Date: 20081028

Docket: T-1531-05

Citation: 2008 FC 1210

Ottawa, Ontario, October 28, 2008

PRESENT: The Honourable Mr. Justice Mandamin

BETWEEN:

PURCELL SYSTEMS, INC.

Plaintiff
(Defendant by Counterclaim)

and

ARGUS TECHNOLOGIES LTD.

Defendant
(Plaintiff by Counterclaim)

REASONS FOR ORDER AND ORDER

[1] Purcell Systems Inc. (Purcell) is the owner of Canadian Letters Patent 2,461,029 ("the Patent") issued August 9, 2005 for a telecommunications cabinet described as a "Remote Enclosure Systems and Methods of Production Thereof". Purcell claims the exclusive right, privilege and liberty of making, constructing and vending to others the product as described and claimed in the Patent. Purcell commenced an action against Argus Technologies Ltd. (Argus)

alleging that Argus infringed on its Patent by manufacturing remote door power system enclosures. Argus defended and counterclaimed for a declaration of invalidity of the Patent.

[2] After a series of steps in the lawsuit Purcell filed a discontinuance, and then filed another discontinuance with prejudice (underlining added to differentiate). Purcell then applied to strike the Argus Counterclaim for declaration of invalidity on the basis that Argus was not an "interested person" as required by section 60(1) of the *Patent Act* R.S.C. 1985, c. P-4 (the "*Act*").

[3] The Prothonotary struck Argus' counterclaim accepting Purcell's submission that Argus was no longer "an interested person" because Purcell had discontinued its infringement lawsuit with prejudice. Argus appeals the Prothonotary's decision to this Court.

ISSUES

[4]

1. Is Argus an "interested person" as provided in section 60(1) of the Act?
2. What is the effect of the discontinuance initially filed by Purcell on the subsequent filing of a discontinuance with prejudice?
3. What is the effect of a discontinuance with prejudice on the counterclaim by Argus for a declaration of invalidity pursuant to section 60(1) of the *Act*?

DECISION

[5] I conclude Argus is an interested party and that the filing of a discontinuance with prejudice has no effect on the Argus' Counterclaim for a declaration of invalidity.

PROCEDURAL HISTORY

[6] The relevant procedural steps in this lawsuit are as follows:

1. Purcell's Statement of Claim claiming an infringement of its Patent filed September 8, 2005.

2. Argus' Statement of Defence and Counterclaim seeking a declaration of invalidity of the Patent filed November 4, 2005.

3. Purcell's Reply and Defence to the Counterclaim filed November 14, 2005.

4. Purcell's Notice of Discontinuance filed May 26, 2008.

5. Argus' Notice of Motion for leave to serve and file an Amended Statement of Defence and Counterclaim adding a claim for a declaration of non-infringement of the Patent filed June 18, 2008.

6. Purcell's Notice of Discontinuance with Prejudice filed July 2, 2008.

7. The Prothonotary Ruling that the discontinuance with prejudice deprives Argus of any reasonable cause for a declaration of non-infringement given July 8, 2008.

8. Purcell's Notice of Motion to strike out the Counterclaim for a declaration of invalidity of the Patent filed July 16, 2008.

9. The Prothonotary Order that Argus's Counterclaim be struck out, given August 19, 2008.

10. Argus' Notice of Motion appeal of the Prothonotary Order filed August 29, 2008.

ANALYSIS

Standard of Review

[7] Discretionary orders of Prothonotaries ought not to be disturbed on appeal unless they are clearly wrong in the sense that the exercise of discretion was based on a wrong principle or misapprehension of the facts, or they raise questions vital to the final issue of the case. *Canada v. Aqua-Gem Investments Ltd.*, [1993] 2 F.C. 425 (F.C.A.)

[8] In *Merck & Co., Ltd. v. Apotex Inc.*, 2003 FCA 488, Justice Décary decided that a judge should first determine whether the questions are vital to the final issue; it is only when they are not that the judge needs to engage in the process of determining whether the orders are clearly wrong as being based on a wrong principle or a misapprehension of the facts.

[9] Clearly, the dismissal of Argus' Counterclaim is vital to its final issue; accordingly, I will address the matter *de novo*.

ANALYSIS

Declaration of Non-infringement

[10] Argus applied on June 18, 2008 to amend their Statement of Defence and Counterclaim to include a declaration of non-infringement according to s. 60(2) of the *Act*. The Argus motion was filed after the discontinuance by Purcell but before the discontinuance with prejudice filed on July 2, 2008.

[11] Section 60(2) of the *Patent Act* provides:

60. (2) Where any person has reasonable cause to believe that any process used or proposed to be used or any article made, used or sold or proposed to be made, used or sold by him might be alleged by any patentee to constitute an infringement of an exclusive property or privilege granted thereby, he may bring an action in the Federal Court against the patentee for a declaration that the process or article does not or would not constitute an infringement of the exclusive property or privilege. (underlining added)	**60.** (2) Si une personne a un motif raisonnable de croire qu'un procédé employé ou dont l'emploi est projeté, ou qu'un article fabriqué, employé ou vendu ou dont sont projetés la fabrication, l'emploi ou la vente par elle, pourrait, d'après l'allégation d'un breveté, constituer une violation d'un droit de propriété ou privilège exclusif accordé de ce chef, elle peut intenter une action devant la Cour fédérale contre le breveté afin d'obtenir une déclaration que ce procédé ou cet article ne constitue pas ou ne constituerait pas une violation de ce droit de propriété ou de ce privilège exclusif.

[12] Purcell opposed the Argus Motion to amend its pleadings in order to seek a declaration of non-infringement. In making his order, the Prothonotary made the following findings:

> a. A 'discontinuance' by definition is a voluntary dismissal. *Black's Law Dictionary*, 7th Ed,
> b. A 'dismissal with prejudice' barrs a plaintiff from prosecuting any later lawsuit on the same claim. *Black's Law Dictionary*, 7th Ed,
> c. by relying on the above stated definitions, Purcell is barred in the future to take an infringement action against Argus with respect to the products in issue. If Purcell were to try and bring an action Argus could raise the defense of *res judicata*.

[13] The Prothonotary was of the view that the effect of the discontinuance with prejudice was such that Purcell could not bring a fresh action for infringement against Argus that involved Argus' products in the action based on the events or activities occurring after the date of the second discontinuance with prejudice. The Prothonotary observed that were Purcell to try otherwise, Argus would be in a position to raise a defence of *res judicata*.

[14] The Prothonotary ruled that the Argus amendment could not be made because Purcell's second discontinuance, having been filed with prejudice, deprived Argus of any reasonable cause of action under subsection 60(2) of the *Act*.

Declaration for Invalidity

[15] Purcell then brought the motion to strike the Argus Counterclaim for a declaration of invalidity. Purcell submitted that, because the main action was discontinued with prejudice, Argus had no reasonable cause of action for a declaration of non-infringement under section 60(2) of the *Act*. Purcell argued that Argus similarly had no reasonable cause of action to seek a declaration of invalidity under section 60(1).

[16] Purcell made the further argument that while the test for what constitutes an interested person under section 60(1) of the *Act* is broad, the court must have regard to the circumstances, specifically: the filing of the discontinuance with prejudice and the conclusion by the Prothonotary that Purcell was barred from bringing a fresh action of infringement. In such circumstances Purcell submits, the fact that Argus is a competitor and deals with the same type of products is not sufficient. Purcell submits a policy underlying section 60(1) and 60(2) of the *Patent Act* is to preserve the court's time and resources in setting restrictions on a party's right to sue.

[17] Purcell argues that the principle of *res judicata* and issue estoppel are relevant. Purcell submits that since its action was discontinued with prejudice, and since it is now barred from commencing a further action against Argus for infringing the Patent, Argus no longer can show it

has an interest in seeking the invalidity of the Patent. The Prothonotary accepted Purcell's representations and granted the order to strike the Argus Counterclaim.

ANAYLYSIS

Section 60(1) of the Patent Act

[18] Section 60(1) of the *Act* states that "a patent or any claim in a patent may be declared invalid or void by the Federal Court at the instance of the Attorney General of Canada or at the instance of any interested person".

[19] The Supreme Court of Canada has examined the meaning of "interested person" and held that a party engaged in the design and manufacture of similar products and a trader in articles similar to the alleged invention has sufficient interest. *Bergeon v. De Kermor Electric Heating Co.*, [1926] S.C.R. 72.

[20] In *E.I. Du Pont de Nemours and Co. v. Montecatini-Societa Generale per L'ndustria Mineraria e Chimica*, [1966] Ex.C.R. 959, Justice Gibson decided that "interested person" in section 62(1) of the *Patent Act*, R.S.C. 1952, c.209 (equivalent to the section 60(1) of the current *Patent Act*, R.S.C. 1985, c.P-4.) has wide meaning. In addition to *Bergeon* he canvassed the following cases:

> In *Refrigerating Equipment Ltd. v. Drummond et al.* [1930] Ex. C.R. 154, the court found:
>
> where an individual is using an invention in respect of which another person claims to have a patent, which the unlicensed user believes to be invalid; or where a person is desirous of using anything described

> in a patent, but which patent he has reason to believe is void, then he has such an interest as to qualify him to initiate proceedings to annul such letters patent; and is a person "interested" within the meaning of the Rules of this Court.
>
> In *Hall v. B. & W. Inc.* [1952] Ex. C.R. 347 the court found: "it was enough to show that it was engaged in dealing with the same kind of thing as the defendant and was in competition with it".
>
> In *Application for Revocation of White's Patent,* [1957] R.P.C. 405, the court stated:
>
> > I know of no authority which would justify me in proceeding upon the basis that only an admitted infringer can in fact petition, either in the sense that he is already engaged in a manufacture which constitutes an infringement, or alternatively that he is anxious to embark upon a manufacture which constitutes infringement. Indeed, it is plain that the right to petition for revocation is not limited to actual or potential infringers, because the grave embarrassment that would be caused to trade and industry by the presence of a Patent subsisting is clear enough, most particularly in cases where the document is so ambiguous that it is quite impossible for anybody, including the Court, to tell whether or not a manufacture carried on by a petitioner is or is not an infringement.

[21] Justice Gibson came to the view that the wording of the pleadings which claimed that the plaintiff did not have the freedom to manufacture, use, or sell the products covered by the patent, gave the plaintiff status to maintain an action as an interested party within the meaning of section 62(1) of the *Patent Act,* R.S.C. 1952, c. 209.

[22] Finally, in *Hercules Inc. v. Diamond Shamrock Corp.* [1970] Ex. C.R. 574, the court held that the defendants were not restricted to impeaching only those claims allegedly infringed

notwithstanding that the plaintiffs sought to restrict their claim of infringement. The court held that "it must follow that where a person has been sued for infringing one claim he must be assumed to be a person with sufficient interest to attack all the other claims to make him an "interested person" for that purpose."

[23] On the pleadings before me it is clear that both Purcell and Argus are in the same business.

[24] A careful reading of section 60(2) shows that the application for declaration of non-infringement is based on the presence, or the possibility, of an action for infringement. However, a reading of section 60(1) discloses different language: the language of this subsection is not cast in terms of a lawsuit or a possible lawsuit.

[25] The wording of section 60(1) is broadly stated in keeping with the purpose of the patent legislation. Section 60(1) balances grants of patent protection for individuals who invent, enabling them to economically profit by their creativity, with safeguards against invalid patents whose existence would stifle economic activity. The *Act* accomplishes this balance by bestowing upon the Attorney General and any interested person status to apply to the Federal Court for a declaration of invalidity of questionable patents.

[26] The circumstances in which a section 60(2) application may be made do not require the presence or the potential for an action for infringement. Rather the *Act* requires a person be an "interested person" and that term is given broad meaning as discussed in the above decisions.

[27] In my view Argus is an interested person under section 60(1) for the following reasons:

> Firstly: Argus is engaged in the manufacture and trade of telecommunications cabinet boxes similar to those Purcell manufactures and trades. The two companies are in competition with each other;
>
> Secondly: Notwithstanding that Purcell argues it has precluded itself from suing Argus for infringement of its patent for telecommunication cabinets, Argus is still affected. While it may not be sued, Argus must market its product to customers and those customers may have reservations about buying the Argus product because another party is the patent holder.

[28] Given the broad meaning of the words "interested person" and given that Argus is involved in a similar business and is impacted by a patent being held by Purcell, I conclude that Argus is an interested party for the purposes of section 60(1).

Discontinuance

[29] Purcell filed a discontinuance on May 26, 2008. The effect of the discontinuance is to bring an end to Purcell's lawsuit.

[30] Rule 190 of the *Federal Court Rules*, S.C. 2002, c.8, provides that a counterclaim may proceed "notwithstanding that a judgment has been given in an action or the action is stayed, or discontinued" (underlining added). Accordingly, notwithstanding Purcell's discontinuance, the

Argus Counterclaim was still before the Court after Purcell filed its discontinuance on May 26, 2008.

[31] A discontinuance may be filed by a party under Rule 165 without leave of the Court or consent of the other party. However, the party that filed the discontinuance is not barred from bringing another action in the same matter. Unlike a dismissal by the Court, which is final, a discontinuance leaves the issue open and is not a bar to future proceedings on the same issue. *Chretien v. Canada (Attorney General)*, 2005 FC 925 at para 51, *Drapeau v. Canada (Minister of National Defence)*, (1996) 119 F.T.R. 146 at para 16.

[32] The effect of the discontinuance is to terminate Purcell's action. *Chretien* at paras 50, 60. In the instance of an action discontinued by an unauthorized filing by counsel, the Court reinstated the action by reference to Rule 359(1) which provided for removal of documents from the Court file if filed without adequate authority and, alternatively, by reference to the Court's inherent jurisdiction. *Noranda Forest Sales Inc. v. PCL European Service Ltd.* [1976] 107 F.T.R. 186.

[33] I have not been provided with any case law that would support the proposition that a further step may be taken by a party in an action they previously discontinued. In my view, a party is not entitled to take further steps in an action it has discontinued except with leave of the Court or in response to issues lawfully raised by the other party in the action such as on a question of costs.

[34] I conclude that Purcell's filing of a second discontinuance with prejudice has no legal effect because Purcell's lawsuit came to an end with its filing the first discontinuance.

Discontinuance with Prejudice

[35] A different legal result might arise with an initial filing of a discontinuance with prejudice. The Prothonotary had reasoned that a discontinuance with prejudice removes the case from the court's docket in such a way that the plaintiff is barred from filing suit again on the same claim or claims. The source for this interpretation rests on United States Federal civil procedure. In *Gilbreath, et al. v. Brewster, et al*. 250 Va. 436; 463 S.E.2d 836; 1995 Va. LEXIS 146, Justice Sheridan stated that a discontinuance with prejudice is conclusive of the rights of the parties, as if the case was concluded adverse to the plaintiff, and not only terminates the particular action, but also terminates the right of action upon which it is based.

[36] Deciding as I have with respect to the issues of the interpretation of an "interested party" and the effect of the first discontinuance, I need not delve into the interesting question of what would be the legal effect of a discontinuance with prejudice.

DECISION

[37] I conclude that the Prothonotary's order was made on a wrong principle with respect to the effect of a discontinuance with prejudice and must be set aside. The Argus counterclaim is reinstated and Argus may proceed with its counterclaim for a declaration of invalidity of the Patent.

ORDER

THIS COURT ORDERS that

1. The Appeal is granted.

2. The counterclaim by Argus is reinstated.

3. Costs for the motion before the Prothonotary and this appeal are awarded to Argus.

"Leonard S. Mandamin"
Judge

FEDERAL COURT

SOLICITORS OF RECORD

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