which Dr. Sherman controlled in the chain of companies that owned Apotex Inc., including its direct parent, APHI.

[43] The Production Order was issued pursuant to *Rule* 225 which is framed in terms of control. The purpose of the Production Order was to clear the log-jam with respect to the production of documents by the defendants in the action. The Prothonotary found as a fact Dr. Sherman controlled the "Apotex group of companies". As noted, undoubtedly, APHI is part of that group and, on the facts of this case, it would include its wholly-owned subsidiary, BCI which Dr. Sherman also controls just as he admitted at the relevant time he controlled Nu-Pharm Inc., a sister company to BCI. As noted, the fact BCI was a wholly-owned subsidiary to APHI was admitted to by Dr. Sherman during his cross-examination on his September, 1999 affidavit.

[44] Moreover, in my view BCI was specifically contemplated in the Prothonotary's Production Order where she ordered in paragraph 2 that "the defendants deliver further and better affidavits of documents listing all the documents in their power, possession or control, including, in the case of Sherman, those in the power, possession or control of the "Apotex group of companies". Clearly, on the facts of this case, BCI was under the control of APHI.

(b)The Classification Issue

[45] In her Compliance Order of April 19, 2006, the Prothonotary ordered Dr. Sherman to produce documents in the possession, power or control of BCI in respect to productions requests by Merck.

[46] Counsel for Dr. Sherman has taken objection to six items which she said could be conveniently dealt with in two groups, group A which concerns items 116, 151, 176 and 199 and group B which concerns items 146 and 152. She argues the Prothonotary's rules were overbroad and not within the contemplation of the nine categories identified in the Production Order.

[47] Group A items all concern BCI and related to its certificates of analysis concerning enalapril granulation or compounds, its test results related to enalapril, its raw material receiving logs in respect of any enalapril products and the transference of an enalapril tablet active ingredient to BCI.

[48] Group B items again relate to BCI and concern accounting records and cash payments to identified companies.

[49] The rulings of the Prothonotary fall within the heartland of her case management jurisdiction and will only be interfered with in the clearest of cases.

[50] Having regard to the evidence which was before the Prothonotary on the Compliance motion and further regard to the Production Order of 2002 and the fact the Prothonotary was intimately familiar with the history and details of the action, in my view, Dr. Sherman has failed to meet the heavy burden he had in seeking to overturn the Prothonotary's rulings.

[51] Moreover, as counsel for Merck pointed out category (iv) of paragraph 2 of the Production Order is broad in scope and could be called into play to also support her rulings not to mention the additional fact the introductory language to paragraph 2 is quite wide.

[52] In my view, Dr. Sherman's appeal must fail.

POSTSCRIPT

[1] These Reasons for Order are un-redacted from confidential Reasons for Order which were issued on July 6, 2006 pursuant to a Protective Order dated October 4, 1999.

[2] The Court canvassed counsel for the parties whether they had concerns if the reasons were issued to the public without redactions.

[3] Counsel for Dr. Sherman requested that I redact a number of paragraphs from the confidential version principally on the basis that these paragraphs have as their source a cross-examination of Dr. Sherman which occurred several years ago but whose transcript is marked confidential.

[4] I decline to give effect to counsel for Dr. Sherman's request for the following reasons.

[5] First, this action has been the subject of many procedural decisions by members of this Court. None of the reasons have been redacted. Second, counsel for Dr. Sherman has not persuaded me the test set out by the Supreme Court of Canada in *Sierra Club of Canada* v. *Canada (Minister of Finance)* [2002] 2 S.C.R. 522, has been met.

[6] I do not see in this case how any harm to Dr. Sherman, which I consider minimal, trumps the principle of openness in judicial proceedings.

ORDER

THIS COURT ORDERS that the appeal from the Prothonotary's Compliance Order of April 19, 2006, is dismissed with costs.

"François Lemieux"
Judge

FEDERAL COURT

NAME OF COUNSEL AND SOLICITORS OF RECORD

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