

Federal Court



Cour fédérale

Date: 20140917

Docket: T-1280-13

Citation: 2014 FC 889

Ottawa, Ontario, September 17, 2014

PRESENT: The Honourable Mr. Justice Mosley

BETWEEN:

**NOV DOWNHOLE EURASIA LIMITED
and DRECO ENERGY SERVICES ULC**

**Plaintiffs/
Defendants by
Counterclaim**

and

**TLL OIL FIELD CONSULTING.
and ACURA MACHINE INC.**

Defendants

ORDER AND REASONS

[1] This is a motion pursuant to Rule 51 of the *Federal Courts Rules* appealing the order of Prothonotary Milczynski dated March 27, 2014. It arises in the context of a patent infringement proceeding in respect of Canadian Patent No. 2,255,065 (the 065 Patent). For the reasons that follow, the appeal is granted and the prothonotary's decision is overturned.

I. **BACKGROUND**

[2] According to the statement of claim issued on July 25, 2013, the plaintiff NOV Downhole Eurasia Limited (NOV Eurasia), a company incorporated in England, is the current owner of the invention described and claimed in the 065 Patent, entitled the “Downhole Apparatus.” NOV Eurasia was assigned its interest in the 065 Patent from Anderguage Limited (Anderguage), a Scottish company. The plaintiff Dresco Energy Services ULC (Dresco) is an Alberta company that holds a non-exclusive license in Canada from NOV Eurasia for the 065 Patent. Prior to the assignment of the interest in the 065 Patent to NOV Eurasia, Dresco held a non-exclusive license in Canada from Anderguage. Anderguage, NOV Eurasia and Dresco are related companies under the same corporate umbrella of the National Oilwell Varco family.

[3] The defendants, Acura Machine Inc (Acura) and TLL Oilfield Consulting Limited (TLL Oilfield), are Alberta companies. They admit that TLL Oilfield has promoted and sold a down hole tool based on parts supplied by Acura, sometimes referred to as an “Acura Machine Jigger”, to the oil field industry. The plaintiffs allege that this device infringes the 065 Patent. The defendants deny infringement and contest the validity of the patent. They assert that each of the claims of the patent involves a transverse movable element – a feature allegedly added to the claims during the application process – which their device does not employ.

[4] In the order appealed from, Prothonotary Milczynski granted the plaintiffs’ motion and struck paragraphs 25 to 27 and the words “and/or void” in paragraph 31 from defendants’ amended statement of defence and counterclaim, without leave to amend. In the pleadings at

issue, the defendants had alleged that wilfully misleading statements made to the Patent Office either void the patent pursuant to section 53 of the *Patent Act*, RSC 1985, c P-4 [Patent Act], or disentitle the plaintiffs from equitable remedies.

[5] Subsection 53(1) of the *Patent Act* 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.

[6] Prothonotary Milczynski found that the allegations of misrepresentation related to a non-party to this action, Andergauge, and that no material facts pleaded could connect that entity to the plaintiffs at the time of filing with the Patent Office. She also found that the allegations could not establish that either or both of the plaintiffs must suffer the consequences of the alleged misconduct.

[7] Further, the prothonotary found that the impugned pleading relied upon the prosecution history to ask the court to draw certain inferences in construing the scope of the monopoly of the claims. She held that such an approach is contrary to the Supreme Court of Canada's decision in *Free World Trust v Électro Santé Inc*, 2000 SCC 66 [*Free World*]. On her reading, that authority holds that the prosecution history of a patent cannot be used to determine the validity of the

claims, and also that misrepresentations made during prosecution of a patent application have no effect on its validity under section 53 of the *Patent Act*.

[8] The impugned portions of the amended statement of defence and counterclaim refer to statements and amendments made by Anderguage during the prosecution of the 065 Patent and to the plaintiffs' assertion of the 065 Patent after issuance. These activities, Prothonotary Milczynski held, could not be relevant for the purposes of section 53 of the *Patent Act*.

[9] The paragraphs at issue read as follows:

25. During pendency of the application for the 065 Patent, the applicant at the time (Anderguage Limited, hereinafter "Anderguage") amended the 065 Patent application. The amendments, on their face, restricted the scope of the monopoly sought to embodiments which included a valve whose operation was based on the transverse motion of one of its parts. However, the Plaintiffs now seek to assert that the scope of the 065 Patent is infringed by the Defendants, despite the fact that at no time has any TLL Downhole Tool had a valve part or element which has moved in a transverse manner so as to provide variable flow through the valve.

26. By reason of the activities of Anderguage set out above and pursuant to section 53 of the *Patent Act*, the 065 Patent was void *ab initio*. The post-issuance assertion of the 065 Patent demonstrates that the amendments to the 065 Patent application to purportedly restrict the scope of the monopoly were made with the intention of misleading the Patent Office. The amendments were strategically made by the applicant so as to purportedly narrow the scope of the 065 Patent application to overcome prior art while knowing that the 065 Patent, when granted, would be alleged against competitors as having a much broader scope. After issuance of the 065 Patent the Plaintiffs now seek to disavow the steps taken in the Patent Office so as to assert the 065 Patent with a broader scope as against the Defendants. The Plaintiffs' conduct demonstrates wilful misleading of the Patent Office due to the Plaintiffs' allegations that the 065 Patent covers systems having no "transverse motion" in the valve part.

31. The Defendants, Plaintiffs by Counterclaim claim:
- (a) a declaration under section 60(1) of the *Patent Act* that the claims of the 065 Patent are and always have been invalid and/or void so as to permit registration of such declaration with the Patent Office under section 62 of the *Patent Act*;
 - (b) a declaration under section 60(2) of the *Patent Act* that the Defendants do not infringe claims 1 to 20 of the 065 Patent;
 - (c) the costs of, and incidental to, the action and counterclaim;
 - (d) pre- and post-judgment interest;
 - (e) Harmonized Sales Tax; and
 - (f) such further and other relief as this Honourable Court may deem just
- [emphasis added].

II. ISSUES

[10] The defendants submit that the prothonotary erred in law and proceeded upon a wrong principle in concluding that the impugned paragraphs of the amended statement of defence and counterclaim do not disclose a reasonable defence that has any chance of success. They contend that the prothonotary:

- a) erred in law in applying too strict a test under Rule 221(1)(a) when she failed to consider that there is a chance that the impugned pleadings will succeed;

- b) erred in law in holding that misrepresentations made during the prosecution of a patent application, including those made by way of amendments to the claims, have no effect on the validity of the patent under section 53 of the *Patent Act*;
- c) erred in law in considering inadmissible evidence filed by the plaintiffs to establish no viable defence, contrary to Rule to 221(2);
- d) erred in law in holding that the pleaded activities of the patent applicant before the Canadian Patent Office and the conduct of the patentee subsequently are not relevant for the purposes of section 53 of the *Patent Act*;
- e) erred in law in holding that the conduct of the plaintiff applicant (a party related to the plaintiffs and the assignor of the patent, as pleaded) before the Canadian Patent Office cannot disentitle the plaintiffs to equitable relief;
- f) erred in fact and in law in finding that no material facts pleaded would (i) connect the patent applicant and the plaintiffs at the relevant time or (ii) provide a basis to establish that either or both of the plaintiffs must suffer the consequences of the applicant's misconduct;
- g) erred in fact and in law in failing to consider that the pleaded activities of the patent applicant before the Canadian Patent Office and the conduct of the plaintiffs thereafter may form a basis to deny equitable remedies;

- h) misapprehended the facts in finding that the amended statement of defence and counterclaim relies upon the prosecution history to draw certain inferences in construing the scope of the monopoly of the claims; and
- i) erred in law in failing to consider whether an amendment to the pleadings might possibly succeed, when holding that no leave to amend would be granted to the defendants.

[11] The plaintiffs submit that the issues on this appeal are whether:

- a) the prothonotary was correct in determining that misrepresentations and amendments during prosecution of a patent cannot be used to determine the validity of the claims under subsection 53(1) of the *Patent Act*;
- b) the prothonotary was correct in determining that the patent applicant's conduct was irrelevant under the doctrine of unclean hands; and
- c) the prothonotary was correct in determining that claims construction was an ulterior purpose of the struck paragraphs.

[12] I characterize the issues as:

- a) what is the standard of review to be applied to the prothonotary's decision?
- b) was the prothonotary's decision based on a wrong principle or misapprehension of the facts?

- c) did the prothonotary err in finding that it was plain and obvious that the impugned pleadings fail to disclose a reasonable defence?

III. ANALYSIS

A. *Standard of review*

[13] It is settled that discretionary orders of prothonotaries ought not to be disturbed on appeal to a judge unless they raise questions vital to the final issue of the case, or they are clearly wrong in the sense that the prothonotary's exercise of discretion was based upon a wrong principle or upon a misapprehension of the facts: *Merck & Co v Apotex Inc*, 2003 FCA 488 at para 19; *Eli Lilly Canada Inc v Novopharm Limited*, 2008 FCA 287 at para 52.

[14] Where the decision of the prothonotary falls within the scope of either of the two categories outlined above, a reviewing judge may exercise his or her discretion *de novo*: *Louis Bull Band v Canada*, 2003 FCT 732 at para 13; *Seanix Technology Inc v Synnex Canada Ltd*, 2005 FC 243 at para 11. Absent such a finding, the decision of a prothonotary, particularly in the context of case management, attracts considerable deference and should only be interfered with in the clearest case of misuse of judicial discretion: *Sawridge Band v Canada*, 2001 FCA 338 at para 11.

[15] The defendants contend that the questions raised in this motion are vital to one or more of the final issues of the case. The plaintiffs agree that these questions would normally be vital, yet they argue that this is no longer the case given a prior decision issued by the prothonotary on

January 16, 2014. The plaintiffs argue that the defendants, who elected to re-plead rather than appeal, are bound by that prior decision which settled the questions currently raised.

[16] In the January 16, 2014 decision, Prothonotary Milczynski struck two sentences from the statement of defence, as it then read, respecting amendments to the claims of the 065 Patent application in the Patent Office. She concluded that the defendants had sought to introduce extrinsic evidence. They had relied on *Distrimed Inc v Dispill Inc*, 2013 FC 1043 at para 210:

... A change in the wording of the claim as a result of an objection from the Patent Office is an objective fact from which an inference may be drawn, and is not the same as representations made to the Patent Office. A purposive construction should obviously focus on the wording of the claim, obviously, but this is a far cry from saying that nothing else should be considered.

[17] Prothonotary Milczynski found that the defendants sought to rely on the prosecution history, namely the objective fact that claim amendments were made, to ask the court to draw certain inferences in construing the claims. This contradicted *Free World*, above, at para 66:

In my view, those references to the inventor's intention refer to an objective manifestation of that intent in the patent claims, as interpreted by the person skilled in the art, and do not contemplate extrinsic evidence such as statements of admissions made in the course of patent prosecution. To allow such extrinsic evidence for the purpose of defining the monopoly would undermine the public notice function of the claims, and increase uncertainty as well as fuelling the already overheated engines of patent litigation. The current emphasis on purposive construction, which keeps the focus on the language of the claims, seems also to be inconsistent with opening the Pandora's box of file wrapper estoppel. If significant representations are made to the Patent Office touching the scope of the claims, the Patent Office should insist where necessary on an amendment to the claims to reflect the representations.

[18] In my view, the decision to strike the impugned paragraphs of the amended statement of defence and counterclaim is vital to the final issues of the case notwithstanding the January 16, 2014 decision. I consider that the defendants were entitled to re-plead rather than appeal the decision and to have the merits of the amendments determined. I am satisfied that I should exercise my discretion to consider the matter *de novo*. Moreover, as I will discuss below, I am satisfied that the exercise of discretion by the prothonotary was based upon a wrong principle or misapprehension of the facts.

B. *Was the prothonotary's decision based on a wrong principle or misapprehension of the facts?*

[19] The plaintiffs brought the motion to strike under Rules 221(1)(a), (c) and (f). The prothonotary found that there was “no reasonable cause of action or defence” under Rule 221(1)(a). In applying this ground, the court must be satisfied beyond doubt that the defence cannot be supported. If there is a chance that it might succeed, on a broad and generous interpretation, the pleading should not be struck: *Apotex Inc v AstraZeneca Canada Inc*, 2009 FC 120 at para 26, citing *Hunt v Carey Canada Inc*, [1990] 2 SCR 959 at paras 30-33.

[20] The defendants allege that Anderguage's misleading conduct before the Patent Office disentitles the plaintiffs to the equitable and/or discretionary remedies they seek, including an injunction and accounting for profits.

[21] As pleaded by the plaintiffs, Anderguage is the assignor of the 065 Patent to the plaintiff NOV Eurasia and is a related company existing under the same corporate umbrella as NOV

Eurasia and Dreco. The prothonotary erroneously relied upon affidavit evidence to the effect that Anderguage and the plaintiffs were not related at the time of the filing of the patent application. In considering a motion under Rule 221(1)(a), the reviewing court is limited to the language of the pleadings. It cannot consider any evidence in support of the motion: Rule 221(2); *Zero Spill Systems (Int'l) Inc v 614248 Alberta Ltd*, 2009 FC 70 at para 12. The prothonotary was bound to take the plaintiffs' pleadings as she found them.

[22] In any event, in an action by an assignee to enforce its rights, the defendant may raise as against the assignee whatever defences would have been available against the assignor:

Springfield Fire & Marine Insurance Co v Maxim, [1946] SCR 604 at page 618. It will be for the trial court to sort out whether the plaintiffs are to be denied equitable relief: *Hongkong Bank of Canada v Wheeler Holdings Ltd*, [1993] 1 SCR 167 at page 188. I agree with the defendants that it is open to them to argue at trial that the plaintiffs should not benefit from the assignment by asserting the patent against the defendants, while avoiding the consequences of Anderguage's alleged misconduct before the Patent Office.

[23] I find, therefore, that the prothonotary exercised her discretion on the basis of a wrong principle of law.

C. *Did the prothonotary err in finding that it was plain and obvious that the impugned pleadings fail to disclose a reasonable defence?*

[24] The defendants acknowledge that the Supreme Court has held that submissions made to the Patent Office during the application process cannot be used to interpret the claims of the

patent after issuance: *Free World*, above, at para 66. They argue, correctly, that the Supreme Court left open the question of whether the prosecution history may be relevant for purposes other than defining the scope of the grant of the monopoly: *Free World* at para 67,

[25] Evidence of misrepresentations in documents filed with the Patent Office may be found admissible to establish a breach of section 53: *Beloit Canada Ltd v Valmet Oy*, 64 NR 287, [1986] FCJ no 87 (FCA) at paras 37-39; *Weatherford Canada Ltd v Corlac Inc*, 2010 FC 602 at paras 323-330. The goal is not to determine the meaning of the claims but whether section 53 has been infringed. Allegations of misrepresentation are material, within the meaning of that section, if they relate to the subject matter of the claims in the patent. I agree with the defendants that this is an issue best left for determination by the trial judge.

[26] In this instance, the entire application is implicated, as each claim asserts that it involves a transverse moveable element – a feature of the invention that did not appear in the original application. As such, this case differs from that relied upon by the prothonotary: *Litebook Company Ltd v Apollo Light Systems Inc*, 2006 FC 399 at paras 12 and 15-16 [*Litebook*].

[27] In *Litebook*, the court granted an appeal, in part, from a decision by Prothonotary Milczynski which had allowed the defendant to make allegations of misrepresentation on the ground (left open by *Free World*, above) that they were material to the equitable remedies sought by the plaintiff and by the defendant in its counterclaim. The allegations stated that the plaintiff wilfully added new claims to the application during the course of prosecution, with a view to cover competing products in an effort to mislead. Justice Tremblay-Lamer held that the

presumption of validity following issuance foreclosed this pleading, referring to *Eli Lilly and Company v Apotex Inc*, 78 ACWS (3d) 44, [1998] FCJ no 233 [*Eli Lilly FC*]. However, she upheld paragraphs alleging inequitable conduct by the plaintiff.

[28] In *Eli Lilly FC*, at para 27, Justice Richard cited the ruling of President Thorson in *Lovell Manufacturing Co v Beatty Bros Ltd* (1962), 41 CPR18 [*Lovell*], referring to the predecessor to section 53:

Under it evidence would clearly be admissible to show that a material allegation in the petition for the patent was untrue, but there is no provision in the *Patent Act* that an untrue allegation, even amounting to a misrepresentation, made in the course of the prosecution of the application for the patent in the Canadian Patent Office has an effect on the validity of the patent. Once the patent has issued there is a statutory provision for its *prima facie* validity in s. 47 [now s. 48] of the Act...

[29] Justice Richard distinguished *Lovell*, above, from *Rothmans, Benson & Hedges Inc v Imperial Tobacco Ltd* (1991), 35 CPR (3d) 417 (FCTD) on the ground that the former involved an untrue allegation in the disclosure, whereas the latter involved the withholding of relevant information from the examiner. He thus concluded that *Lovell* applied to the facts before him and struck out the impugned portions of the pleading.

[30] The Federal Court of Appeal reversed this decision, holding that the defendant could amend its pleading to allege that the untrue statements and wilful omissions which made the patent void were found in the petition and the specification: *Eli Lilly and Co v Apotex Inc*, 259 NR 225 [*Eli Lilly FCA*]. At para 12, the Court stated:

In our view, the amended paragraphs contain factual allegations grounded in subsection 53(1) of the Act and a specific allegation of

a violation of that section. We cannot say that it is plain and obvious that the alleged defence contained in these pleadings cannot possibly succeed given the state of the law.

[31] I read *Eli Lilly FCA*, above, as upholding the proposition advanced by the defendants: namely, that carefully drafted pleadings can contain allegations grounded in subsection 53(1) of the *Patent Act* so long as they are not intended to construe the claims. Here, the patentee's actions amounted to additions to the specifications. The impugned paragraphs go to those additions, and not to what was said to the examiner.

[32] As stated in *Foseco Trading Ag v Canadian Ferro Hot Metal Specialties Ltd* (1991), 36 CPR (3d) 35 (FCTD), cited by the Supreme Court in *Free World Trust*, above, at para 67: "information contained in file wrappers, either domestic or foreign, may be relevant for some purposes on some occasions." It remains a live issue whether section 53 of the *Patent Act* may void an entire patent due to steps taken in the application process. The prothonotary therefore erred in finding that it was plain and obvious that the defence had no chance of success.

[33] Having concluded that the questions are vital to the final issues of the case and that the prothonotary erred, I will exercise my discretion *de novo* and uphold the proposed amendments to the defendants' statement of defence and counterclaim. I do not consider it necessary to consider the other grounds for striking the pleadings under Rules 221(1) (c) and (f). They were argued before the prothonotary but she did not address them in the order under appeal.

ORDER

THIS COURT ORDERS that:

1. the appeal is granted;
2. the decision of Prothonotary Milczynski dated March 27, 2014 to strike paragraphs 25 to 27 and the words “and/or void” in paragraph 31 from the defendants’ amended statement of defence and counterclaim, without leave to amend, is overturned;
3. costs shall be in the cause.

“Richard G. Mosley”
Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET: T-1280-13

STYLE OF CAUSE: NOV DOWNHOLE EURASIA LIMITED and DRECO
ENERGY SERVICES ULC v TLL OIL FIELD
CONSULTING and ACURA MACHINE INC.

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: MAY 6, 2014

ORDER AND REASONS : MOSLEY J.

DATED: SEPTEMBER 17, 2014

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