

Date: 20080618

**Docket: T-139-06
T-140-06**

Citation: 2008 FC 759

Vancouver, British Columbia, June 18, 2008

PRESENT: The Honourable Mr. Justice Russell

T-139-06

BETWEEN:

J2 GLOBAL COMMUNICATIONS, INC.

Plaintiff

and

PROTUS IP SOLUTIONS INC.

Defendant

AND BETWEEN:

PROTUS IP SOLUTIONS INC.

Plaintiff by counterclaim

and

**J2 GLOBAL COMMUNICATIONS, INC. and
CATCH CURVE INC.**

Defendants by counterclaim

T-140-06

BETWEEN:

CATCH CURVE INC.

Plaintiff

and

PROTUS IP SOLUTIONS INC.

Defendant

AND BETWEEN:

PROTUS IP SOLUTIONS INC.

Plaintiff by counterclaim

and

**CATCH CURVE INC. and
J2 GLOBAL COMMUNICATIONS, INC.**

Defendants by counterclaim

REASONS FOR JUDGMENT AND JUDGMENT

THE MOTION

[1] This motion by Catch Curve Inc. and J2 Global Communications Inc. (Plaintiffs) is an appeal of the Order of Prothonotary Tabib dated February 8, 2008 which granted Protus IP Solutions Inc. (Protus) leave to further apply to amend its Statements of Defence and Counterclaim in Federal Court File Nos. T-139-06 and T-140-06, subject to a procedure whereby, prior to the filing of its amended pleadings, Protus must provide further particulars of certain allegations contained in its Statements of Defence and Counterclaim, and whereby the Plaintiffs shall assert their objections to the proposed amendments by way of motion to dismiss and/or for further and better particulars.

[2] The amendments in issue before Prothonotary Tabib related primarily to allegations regarding unlawful conduct of the Plaintiffs contrary to sections 32 (abuse of the patents), 45 (conspiracy to prevent or unduly lessen competition) and 61(1)(a) (price maintenance through

misuse of patents) of the *Competition Act*, as a result of, *inter alia*, the Plaintiffs' acquiring, controlling, and asserting/enforcing patents so as to prevent or limit the entry of competitors into the market for Internet-based facsimile services, and their preventing or limiting competitors from competing effectively in that market. The alleged unlawful conduct is asserted as a defence to both actions as well as a basis for a counterclaim (pursuant to section 36 of the *Competition Act*) for damages allegedly suffered by Protus as a result of the unlawful conduct.

BACKGROUND

[3] J2 and Catch Curve are related corporations holding Canadian Patents which they allege have been infringed by Protus' internet-based fax services MYFAX and VIRTUAL FAX. In Court File T-139-06, J2 alleges the infringement of Patent No. 2,232,397 (the '397 patent) and in T-140-06, Catch Curve alleges infringement of Patent No. 2,101,327 (the '327 patent) and Patent No. 1,329,852 (the '852 patent).

[4] Protus has counterclaimed in the underlying actions, alleging, among other things, that the three patents at issue are invalid for anticipation, obviousness and overbreadth. Protus further asserts that J2 and/or Catch Curve have conspired together and/or have acted on behalf of each other and have made false or misleading statements in violation of paragraph 7(a) of the *Trademarks Act* and section 52 of the *Competition Act*.

[5] The two actions have not been joined. In fact, the Plaintiffs resisted a motion to join brought by Protus. However, they are being jointly case managed. Also, a Bifurcation Order issued in both actions on November 23, 2006, which essentially held that issues related to the extent of infringement, the amount of damages or the apportionment of profits should be decided separately after the determination of the infringement actions and the counterclaims on their merits.

THE MOTION BELOW

[6] On the motion below, Protus sought an order pursuant to Rule 75 for leave to serve and file the amended Statements of Defence and Counterclaim attached as Schedules “A” and “B” to the Notice of Motion (as revised on January 21, 2008). The amendments in issue on that motion related to:

- a) Allegations that J2 and Catch Curve have breached sections 32, 45 and 61(1)(a) of the *Competition Act* which give rise to a defence to the actions and a counterclaim in respect of the breaches of sections 45 and 61(1)(a) of the *Competition Act* (paragraphs 23 to 39, 42(c.1), (c.2), (f), 47, 49, 50, 51(a) & 52 in T-139-06; and paragraphs 26 to 42, 45 (c.1), (c.2), (f), 50, 52, 53, 54(a) & 55 in T-140-06);
- b) Additional allegations regarding false and misleading statements made by J2 and Catch Curve contrary to section 52 of the *Competition Act* and section 7(a) of the *Trade-marks Act* (paragraphs 34, 35, 46, 47, 48, 51(b) & (c) in T-139-06; and paragraphs 37, 38, 49, 50, 51, 54(b) & (c) in T-140-06; and

- c) The defence of abuse of process in view of the alleged anti-competitive conduct of J2 and Catch Curve (paragraphs 23 to 32 in T-139-06; and paragraphs 26 to 35 in T-140-06).

[7] The substance of the amendments in issue is identical in both actions.

[8] Prothonotary Tabib concluded as a fact on the evidence before her that the Plaintiffs would not suffer prejudice that could not be compensated by costs if the amendments were allowed.

[9] Prothonotary Tabib granted leave to amend paragraphs 20, 23, 34, 35, 46, 48 and 51 of Protus' Draft Statements of Defence and Counterclaim.

[10] In terms of the allegations that the Plaintiffs have acted contrary to sections 32, 45 and/or 61(1)(a) of the *Competition Act*, and in particular paragraphs 24 to 33 and 36 to 39 of the Draft Statements of Defence and Counterclaim, Prothonotary Tabib held that it was not plain and obvious that the facts alleged in the amendments could not give rise to a reasonable argument. However, she concluded that certain allegations in the amendments required further particulars. Accordingly, Prothonotary Tabib did not grant leave to amend these allegations in the form presented on the motion but rather imposed a procedure whereby further particularized pleadings would be served and filed. The procedure provided the Plaintiffs with an opportunity to request further particulars prior to the filing of the amended pleadings and was without prejudice to the Plaintiffs' ability to

bring a motion to dismiss and/or for further particulars of the allegations contained in the further particularized pleadings.

STANDARD OF REVIEW

[11] A prothonotary's decision to allow amendments to a pleading is a matter of discretion. A discretionary order of a prothonotary should not be disturbed on appeal to a judge and considered *de novo* unless:

- a) The questions raised on the motion are vital to the final issue of the case; or
- b) The order is clearly wrong, in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts.

See *Merck & Co. v. Apotex Inc.* (2003), 30 C.P.R. (4th) 40 at 53 (F.C.A.)

[12] The Federal Court of Appeal has cautioned that a judge hearing an appeal of a prothonotary's decision should not come too hastily to the conclusion that a question, however important it might be, is a vital one. Accordingly, on appeals from a prothonotary's decision on motions to amend pleadings, the Federal Court of Appeal has stated that it would be imprudent to attempt any kind of formal categorization. The preferable approach is to determine the point on a case-by-case basis. See *Apotex* at 53 and 54.

[13] Rule 75 of the *Federal Courts Rules* provides the Court with discretion to permit amendments “on such terms as will protect the rights of all parties.” In addition, rule 385 of the *Federal Courts Rules* provides a case management prothonotary with a broad discretion to manage the procedural steps in a proceeding, including, *inter alia*, making any directions that are necessary for the just, most expeditious, and least expensive determination of the proceeding on its merits.

[14] The Federal Court of Appeal and this Court have stated on numerous occasions that because of their knowledge of the facts and procedural history of the proceeding, a case management judge/prothonotary must be given latitude in their management of cases. As such, an appellate court will only interfere with interlocutory orders in the clearest case of misuse of that judicial discretion. See *Sawridge Band v. Canada*, 2001 FCA 338 at paragraph 11; *Montana Band v. Canada*, 2002 FCA 331 at paragraph 7; and *Apotex Inc. v. Canada*, 2006 FC 850 at paragraph 15.

GROUND OF APPEAL

[15] The Plaintiffs say that the amendments that are the subject of the appeal are vital to a final issue in the case because they cause a radical shift in the position of Protus in its Statements of Defence and Counterclaim and go to the heart of the matters in dispute in a way that affects the final resolution of both actions.

[16] The Plaintiffs raise numerous grounds of appeal which I will deal with in the order set out in the Plaintiffs’ Written Representations:

1. Do the proposed amendments raise questions vital to the final issue?

[17] The Plaintiffs say that the amendments that are the subject of this appeal are vital to the final issue in the case because they would, if allowed, bring about a radical shift in the position of Protus that goes to the heart of the matters in dispute between the parties.

[18] Generally speaking, I believe the Plaintiffs are correct in this assertion and thus I should consider the issues raised *de novo*. However, I am also mindful that the Plaintiffs raise a wide range of objections to the order under appeal and each ground will need to be examined separately to decide whether it does raise matters vital to the final issue in the case. Where I do not regard the issue as vital, I have indicated as such, and I have considered whether that part of the Prothonotary's decision is clearly wrong.

2. Was the order appealed from in error because the Prothonotary applied the wrong standard, namely that she applied the test for a motion to strike as opposed to a motion for leave to amend?

[19] A review of the Order and reasons clearly indicates that the Prothonotary applied the usual principle that amendments should be allowed unless they would cause prejudice to the other party that cannot be compensated through costs. She also considered whether the amendments failed to disclose a reasonable defence or cause of action, or were frivolous, vexatious or otherwise an abuse of the process of the Court.

[20] This approach appears to me to be in accordance with the applicable jurisprudence.

[21] The Prothonotary found as a fact that if the proposed elements were allowed, the Plaintiffs would not suffer prejudice that could not be compensated through costs. I see no reason to disturb this finding.

[22] As regards frivolous, vexatious or abusive issues, the Prothonotary applied the standard that is applicable in motions to strike and asked herself whether it was plain and obvious that the allegations made in the proposed amendments could not form the basis of a successful defence or counterclaim.

[23] In my view, Prothonotary Tabib was entirely correct in this approach and it accords with the governing case law. See *Apotex* at paragraphs 56, 59 to 61; *Hunt v. Carey Canada Inc.*, [1990] 2 S.C.R. 959 at 980; and *Volkswagen Canada Inc. v. Access international Automotive Ltd.*, 2001 FCA 79 at paragraph 12.

[24] The Plaintiffs' point is that "If an amendment would not be struck under Rule 221 it does not follow that it should be favourably considered by the Court." In other words, even if a proposed amendment would not be struck it is still necessary for the Court to consider whether it should be allowed in accordance with the rules that govern amendments.

[25] I agree with the Plaintiffs, but I also think that this is what Prothonotary Tabib did. She considered whether the proposed amendments satisfied the Rule 221 criteria and whether they were also – subject to the procedure she imposed to correct deficiencies over particulars – allowable under the general rule regarding amendments.

[26] I think the Plaintiffs are merely saying that, in considering the amendment criteria, Prothonotary Tabib was clearly wrong in the factors she considered, or failed to consider, and this Court should now reverse her decision. I will be dealing with the Plaintiffs' views of where she went wrong on an issue-by-issue basis. However, I think the Prothonotary was clearly correct in her general approach to examining the proposed amendment under the Rule 221 criteria and then, on the basis that it was not plain and obvious that the allegations could not form the basis of a successful defence or counterclaim, acting in accordance with her view of the general rule regarding amendments:

Amendments to pleadings ought to be allowed, no matter how late they are sought, unless doing so would cause prejudice to the other party that cannot be compensated by costs or that the proposed amendments fail to disclose a reasonable defence or cause of action, are frivolous, vexatious or otherwise an abuse of the process of the Court.

[27] The Plaintiffs take issue with the Prothonotary's conclusions that the Rule 221 criteria were satisfied in this instance and that all she had to consider regarding amendment principles was whether any prejudice caused could be compensated by costs. But Prothonotary Tabib clearly looks at the proposed amendments from both the perspective of Rule 221 criteria and the jurisprudence concerning amendments generally. In my view, she does not, as the Plaintiffs intimate, grant the

amendments on the basis of Rule 221 criteria alone without considering the proposals as amendments.

[28] I cannot say in a general sense, that Prothonotary Tabib applied a wrong principle or that her approach was misconceived. The real issues arise over the Prothonotary's detailed handling of the two aspects of the task before her (the Rule 221 criteria and the criteria for amendments) and her imposition of a procedure that would allow Protus to remedy the deficiencies regarding particulars that she identified in the proposed materials while, at the same time, giving the Plaintiffs full scope to state their objections by way of motion once the particulars were known.

3. Did the Prothonotary err in law as to whether the allegations pleaded could constitute a defence at law?

[29] The Plaintiffs say they are seeking both equitable and legal remedies against Protus. Protus has pleaded that, by reason of the Plaintiffs' unlawful conduct, the Plaintiffs have no entitlement to enforce the patents at issue, to prosecute their actions or to any of the remedies they are seeking.

[30] The Plaintiffs say that the Prothonotary neglected to determine whether the facts pleaded by Protus could constitute a defence at law to the actions.

[31] They say that unlawful behaviour such as a violation of the *Competition Act* can only be pleaded as a defence "where it relates to the acquisition of the title of the patent or to a claim for

equitable relief or both.” They rely upon *Sanofi-Aventis Canada Inc. v. Apotex Inc.*, 2007 FC 907 at paragraph 35 for this proposition.

[32] The Plaintiffs say they can seek a remedy at law even if they come to the Court with unclean hands. Hence, Protus is trying to prevent them from seeking relief both in equity **and at law** based upon an unfounded allegation of unclean hands.

[33] My review of the Prothonotary’s decision suggests to me that she took the view that, if properly pleaded, Protus’ allegations could constitute a defence in equity and that it was unnecessary and inappropriate for her to pronounce on whether they could also give rise to a defence at law. This is because, as Prothonotary Tabib points out, allegations that merely relate to legal consequences or conclusions to be drawn from alleged facts are not an essential part of the pleadings and so do not constrain a party’s ability to argue at trial such conclusions as may reasonably flow from or apply to facts that have been proven.

[34] Protus points out that the allegations of anti-competitive behaviour in the Draft Amended Statements of Defence and Counterclaim did include allegations related to the acquisition of the patents in issue. Even the *Sanofi-Aventis* case relied upon by the Plaintiffs establishes that it is a triable issue as to whether such allegations can give rise to a defence in both law and equity. This further supports the Prothonotary’s conclusion that she did not need to consider at this stage in the proceedings whether a defence at law was also available to Protus.

[35] Considering this issue *de novo*, I agree with Prothonotary Tabib's handling of this issue and her conclusions:

To the extent the allegations are susceptible, if properly pleaded and taken to be proven, of constituting a reasonable defence to J2/Catch Curve's claim for equitable remedies, then the factual allegations must be allowed. It makes no difference whether Protus can or cannot also raise these facts, if proven, as an additional ground of defence. Allegations which merely plead a legal consequence or conclusion to be drawn from alleged facts are not an essential part of pleadings, do not constrain a party's ability to argue at trial such conclusions of law as may reasonably flow or apply to the facts proven, and it is accordingly neither necessary nor appropriate for the Court to pronounce on their propriety on a motion to strike.

[36] This position is amply supported by *Volkswagon* at paragraph 21 and *Johnson & Johnson v. Boston Scientific Ltd.*, 2004 FC 1672 at paragraphs 53-54.

- 4. Did the Prothonotary err in fact and in law by failing to address, consider and resolve the following grounds of opposition put forward by the Plaintiffs:**
 - a. U.S. patents, applications and activities occurring outside of Canada are irrelevant to the Canadian action and cannot form the basis in law for any alleged anti-competitive behaviour in Canada.**

[37] The Plaintiffs argue that Protus is attempting to add allegations of anti-competitive behaviour that refer to activities occurring entirely in the U.S. and which involve correspondence sent by U.S. counsel to third party companies in the U.S. and in respect of a U.S. action and U.S. patents.

[38] The Plaintiffs say that the Prothonotary misdirected herself on this issue, which misdirection can be inferred because she merely rejected the issue without much explanation and dealt with it “not quite in the correct way.”

[39] The Plaintiffs say that activities in the U.S. are not the subject of section 7 of the *Trade-Marks Act* or section 21 of the *Competition Act* and do not support a cause of action based upon that legislation.

[40] The Plaintiffs also say that pleading a cause of action beyond the Court’s jurisdiction is a clear abuse of process. See *Weider v. Beco Industries Ltd.*, [1976] 2 F.C. 739 at 742 (F.C.T.D.).

[41] In addition, they say that any alleged violations of the *Trade-Marks Act* and the *Competition Act* can only apply to issued patents and not patent applications.

[42] There is no evidence before me that the Prothonotary Tabib failed to address this issue. Her decision sets out what she sees as the determinative issues before her and her resolution of those issues. She is not obliged to address every argument raised by one of the parties.

[43] In my view, all the Plaintiffs are saying here is that they think that their objection to the amendments is sound and the Prothonotary should have affirmed their position in this regard and disallowed the amendments on this basis.

[44] If I look at the matter *de novo*, it is by no means clear at this stage in the proceedings that U.S. patent, patent applications and activities occurring outside of Canada can have no relevance for these actions.

[45] Protus is alleging conduct on the part of the Plaintiffs that has affected competition and pricing in the Canadian market for Internet-based facsimile services. The principle allegation appears to be that there is some overall anti-competitive scheme whereby J2 has set out to acquire and control patent rights in order to engage in anti-competitive conduct that has impacted the Canadian market. Hence, in my view, it is not possible to say at this stage that activities outside of Canada are irrelevant to this broad anti-competitive scheme which includes the patents in issue and which has had an impact on the Canadian market. I cannot say that it is plain and obvious at this stage that the amendments in question are irrelevant to Canada and have no chance of succeeding.

[46] In any event, as I read Prothonotary Tabib's order, and the streamlined procedure she has devised to have Protus provide particulars and to allow the Plaintiffs to raise their objections by motion, I think it is obvious that this particular objection can be raised by the Plaintiffs and dealt with at the appropriate time and in the appropriate manner. I do not think that I should interfere with that process at this stage.

b. Canadian patent applications are not relevant in respect of claims under the *Trade-Marks Act* and *Competition Act*

[47] The Plaintiffs say that only an issued patent can be enforced against third parties in an infringement action and that any alleged violations of the *Trade-Marks Act* or the *Competition Act* can only apply to an issued patent.

[48] My reading of the pleadings suggest that the references to patent applications are part of Protus' allegations concerning a broad anti-competitive scheme conducted by J2 to acquire and control patent rights that will affect the Canadian market. Patent applications may well eventually issue as patents so that applications may be relevant to the overall anti-competitive scheme that is alleged by Protus. At this stage, therefore, I cannot say that it is plain and obvious that the references to patent applications are irrelevant and have no chance of succeeding. Hence, considering this issue *de novo* and for much the same reasons as in (a) above, I do not think they can be struck or disallowed at this stage.

5. The Defendant cannot plead that the Plaintiffs are not entitled to enforce their patent rights nor prosecute the actions and seek their remedies at law as opposed to equity.

[49] As noted above, and considering this issue *de novo*, I agree with the Prothonotary's conclusions. Allegations regarding legal consequences are not an essential part of the pleadings and

do not constrain at trial such conclusions as may flow from the facts. In addition, the allegations of anti-competitive behaviour include allegations related to the acquisition of the patents in issue. Thus it is at least arguable at this stage that the allegations do not offend the case law relied upon by the Plaintiffs, including *Sanofi-Aventis*.

6. Section 32 of the *Competition Act* does not apply in respect of services.

[50] The Plaintiffs point out that in *Regina v. J.J. Beamish Construction Co. Ltd.*, [1968] 1 O.R. 5 at page 11, the Ontario Court of Appeal held that section 32 of the *Anti-Combines Investigation Act* (the precursor of the current *Competition Act*) did not prohibit anti-competitive behaviour regarding services.

[51] The Plaintiffs have also drawn the Court's attention to Parliamentary proceedings that dealt with certain amendments to the *Competition Act* and in which section 32 is specifically identified as being limited in its application to services.

[52] The Plaintiffs' point is that the anti-competitive allegations made by Protus are all aimed at Internet-based facsimile services. If section 32 does not apply with respect to services, then Protus' allegations with regards to section 32 cannot disclose a reasonable cause of action or defence. Pleading a civil cause of action to recover damages under section 36 of the *Competition Act* requires the demonstration of conduct contrary to Part VI of that Act. Section 32, which deals with intellectual property, is in Part IV and not part VI of the Act.

[53] The Plaintiffs also say that Protus has not pleaded the material facts necessary to establish a cause of action under section 32.

[54] Protus relies upon several Supreme Court of Canada decisions for the proposition that contentious legal issues of statutory interpretation should not be dealt with on motions to strike a pleading, and the Prothonotary applied the plain and obvious criteria under Rule 221 in her decision. On this basis, Protus says that the Prothonotary was correct not to exclude amendments on the basis of a contentious legal issue of statutory interpretation and, in any event, she did not have before her a sufficient evidentiary record to permit such an analysis.

[55] Protus also says that the *Beamish* case is old law and that the *Competition Act* has undergone significant amendments in the past 30 years.

[56] Consequently, Protus says it cannot be said that it is “plain and obvious” that section 32 of the *Competition Act* does not apply to the Internet-based facsimile services that are the subject of the anti-competitive allegations contained in paragraphs 24 to 36 of its Draft Amended Statements of Defence and Counterclaim.

[57] This is a difficult point to resolve at this stage in the proceedings. Prothonotary Tabib’s solution is clear from reading her decision as a whole. She allowed some amendments and set in place a fair and efficient procedure that would lead to particularization and possible further amendments. At the same time she made it clear that, in allowing this procedure, she was not

precluding the Plaintiffs from moving to have the amendments dismissed. She makes it clear that the particularization process is “without prejudice to [the Plaintiffs’] right to object to the amendments” and that any objection to the amendments that the Plaintiffs may have “shall be made by way of motion to dismiss”

[58] In other words, in the face of the disagreement between the parties and her finding that some of the amendments lacked particulars (so that Protus was again free to move to amend, having provided further particulars), Prothonotary Tabib decided it was better to streamline the process and to have the particulars in place, and thus the full scope of the proposed amendments known, before she addressed any arguments or challenges that the Plaintiffs might wish to make regarding dismissal.

[59] The Federal Court of Appeal and this Court have stated on numerous occasions that, due to their knowledge of the facts and the procedural history of the proceedings, a case-management judge or Prothonotary must be given the discretion and the latitude to manage cases effectively. See *Sawridge Band*, *Montana Band*, and *Apotex*.

[60] It seems to me that Prothonotary Tabib decided that additional steps were needed before she could decide this section 32 issue between the parties. First of all, she wanted full particulars for the proposed amendments to be placed before the Plaintiffs and the Court. She would then be in a position to deal with any grounds that the Plaintiffs might raise (by way of a full motion on point) regarding amendments that the Plaintiffs wanted dismissed.

[61] This strikes me as an approach that is entirely in accord with case management objectives and obligations under the rules.

[62] It is true that, in considering the proposed amendments, the Prothonotary was bound to apply Rule 221 criteria. But until the particulars are placed before the Plaintiffs and the Court there is really no point in dealing with contentious points until the full scope of any objections to those particulars, and the issue they raise, are known.

[63] In considering this issue *de novo*, I believe that Prothonotary Tabib took the correct approach to streamlining. Dismissal should be considered as part of a full motion that is brought once the full particulars for the amendments are provided.

- c. **Have the Defendants failed and/or neglected to plead the material facts necessary to establish a cause of action:**
 1. **For abuse of process;**
 2. **Under sections 32, 45 and 61 of the *Competition Act*; and**
 3. **In the proposed amended counterclaim**

[64] Obviously, as Prothonotary Tabib's decision as a whole makes clear, she could not accept the Plaintiffs' position on these points: "I cannot conclude that the facts alleged could not give rise to a reasonable argument." She required further particulars to address this issue and put in place a procedure that would both allow both a determination based upon particulars and the Plaintiffs to

raise their various objections in a full motion on particulars and/or to dismiss. The proposed amendments could not be allowed in their present form but Protus was free to again move to amend, having provided further particulars, and an efficient procedure was required to allow the necessary steps to be taken.

[65] Reviewing the relevant provisions *de novo*, I believe that Prothonotary Tabib was correct in this regard. It cannot be said that the Plaintiffs have shown that it is plain and obvious that the allegations cannot form the basis of a successful defence or counterclaim. On the other hand, the proposed amendments are not acceptable in the form presented. Both sides need to do more before a final determination can be made on their respective positions. Protus needs to particularize its allegations and the Plaintiffs needs to bring its objections forward in a full motion once particularization has occurred.

[66] The Plaintiffs say that Prothonotary Tabib was wrong to conclude that further particulars could fix the process because there were no material facts to support the anti-competition allegations.

[67] In my view, however, this is not really the point. The Prothonotary has not said that particulars will necessarily fix the problems. She has said that particulars are needed before she considers whatever objections the Plaintiffs may wish to raise regarding the amendments. All that was granted was “leave to further apply to amend” and, before this is done, Protus is required to address the particularization problem so that the Plaintiffs and the Court will know whether the

allegations cover a multitude of sins” or “specific acts which, when eventually particularized, could not be strung together in any combination to add up to the constituent elements of any of the infractions created by the *Competition Act*.” Prothonotary Tabib did not allow the further amendments, but she could not determine from what was before her that the Plaintiffs had established that it was plain and obvious that the allegations could not form the basis of a successful defence or counterclaim. Her findings left Protus free to move to amend again, if the particulars were provided.

[68] This does not mean that the amendments will be allowed, even with the particularized allegations. It means that the final decision on the Plaintiffs’ objections should follow the provision of particulars by Protus. I see nothing wrong with that conclusion and, bearing in mind Prothonotary Tabib’s intimate knowledge of these actions to date, I do not believe that I should set aside a process that has been put in place to allow a full determination of the points of dispute between the parties concerning the anti-competitive allegations that require further particulars.

7. Did the Prothonotary err in law when she allowed identical relief in two separate counterclaims based on identical facts?

[69] My reading of the Prothonotary’s decision is that she has not allowed Protus identical relief in the two actions. She has acknowledged that the issue will need to be addressed, and can be addressed, by various procedural means in order to avoid contradictory judgments or double recovery.

[70] Protus has already conceded that it is not entitled to double recovery in these actions. The Plaintiffs have resisted consolidation of both actions and so they are at least partially responsible for the present state of affairs. Protus was compelled to respond to both actions in the way it has. Any anomalies that arise as a result will be dealt with at a more opportune time. The Plaintiffs know that Protus is not seeking double recovery and that it is simply a matter of rationalizing two separate actions that raise the same issues. Considering the matter *de novo*, I do not believe that the proposed amendments should be refused on this ground. Neither counterclaim has yet been decided on the merits so that, as yet, no abuse of process has occurred.

8. Did the Prothonotary err in law when she failed to refuse outright amendments that were a radical departure from the original defence and counterclaim and inserted her own form of relief?

[71] The Plaintiffs' fundamental complaint about the amendments is that they constitute a "radical departure" from what is, from the Plaintiffs' perspective, the real basis of these actions: infringement of the patents in issue. The Plaintiffs feel that Protus is attempting to swamp the basic action by raising anti-competitive issues that are simply a means of avoidance and are irrelevant to the main claims.

[72] The simple answer to this is that the Plaintiffs have chosen to commence these actions and Protus is entitled to both defend and counterclaim in any way that grows out of the facts of this dispute. Provided Protus provides the material facts to support its defence and counterclaim, the

amendments cannot be refused simply because they will take these actions in a direction that the Plaintiffs do not want them to go or did not expect them to go.

[73] The Plaintiffs have chosen and asserted the context within which to assert their patent rights against Protus. Naturally, they would like the dispute to be decided on the basis of the issues as they have defined them. But Protus is entitled to defend itself and raise counterclaims. What the Plaintiffs see as a “radical departure” is, from Protus’ perspective, a legitimate defence and counterclaim, provided of course it is not plain and obvious that the defence or counterclaim has no chance of success and so should be struck and provided the defence or counterclaim is not frivolous, vexatious or otherwise an abuse of the process of the Court.

[74] This Court has consistently asserted that amendments to pleadings should be allowed provided that doing so will not cause prejudice to the other party that cannot be compensated by costs.

[75] Prothonotary Tabib expressly followed this approach and found that the Plaintiffs would not suffer prejudice that could not be compensated in costs.

[76] Protus has complained that the Plaintiffs have not properly challenged this finding and have belatedly raised the prejudice issue at the hearing when it is not really a part of their written submissions.

[77] I do not think I need to decide that procedural issue because the Plaintiffs have presented me with no real foundation for their allegation that they will be prejudiced in a non-compensable way by the amendments.

[78] It is certainly true that the introduction of the anti-competitive allegations into these actions will complicate them further and require additional discovery. But that can all be addressed through costs. Behind the Plaintiffs' complaints about a "radical departure" lies the assumption that Protus is not sincere in its anti-competitive allegations and is attempting to raise a further defence and counterclaim in an attempt to distract the Court from the Plaintiffs' infringement allegations. But the safeguards against this are the ones that Prothonotary Tabib has articulated and used. She demanded sufficient material facts to support the allegations, requested further particulars from Protus, and satisfied herself that the Plaintiffs would not suffer a prejudice that could not be compensated in damages. She has also left room for the Plaintiffs to challenge the proposed amendments once particulars have been provided by Protus.

[79] The Plaintiffs' attempts before me to raise "radical departure" as some kind of separate ground to refuse amendments cannot, in my view, be reconciled with the established jurisprudence of this Court of allowing amendments that do not cause non-compensable prejudice, provided they disclose a reasonable defence or cause of action and are not frivolous, vexatious or an abuse of process.

[80] The Plaintiffs may now find themselves confronted by allegations that they do not think they should have to confront. But the Plaintiffs chose to assert their patent rights in a highly competitive market and they cannot be surprised by the strong resistance put up by Protus or Protus' anti-competitive allegations that express its views of what is really occurring in this market. It is not plain and obvious to me at this stage that Protus' allegations are without any real basis or relevance to the claims that the Plaintiffs have chosen to initiate. The Plaintiffs will have the opportunity to challenge those allegations by motion once the particulars are known. Hence, I feel that Prothonotary Tabib's approach was the correct one and should not be countermanded on appeal.

- 9. Did the Prothonotary err in law when she failed to recognize that the proposed amendments were an attempt to circumvent a previous order dated July 4, 2007?**

[81] Prothonotary Tabib was fully alive to this issue and specifically dealt with it in her decision. In my view, her conclusions were entirely correct and, in considering the issue *de novo*, I see no reason to change her approach on appeal.

- 10. Did the Prothonotary err in law in the following ways:**
 - a. By ruling that particulars could resolve the deficiencies in the Defendant's proposed amended pleadings in respect of sections 32, 45 and 61 of the *Competition Act*?**

- b. By putting the onus on the Plaintiffs to advise what particulars may be necessary to sustain the Defendant's proposed allegations, thereby reversing the onus on a motion for leave to amend?**
- c. By ordering that any amended defence and counterclaim with particulars would be allowed without Court scrutiny prior to its acceptance for filing with the Court?**
- d. By disregarding the principle of natural justice and denying the Plaintiffs the right to be heard in respect of the Defendant's proposed amendments?**
- e. By allowing certain paragraphs of the proposed amended defences and counterclaims when the paragraphs referred to a relief upon paragraphs which were not allowed?**

[82] The Plaintiffs point out that the usual procedure when amendments are not allowed is to deny the amendments without leave to amend if there is no reasonable cause of action, or to allow the amending party to move to amend its pleadings currently on the record.

[83] The Plaintiffs complain that, in her approach to particulars, Prothonotary Tabib has departed from accepted practice in a way that is wrong in law and prejudicial to the Plaintiffs because it offends rules of natural justice and the right to a fair hearing and constitutes an excess of jurisdiction in its arbitrariness.

[84] I believe that the Plaintiffs complaints concerning Prothonotary Tabib's rulings and her particularization procedure are based upon a misconception of her findings and the impact of her order.

[85] Prothonotary Tabib's principle finding as regards the allegations of anti-competitive behaviour contrary to sections 32, 45 and/or 61(1)(a) of the *Competition Act* was that "I cannot conclude that the facts alleged could not give rise to a reasonable argument." In other words, she concluded that the Plaintiffs had not established plain and obvious grounds to refuse the proposed amendments and that more was required from both sides before she could make any such determination. She perceived that a reasonable argument could be made by Protus, but that "the allegations of paragraphs 23 to 33 and 36 to 39 of the proposed amendments in T-139-06 and their counterpart in T-140-06, and by extension, paragraphs 42 (c.1), 42 (c.2), 42(f), 49 and 50 of T-139-06 and their counterpart, do not contain sufficient particulars to grant leave to include these amendments in their present form."

[86] Without those particulars, Prothonotary Tabib could not assess the Plaintiffs' arguments for refusing the amendments because of unreasonable claims under the *Competition Act* and insufficient particulars. She could see that Protus was in a position to again move to amend and she wanted to prevent "further protracted interlocutory proceedings" over whether the anti-competitive allegations should rightly become part of the actions. She knew that more was needed to resolve this issue and she wanted "to streamline the process."

[87] In my view, I do not think that she did so in any way that prejudices the Plaintiffs or that was outside her authority as a case-management Prothonotary, and in particular pursuant to Rules 75 and/or 385. Rule 385 (1)(a) specifically empowers a Prothonotary to “give any directions that are necessary for the just, most expeditious and least expensive determination of the proceedings on its merits.”

[88] On the issue of particulars and the procedural order put in place by Prothonotary Tabib, I do not believe I am dealing with a matter that is vital to a final issue in the case so that, in this instance, I should not interfere with the Prothonotary’s decision unless I think she was clearly wrong and based her discretion on a wrong principle or upon a misapprehension of the facts as defined in *Apotex* at 53.

[89] The Plaintiffs say that Prothonotary Tabib should simply have denied the amendments in question. But she herself explains that she could not do this because she could not say “that the facts alleged could not give rise to a reasonable argument.” She needed further particulars to make the correct decision and to allow her to assess the well-foundedness of the Plaintiffs’ arguments for denying the proposed anti-competitive amendments.

[90] She devised what she regarded as the most just, expeditious and efficient way to bring out the particulars needed and to allow the Plaintiffs to make their objections once those particulars were known. I do not see anything unfair or inappropriate about that procedure and, as an exercise of her discretion under the Rules, I cannot say it was clearly wrong.

[91] The procedure requires Protus to properly particularize its proposed amendments and it allows the Plaintiffs to decide whether that has occurred before the matter comes back before the Court. Once the parties have taken the matter as far as they can between themselves, Protus has to serve and file its “proposed” Amended Statements of Defence and Counterclaim.

[92] The Plaintiffs are then perfectly free to attack the amendments by way of a motion to dismiss and/or a motion for further and better particulars. Obviously, Prothonotary Tabib felt that if the Plaintiffs wanted to attack the anti-competitive allegations for some of the reasons raised before her (*e.g.* that section 32 of the *Competition Act* does not apply to services) then this was more appropriately done by way of a full-blown motion to dismiss once all of the particulars were known, rather than as part of an amendment application in which she could not say “that the facts alleged could not give rise to a reasonable argument.”

[93] In my view, this procedure does not deprive the Plaintiffs of a fair hearing and is not a breach of natural justice. Prothonotary Tabib was simply devising the most efficient and appropriate way for both sides to do what they needed to do. Protus wants to bring anti-competitive allegations contrary to the *Competition Act* into the proceedings; the Plaintiffs want to assert that this cannot be done for a variety of reasons that cannot be finally assessed until Protus has provided the particulars for its anti-competitive allegations.

[94] I cannot say that Prothonotary Tabib was clearly wrong in her approach, and even if I were considering the procedure she imposed *de novo* I would not interfere with it.

11. Miscellaneous

[95] Besides the formal framework of objections provided by the Plaintiffs, there are a number of points raised in their materials that require some further comment:

a. Horizontal Entities

[96] The Plaintiffs complain that Prothonotary Tabib failed and/or neglected to address their submissions that 61(1)(a) does not apply because the case at bar is dealing with horizontal entities rather than a vertical distribution network.

[97] As I read the Prothonotary's decision, although this issue or argument is not mentioned specifically it is addressed in her general conclusion that she "cannot conclude that the facts alleged could not give rise to a reasonable argument" and, in accordance with the procedure for further particulars, it is one of the matters that the Prothonotary felt should be dealt with by way of motion in the event that the Plaintiffs may wish to take objection once further particulars are provided.

b. No Material Facts for Counterclaim

[98] The Plaintiffs complain that by moving the material facts that support its Counterclaim to the Statement of Defence Protus has deprived itself of any material facts to support any

counterclaim. The Plaintiffs also say that the reference to the material facts in the Statement of Defence does not cure this defect in the Counterclaim.

[99] This appears to me to be a desperate argument based upon a formality. As Prothonotary Tabib points out in her decision “it is perfectly permissible for a party to plead facts material to a counterclaim by reference to allegations made in the defence part of its pleadings.”

[100] The Plaintiffs provide no authority that suggests Prothonotary Tabib was wrong in this conclusion and it would indeed be strange if a counterclaim were struck merely because, instead of simply repeating the material facts set out in the defence, it referenced them as a basis for the counterclaim.

JUDGMENT

THIS COURT ORDERS AND ADJUDGES that

1. The appeal is dismissed;
2. If the parties cannot agree on costs either party is free to address the Court on the matter.

“James Russell”

Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET: T-139-06 and T-140-06

STYLE OF CAUSE: **T-139-06**
J2 GLOBAL COMMUNICATIONS, INC. v. PROTUS IP SOLUTIONS INC.
and between
PROTUS IP SOLUTIONS INC. v. J2 GLOBAL COMMUNICATIONS, INC. ET AL.
T-140-06
CATCH CURVE INC. v. PROTUS IP SOLUTIONS INC.
and between
PROTUS IP SOLUTIONS INC. v. CATCH CURVE INC. ET AL.

PLACE OF HEARING: Ottawa, Ontario

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REASONS FOR JUDGMENT AND JUDGMENT: RUSSELL J.

DATED: June 18, 2008

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