

Date: 20090626

Docket: T-1577-07

Citation: 2009 FC 668

Ottawa, Ontario, June 26, 2009

PRESENT: The Honourable Mr. Justice Lemieux

BETWEEN:

AIR CANADA

**Plaintiff/
Defendant by Counterclaim**

and

AIS INFONETICS INC.

**Defendant/
Plaintiff by Counterclaim**

REASONS FOR ORDER AND ORDER

Introduction and Background

[1] By motion dated December 18, 2008, AIS Infonetics Inc. (AIS) requests an interlocutory order of this Court enjoining Air Canada to tender in this Court, for AIS' sole benefit, several million dollars as security for damages, which the Federal Court may award AIS in a lawsuit, initiated on August 28, 2007 by Air Canada (AC), seeking declarations of invalidity and non-infringement in respect of Canadian Patent 2,035,767 (the '767 patent) entitled "Automatic Ticket Dispensing System", owned by AIS.

[2] This motion focuses on the '767 patent in relation to AC's self-service check-in system, operationalized through check-in self-service kiosks (the kiosks), which first made their appearance at Canadian airports in 1998 and has seen exponential growth since then.

[3] The essential purpose of the self-service check-in kiosks is to automate the services which Air Canada Customer Service Agents (the agents) still provide to Air Canada ticket holders (E. tickets included) when checking-in at the airport. Those services are: 1) the issuance of a boarding pass; 2) change in same day flight departure; 3) baggage registration; 4) seat selection or modification; and, 5) payment, if any, of service fees associated with the above services.

[4] Air Canada ticket holders may use two types of kiosks at an airport in Canada to obtain an AC boarding pass: 1) AC dedicated kiosks which only serve Air Canada ticket holders (the AC kiosks) and, 2) Common-Use Self-Service (CUSS) kiosks operated by airport authorities which allow a number of airlines, including Air Canada, to offer their check-in facilities on the same self service kiosk (the CUSS kiosk).

[5] As noted, AIS is the owner of the '767 patent. The inventor of the patent is Douglas Huegel. He is the President and sole shareholder of AIS. He is the '767 patent's inventor. The '767 patent was filed on February 6, 1991, issued in 1995 and will expire on February 6, 2011. Neither AIS nor Mr. Huegel has commercialized the invention claimed in the '767 patent.

[6] The '767 patent has two independent claims: Claim 1 related to hardware and claim 14 dealing with software. The other claims, in the '767 patent, are dependent claims on either claim 1

or 14. Claim 1 states the embodiment of the invention is “a self-serving terminal for selecting and dispensing tickets, to a user, for anyone of a plurality of events, on the basis of a plurality of parameters, each parameter having a plurality of elements, each event being held in any one of a plurality of locations, a plurality of location processors equal to the plurality of locations, each location processor being associated with a respective one of said locations”. Claim 1 goes on to say each self-serving terminal comprises a central processor, with an associated video display device having a display screen, a memory to store data on the plurality of events and a plurality of locations, programmed to permit a user to select one or more tickets for anyone of said events to be held at a pre-determined time at anyone of the locations and programmed to receive payment for the selected tickets and further programmed to dispense the selected tickets.

[7] Claim 14 is essentially written in the same language as claim 1, but speaks to “a method of selecting and dispensing tickets to a user at anyone of a plurality of stations for anyone of a plurality of events”.

[8] The dispute between Air Canada and AIS originated with a June 16, 2007 letter, from AIS’ lawyers to Air Canada’s General Counsel, claiming AC’s self-service check-in system, operated by the AC or CUSS kiosks, violated the '767 patent. AIS offered to negotiate a licence with appropriate royalties. On June 22, 2007, Air Canada’s counsel responded by stating Air Canada was investigating the matter but indicating, that at first glance, the kiosks used by Air Canada “do not seem to fall within the scope of the claims described in your client’s patent”.

[9] Air Canada then contacted outside a patent counsel, who advised AIS' lawyers they had been retained to examine the infringement issue and would respond by mid-August. Air Canada's patent counsel then asked for another month's delay which was refused. AIS' lawyers set the deadline for AC's response at the end of August 2007.

[10] On August 28, 2007, Air Canada provided its answer with the filing of its statement of claim in this Court seeking:

1. a declaration, under section 60 of the *Patent Act*, the AC and CUSS kiosks do not infringe the '767 patent;
2. a declaration that the use of those kiosks do not infringe the '767 patent;
3. a declaration that the '767 patent is invalid; and,
4. an order expunging the '767 patent from the Canadian Patent Office records.

[11] In essence, Air Canada alleges the '767 patent is directed to a system for selecting and dispensing tickets for events (i.e. a sports event, a concert, a play, a showing at a museum) where events are held at different locations (i.e. sports arenas, theatres, museums, etc.).

[12] AC says its AC or the CUSS kiosks, accessing directly to the AC reservation system, allow a traveller, who has already made a reservation and purchased a ticket for a specific flight, to obtain automated check-in services. The kiosks do not dispense AC tickets nor are they equipped to receive payment for such tickets. They enable the AC traveller to obtain a boarding pass and associated services for a reserved flight which has been paid for.

[13] On September 25, 2007, AIS replied and counterclaimed by alleging the '767 patent is valid and has been infringed by AC.

[14] After the pleadings were closed, a protective order was put into place. On April 30, 2008, Prothonotary Morneau issued a bifurcation order pursuant to Rule 107 of the *Rules* at AC's request but opposed by AIS. As a result, the question of damages or accounting for profits, if infringement is made out, is to be determined after the liability issues are finally decided.

[15] At the hearing of this motion, the Court was informed discoveries have been held and the undertakings largely satisfied. A pre-trial conference will be requested shortly.

The Motion

[16] AIS' motion seeks security for damages payable to it by Air Canada in the event its counterclaim is successful, namely, in the event Air Canada has violated the '767 patent and damages or an accounting for profits have been assessed against the airline. AIS' motion was supported by Mr. Huegel's affidavit which was sworn after he had been examined in discovery. He was cross-examined on his affidavit and on consent extracts of his discovery were also filed.

[17] Specifically, AIS stated its motion is for:

1. Interlocutory Injunction enjoining plaintiff/defendant by Counterclaim Air Canada to:

- 1.1. prepare, serve and file, within thirty (30) days of the Order to intervene on this Motion, a statement of the number of transactions it has processed through the use of the self-service kiosks it has identified as the AC/CUSS kiosks in its Statement of Claim, from January 1, 2005 until the date of the Order to intervene on this Motion.
 - 1.2. tender with this Court for the sole benefit of the defendant/plaintiff by Counterclaim AIS Infonetics Inc. a sum of thirty cents (\$0.30) per transaction for the period covered in 1.1 above.
 - 1.3. prepare, serve and file a statement of the number of transactions it processes through the use of the self-service kiosks it has identified as the AC/CUSS kiosks in its Statement of Claim, every three months following the date of the Order to intervene on the present Motion and tender with this Court, on the date of filing of the statement, for the sole benefit of defendant/plaintiff by Counterclaim AIS Infonetics Inc., the sum of thirty cent (\$0.30) per transaction until the expiry of Canadian Letters Patent 2,035,767.
2. Declaration to the effect that:
- 2.1. the money tendered in accordance with the Order to intervene on this Motion shall be held exclusively for the benefit of defendant/plaintiff by Counterclaim AIS Infonetics Inc. in order to warrant the payment of any monetary award it may be granted on the merits of this case and may not be removed by the plaintiff/defendant by Counterclaim Air Canada without an Order of this Court.

3. Relief in the case of a default on the part of Air Canada in respect to the Orders above as follows:

3.1 in the event Air Canada defaults on its obligations set out in conclusion 1 above, it shall immediately disable its self-service kiosks until such time as it has complied with its obligations under the Order to intervene, the whole under reserve of the usual rights and recourses associated with a default in respect of an Order of this Court.

4. Order granting costs on the present Motion in case of contestation.

[18] Air Canada's motion was supported by a number of affidavits but principally by those of:

a) Pierre House, Air Canada's Treasurer; b) Patrice Ouellette, Director, Customer Service Platform for Air Canada; and, c) Charles Plamondon, a consultant retained by Air Canada, who provided an opinion of non-infringement of the AC and CUSS kiosks in relation to the '767 patent.

[19] Only Patrice Ouellette was cross-examined but not in his affidavit; instead, on consent, the transcript of Patrice Ouellette's discovery was filed.

[20] The central issues, which emerged from the arguments, were:

1) What is the proper test to determine serious issue, in the context of a request a party be compelled to deposit into Court security for damages, in the current factual context the

parties find themselves in the litigation, where liability against Air Canada has not been determined and if found liable for infringement of the '767 patent, where damages or an accounting for profits has not been assessed? Counsel for AIS argues the proper test is set out in the Supreme Court of Canada's decision in *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311, namely an arguable case, one which is not frivolous or vexatious. Counsel for Air Canada argues the test for serious question is higher than that – AIS must show a strong *prima facie* case of infringement by Air Canada of its '767 patent. In any event, counsel for Air Canada argues AIS has not even met the lower threshold.

- 2) The second main issue, which separates the parties, is irreparable harm. AIS argues Air Canada's current and projected financial situation in the near term is such AIS has a reasonable basis for asserting it will not be able to collect damages from Air Canada down the road. Air Canada's counsel answers by stating Air Canada is meeting its current obligations and its financial health is not in peril. In any event, it would be contrary to the law for AIS to seek a preference of its possible position vis à vis other creditors.

The evidence

1) On behalf of AIS

The affidavit of Douglas Huegel

[21] Mr. Huegel's affidavit was sworn on December 15, 2008. He is the President and sole shareholder of AIS which owns the '767 patent. He was educated in the United States obtaining a Doctorate in Science Education in 1975 from Columbia University, taught physics and mathematics

in East Africa, in the United States and at Dalhousie University until around 1980 when he left teaching to go into business.

[22] He states by the time he filed the '767 patent application in February 1991, he had accumulated ten years of solid experience in the computer science and electronic fields including creating tourist information kiosks placed in hotels, a computerized game to be used by tourists discovering the Montreal subway system and the design of mixed media broadband information systems for convention centers, amongst others.

[23] He confirms AIS has not commercialized the inventions disclosed in the '767 patent and AIS has no commercial activity to speak of. He earns his livelihood as a consultant for companies who require advice on research and development tax credit claims filed with Revenue Canada. He asserts in the mid-nineties it was more difficult technologically than it is today to implement the inventions disclosed in the '767 patent. He notes the increase in computer power and improvements in the infrastructure supporting the Internet.

[24] His affidavit then speaks to Air Canada's activities which he says "are fairly recent and I had cause to suspect they were occurring some time in 2005". He appends as Exhibit DH2 to his affidavit a very short extract from page 63 of Business Week, July 4, 2005, about Jet Blue's self-service check-in kiosks "designed to make it easy, fast and almost enjoyable to check into Jet Blue". He says after seeing the Business Week article, he started paying more attention at airports throughout his travels which led him to discover IATA (International Air Transport Association) had developed the CUSS kiosks. He appends IATA material as an Exhibit to his affidavit. He then

asserts, based on the material he consulted concerning the AC kiosk and AC's statement of claim in these proceedings, "the basic platform for the Air Canada kiosk is based on the CUSS platform".

[25] Mr. Huegel next sets out the information he gathered from public sources in 2005, 2006 and 2007 to determine to what extent AC's kiosks were exactly like the CUSS kiosk and, in particular, the advantages of airline self check-in kiosks especially when associated with an online ticketing system.

[26] He describes the costs savings generated through the kiosk self check-in system as contrasted with the cost associated with a check-in with the assistance of a Customer Service Agent: \$0.16 for the kiosk versus \$3.50 - \$3.70 via an agent leading to per kiosk check-in savings of between \$2.50 US or \$3.00 CAD at then current exchange rates.

[27] After describing the Federal Court proceedings, his affidavit discusses "the Air Canada kiosk and the Patent". He refers to Mr. Ouellette's examination for discovery and undertakings which is confidential at this point in time. He asserts:

"I can however affirm that Air Canada's use of the kiosks that are complained of in these proceedings and the potential for Air Canada have increased and will increase over the next couple of years. Just one example of how this statement is supported is found in an article published on the website of International Business Machines (IBM) on June 18, 2008. Now shown to me and marked as Exhibit DH-12 to this my affidavit is said article of June 18, 2008 entitled "Air Canada is an early arrival in providing the next generation of self-service salutations" (the IBM article).

[28] He says Mr. Ouellette agreed with the contents of the IBM article and adds:

33. The article describes the technology platform as a “thin client” solution. This thin client solution is combined with standardized backend technology. This simply means that most of the computing is not done in the actual kiosks themselves but in a larger computer, which has been my understanding all along.
34. Air Canada is said to have an industry-leading, self-service infrastructure to fundamentally change its business model and is said to have become the first airline to offer its services on an “à la carte” basis. It also refers to the capacity of Air Canada to lead the airlines industry’s next big trend, deploying off-site kiosks in hotels, car rental agencies and other travel sites.
35. The article even suggests that this new strategy, central to which is the use of the kiosks that we claim infringe upon the '767 patent, actually allowed the company to emerge from its previous bankruptcy proceedings in 2003. Air Canada is said to have broken from standard industry practice of bundling services and offering them on an “à la carte” basis and that to do so, they had to make a dramatic enhancement and expansion of its self-service capabilities. The article clearly states that kiosks play an important role in this plan.

[29] Mr. Huegel quotes from the IBM article to provide the technical details of Air Canada’s self-service kiosks check-in.

[30] Mr. Huegel has a chapter in his affidavit headed: “Air Canada is profiting from the patented technology”. Premised on Air Canada’s kiosks being an infringement of the '767 patent, he states the savings which AC will derive from the infringement are \$3.00 per transaction. He says AIS lacks bargaining power unless the Order sought in the motion is granted. He concludes the point by stating:

40. As appears from the Statement of Defence that was filed by AIS, the grounds of non-infringement alleged by Air Canada have been carefully responded to. While I am not an expert in patent law, I do have the necessary experience and scientific knowledge to comfortably assert that much of this case and will boil down to interpreting a couple of key terms used in the claims in the patent.
41. This article cited above shows that the key functionalities of the kiosk set out in the claims are definitely present in the Air Canada kiosks or easy to implement.

The IATA documents further allow us to ascertain the basic structure of the kiosks. As such, I am convinced that AIS has more than a reasonable chance of success in this case. In addition, Air Canada has not taken any Motion to strike any portion of the Statement of Defence and cross-claim for patent infringement of AIS, nor has it taken any proceedings to dismiss all or part of the conclusions by summary judgment or otherwise. [My emphasis.]

[31] The last subject matter Mr. Huegel deals in his affidavit is entitled: “Ability to pay and the levelling of the playing field.” He makes a number of points:

- The AC/CUSS check-in kiosks are high volume producers – approximately 138,634 check-in kiosk transactions per typical business week representing 42% of eligible passengers, 7.2 million transactions a year and savings of \$21 million per year and it has been over two years that Air Canada started using the kiosks. At a royalty of 10% of AC “profit” this would result in an award of \$8 million if the '767 patent’s expiry date is taken into account.
- Information which he received “from several sources” has convinced him “Air Canada would not have the capacity to pay the damages to which AIS would be entitled in the event AIS wins this case”. His basis for saying this are: (1) AC’s 2003 recourse to creditor protection under the CCAA; (2) if there was recourse to proceedings under the *Bankruptcy Act*, there would be a stay of AIS’ infringement counterclaim; (3) his examination of AIC 2008 Q-3 results as compared to its 2007-Q-3 results which shows its financial situation has worsened; (4) various reports sourced from the Bloomberg news website; (5) AC’s own press releases which show AC recognizes it has a liquidity problem; and (6) ACE Holdings move towards dissolution after distributing its AC shares.

2) On behalf of AC

(a) Affidavit of Pierre Houle

[32] As noted, Mr. Houle is AC's Treasurer. He is responsible to ensure AC maintains sufficient liquidity to meet its financial obligations. He is responsible for AC's financing and banking transactions as well as AC's relationship with rating agencies. He challenges, as being ill-founded, Mr. Huegel's assertion that in the light of its current financial situation "Air Canada would not have the capacity to pay the damages to which AIS would be entitled in the event AIS wins this case".

[33] Mr. Houle provided the following reasons to dispute Mr. Huegel's allegation:

- 1) The difference in AC's operating income from 2007 third quarter compared to 2008 third quarter, was caused by record high fuel prices in 2008 – a 49% increase compared to 2007 Q-3. This fuel increase was unexpected and rapid which did not allow AC to adapt to the new cost environment immediately, for example, by adjusting its liquidity on such short notice.
- 2) For 2008 Q-3, AC had a solid revenue growth of \$121 million dollars.
- 3) AC has completed financing transactions to increase its short term and longer term liquidity. These financing transactions consisted of: (a) an agreement on December 1, 2008 with Aeroplan for accelerated payment terms on the issuance of rewards ticket; this agreement is similar to those entered by certain U.S. airlines with banks who manage their frequent flyer programs; (b) on December 22, 2008, a \$95 million secured loan agreement with two large

European banks; (c) on December 24, 2008, a series of secured financings with GE Capital valued at approximately \$238 million; and, (d) on December 31, 2008, the entry of a secured revolving credit facility with the CIBC of up to \$100 million in revolving credit.

- 4) Mr. Houle concluded on this improved liquidity as follows: “The above transactions have improved AC’s short term and longer term liquidity and there is no basis by which to conclude that AC would not be in a position to meet its ongoing financial obligations.”

- 5) He appended to his affidavit three reports from analysts at UBS, Merrill Lynch (ML) and Canaccord Capital (Canaccord) commenting favourably on AC liquidity boost showing “it is adequate to weather the economic downturn in the near-term” (UBS); “not only do these transactions improve the carrier’s liquidity position, but they also highlight the financial flexibility that Air Canada has despite the turmoil in the financial market” (ML) and “we now have a strong belief that Air Canada’s liquidity concerns have been dealt with leaving the airline in good shape to get through as a profitable airline assuming WTI (fuel oil) remains at these low levels” (Canaccord).

- 6) He noted (as at January 29, 2009) substantial declines in the trading price of crude oil (from \$145.29 to \$41.58).

- 7) He opined ACE’s wind-up plan in terms of share transfers “will have no impact whatsoever on AC’s actual and future liquidity, nor on its capacity to meet its financial obligations”.

8) He stated he was “unaware of any material supplier having changed its usual payment terms with AC, based on the belief that AC will not have the capacity to make payments at term”.

(b) Affidavit of Patrice Ouellette

[34] As noted, Mr. Ouellette is Director, Customer Service Platform since April 2006. In that capacity, he is familiar with AC check-in services at airports including AC self-service check-in kiosks at Canadian airports. The thrust of his affidavit deals with reservations and ticket purchase.

[35] At paragraph 6 of his affidavit, he described the steps to board an AC flight in the following terms:

“To be allowed to travel as a passenger on an AC flight, a person must go through different steps which can be categorized as follows:

- Making a travel reservation, purchasing a ticket and having said ticket issued;
- Checking-in for the flight;
- Going through the required security screening process; and
- Submitting a boarding pass at the boarding gate prior to boarding the aircraft.”

[My emphasis.]

[36] He describes how a passenger makes a reservation, by providing information as to identity, place of departure, place of destination, type of ticket class and scheduled departure date upon which a booking reference is assigned to that reservation, which is stored digitally in the AC reservation system. He states: “A reservation must have been made prior to check-in.” He then

describes the AC reservation system as one which has existed “in a centralized computer form since the late 1960’s or early 1970’s storing digital information on travel reservations which can be queried by customer service agents from a computer terminal at the AC Call Center, at a check-in counter at an airport that is linked to the AC reservation system, or by a self-service check-in kiosk also linked to the AC reservation system”.

[37] He then describes the ticketing function stating a ticket is purchased generally at the same time as the reservation is made; upon purchase the ticket is issued with its number imputed in the AC reservation system. He writes: “A ticket, whether in paper form or in electronic form, must always be purchased prior to check-in.”

[38] At paragraph 14 of his affidavit, he describes check-in in these terms:

Passengers holding tickets and a reservation for an AC flight are required to check-in prior to the departure of their flight. The main purpose of check-in is to verify and confirm that a passenger checking-in for a flight has a valid reservation and has paid for that flight. This is done by verifying a passenger’s identity information and comparing it with the associated travel information recorded in the AC reservation system. If a passenger has not purchased a ticket prior to checking-in, he/she is re-directed to an AC ticket counter to pay for the travel and have a ticket issued. Likewise, if the passenger does not have a reservation, he cannot use the ticket or check-in. [My emphasis.]

[39] He then deals with traditional check-in performed by airline personnel at check-in counters where, the Agent using a computer linked to the AC reservation system to determine if the reservation was made and the travel was paid for and, if everything is in order, will issue a boarding pass to the passenger for his/her flight. He states: “Reservations cannot be made and tickets cannot be purchased at traditional check-in counters.”

[40] At paragraph 16 of his affidavit, Mr. Ouellette describes certain services offered to passengers at traditional check-in counters including but not limited to:

- Registering baggage that is to go in the aircraft's cargo hold;
- Selecting seats or requesting a seat assignment modification;
- Requesting an earlier departure;
- Requesting certain same-day changes, including:
 - A later departure on the same day (e.g. after missing a flight),
 - A direct flight instead of a connecting one,
 - A change of connecting city,
 - An upgrade in the class of travel.

Same-day changes are for the same day only. For example, the scheduled departure day cannot be changed at check-in. The same goes for a change in destination, for example.

Some passengers (e.g. unaccompanied minors) can only use traditional check-in, and certain services (e.g. a special meal or a wheelchair) must be requested prior to checking-in.

[41] He notes that service fees may be associated with certain of the services available at traditional check-in counters and these charges must be paid for by passengers at check-in.

[42] Mr. Ouellette then addresses the self-service check-in kiosks which allows "passengers to accomplish all or some of the check-in functions for their flights by themselves" in order to accelerate the check-in process and reduce waiting time at check-in counters. He says "self-service

check-in kiosks automate the routine functions of check-in traditionally performed by airline personnel and essentially replace check-in agents”.

[43] After explaining what distinguishes the AC self-service check-in system from the CUSS kiosks, he identifies the services which are available at AC/CUSS kiosks stating the services available at traditional check-in are also available at the AC/CUSS kiosks and are subject to the same limitations: (1) Prior reservation must have been made and a ticket paid and issued before using the check-in kiosks which cannot perform those two functions; (2) If a reservation has been made and a ticket issued the passenger can use the check-in kiosks by providing, for example, the booking reference which then enables the kiosk to transmit the request for a boarding pass to the AC reservation system; and (3) If all is in order, the AC reservation system transmits to the AC/CUSS kiosk the flight information associated with the reservation including a preliminary seat assignment.

[44] Mr. Ouellette notes the AC/CUSS kiosk enables a passenger with a reservation and an issued ticket to request an earlier departure because the kiosk is linked to the AC reservation system. He also notes the kiosk determines whether there is a fee associated with check-in services. The amount of the fee will be displayed and can be paid for by charging it to the credit card used to purchase the ticket or by using the magnetic swipe card reader of the AC/CUSS kiosk. At the end of the check-in process, the kiosk prints and dispenses a boarding pass to the passenger.

[45] He concluded his affidavit by identifying the following allegations in Mr. Huegel’s affidavit sworn on December 15, 2008 to be inaccurate:

- 1) At paragraph 6, Mr. Huegel stated: “The activities complained of in the crossclaim of AIS are “fairly recent”... Mr. Ouellette counters that AC’s self-service check-in is not “fairly recent”; the kiosks were deployed at Canada airports beginning in 1998.”

- 2) It is inaccurate for Mr. Huegel to state that Exhibit DH-12 (the IBM article) and the IATA documents show the key functionalities of the kiosk “set out in the claims are definitely present in the Air Canada kiosks or easy to implement” and that the IATA documents “further allow use to ascertain the basic structure of the kiosks. As such, I am convinced that AIS has more than a reasonable chance of success in this case”. Mr. Ouellette replies:

“The documents referred to (the IBM article and the CUSS kiosk specifications from IATA) do not contain a sufficient description of the AC self-service check-in system to allow a comparison with the claims of the patent.”

- 3) He says:

“Mr. Huegel alleges at paragraph 35 of his Affidavit that “Air Canada is said to have broken from standard industry practice of bundling services and offering them on an “à la carte” basis and that to do so, they had to make a dramatic enhancement and expansion of its self-service capabilities.”

and responds:

“The article clearly states that kiosks play an important role in this plan.” AC does offer a wide variety of fare types, each being associated with fewer or more travel options, but these are selected at the time of ticket purchase and have nothing to do with self-service check-in. It is simply a convenient way of selling travel to customers by allowing them to view more easily the options and various fares available and include or exclude certain options, depending on how much they wish to pay for their ticket.”

[46] His overall conclusion headed “Previous reservation and ticket required” reads:

“AC/CUSS kiosks do not allow passengers to make a reservation or to purchase a ticket, nor do they dispense tickets. They pertain to the check-in process, not reservation or ticketing.”

(c) Affidavit of Charles Plamondon

[47] Charles Plamondon is a consultant and is currently Vice President – Development and Systems Integration at SSQ, Société d’Assurance-Vie Inc., where he is responsible for a team of 80 computer systems developers and 30 consultants. He obtained a Bachelor’s degree in Computer Engineering from Laval University in 1987. He has been involved in computer systems since 1986 and with ticketing systems since 1993. In particular, from 1997 to 2000, he was Director of Technology Development at CONCEPT ÉLECTRONIQUE MICROFLEX INC., which was acquired by TICKETMASTER, the world’s leading live entertainment ticketing company. He worked for TICKETMASTER from 2000 to 2007 and from 2003 to 2007 and was Senior Vice-President and General Manager of the MICROFLEX Division, where he was responsible for the operations of the Quebec Division, including software development and support for its ticket distribution system for Quebec, Las Vegas and Scandinavian markets.

[48] His mandate from AC’s solicitors in this proceeding was to:

- Review Canadian Patent number 2,035,767 (the “767 patent”);
- Review the AC self-service check-in system which is the subject matter of this lawsuit; and,
- Determine if any one of the claims of the '767 patent encompasses the AC self-service check-in system. [My emphasis.]

[49] At paragraph 9 of his affidavit, he writes: “I consider myself qualified to read and understand the '767 patent and to understand the functioning of the AC self-service check-in system at issue.” and in the next paragraph sets out the principles which he took into account to arrive at his conclusions on the two independent claims; claims 1 and 14 being a self-service terminal (claim 1) and a method (claim 14) for selecting and dispensing tickets for any one of a plurality of events (such as a sports event, a concert, a play, etc.), to be held in any one of a plurality of locations (sports arena, theatre, museum, etc.).

[50] At paragraph 15 of his affidavit, he identifies the following problems associated with prior ticket dispensing systems as explained in the '767 patent and the solutions brought about by that patent:

PROBLEM

- a) Having to go to many locations to choose tickets for events held at different locations.
- b) If tickets are distributed at many points of sale, where each point of sale is given an allotment of tickets, tickets may not be available at a specific point of sale while there may be tickets available at other points of sale.
- c) Limited hours of operation due to manned points of sale restricting access to tickets.
- d) Floor plan not always available at all points of sale (a floor plan could be available only at the venue for example).

SOLUTION

- a) Providing a consolidated event list for all locations at many self-service terminals.
- b) Event availability is provided instantaneously by the self-service terminal that sends a seat availability request to the location processor when required in the purchase sequence.
- c) Self-service terminals are fully automated, allowing extended hours of operation.
- d) Each kiosk can display a floor plan for any selected event.

[51] He further explains, at paragraphs 16 to 22, the functioning of the '767 patented self-service terminal:

16. The self-service terminal of the '767 patent allows users to select, purchase and obtain tickets at the self-service terminal, without having to go to the location where the events are scheduled to be held.

17. The self-service terminal comprises a central processor which includes a memory in which information is stored regarding the events scheduled to be held at the remote locations.

18. The self-service terminal is linked, via a network modem and server, to “location processors” associated with each location where an event is to be held and where an inventory of seat disposition and availability is stored.

19. Illustration omitted.

20. The user of the self-service terminal selects one or more event(s) on the basis of a plurality of options (called “parameters”, each having a plurality of “elements”) presented at the terminal. Such options or “parameters” include the location, the name of the event, the date and time of the event, seating, and the number of tickets that the user wishes to purchase.

21. Once the user has selected an event (based on its location, its name, a date and time, seating, and number of tickets desired), the self-service terminal’s central processor communicates, via a network modem and server, with the remote location processor where the selected event is scheduled to be held, in order to obtain information as to the availability of the requested ticket(s).

22. If the ticket(s) to the selected event are available, the self-service terminal allows the customer to purchase these ticket(s). The self-service terminal is equipped with a currency acceptor and/or a credit card reader for allowing the customer to make the purchase at the terminal. Once payment has been accepted, the self-service terminal dispenses the ticket(s) to the user.

[52] Mr. Plamondon then analysed the two independent claims: Claim 1 for '767 patented terminal – the hardware and Claim 14 – the terminal’s software. At paragraphs 25 to 29, he notes the use of the word ticket in claim 1, within the context of the '767 patent, to mean the “reservation and proof of purchase that gives a person a right of entry to attend an event, which means in the

context of the '767 patent a performance presented at a venue at a given date according to certain parameters, which means the characteristics of a given event such as locations, dates, times and of the tickets to that event such as seats, prices, number of tickets with location being the place where the event is performed. He understands central processor including memory to signify in the '767 patent a “memory in which is stored a complete listing of all of the events at all of the locations serviced by a self-service terminal which memory means resides in the central processor”.

[53] I need not repeat Mr. Plamondon’s analysis of independent claim 14, the software which to him is the method of selecting and dispensing tickets to a user. His analysis is basically the same as claim 1.

[54] He incorporates, in his analysis, the description of the AC/CUSS self-service check-in system as explained by Mr. Ouellette in his affidavit, adding such “description is also consistent with my own examination of this system”. [My emphasis.]

[55] Mr. Plamondon, starting at paragraph 35 of his affidavit, then compares claim 1 with the AC self-service check-in system. He states his comparison reveals “five fundamental differences”:

- 1) The AC/CUSS self-service check-in system does not allow the travellers to select, nor does it dispense tickets for flights. It only issues boarding passes which, according to Mr. Ouellette, is not a ticket where the terms and conditions of carriage are set out.

- 2) The self-service terminal does not select and dispense tickets for any one of a plurality of events. Mr. Plamondon notes he had already expressed previously in his affidavit that: “it becomes very difficult to apply the language of the claims of this patent to the transportation industry.” In his view: “the most logical approach might be to define the “event” as the city of the flight’s destination.” He notes from Mr. Ouellette’s affidavit (and his own assessment) the AC/CUSS kiosk does not permit travellers to select one of a multiple of destinations. The AC/CUSS kiosk only dispenses a boarding pass for a pre-selection destination.

- 3) The aircraft cannot be the location where the event takes place. The aircraft is only a means of transportation and not the location of the event. At paragraph 47, he points out to other incongruities in adapting the language of the '767 patent with the transportation industry.

- 4) The AC/CUSS self-service check-in system does not receive payments for tickets for flights as contrasted to the payment of service fees that may be charged for making same-day flight changes to an already selected and paid-for ticket or for other applicable fees, such as excess baggage.

- 5) The AC/CUSS self-service check-in system does not contain memory means to store data concerning flights. That information is stored in the AC reservation system.

[56] Mr. Plamondon’s conclusion regarding the potential infringement of the AC/CUSS kiosks of claim 1 is expressed at paragraph 54 in these terms:

At the very least, the first four differences between claim 1 and the AC self-service check-in system identified above pertain to what I consider to be essential elements of that claim. It is clear from my review and analysis of the patent, that these features would have been considered by any skilled reader as being key to the patentee's invention. In addition, there is no indication whatsoever in the patent that these requirements were considered not to be essential by the patentee. [My emphasis.]

[57] In terms of independent claim 14, his analysis is analogous to the one he performed in respect of claim 1. He comes to a similar conclusion on the five similar essential differences he discovered between the AC/CUSS kiosks and claim 14.

[58] His overall conclusion is:

71. As a result, in my opinion, the AC self-service check-in system is not at all within the scope of the '767 patent which is directed at a ticket selection and purchase, not flight check-in or boarding pass issuance.

72. It is therefore hardly surprising that the differences between the AC self-service check-in system and the claims of the '767 patent are numerous and so fundamental. [My emphasis.]

Analysis

[59] As noted, two main issues arise in this proceeding: (1) What is the proper test to determine whether a serious issue has been made out by AIS?; and (2) Has AIS established irreparable harm if the order sought is not granted?

(a) The serious issue test in this case

[60] Relying on the Federal Court of Appeal's decision in *Turbo Resources Ltd. v. Petro Canada Inc.*, [1989] 2 F.C. 451 (a case involving an application for interlocutory injunction in a trademark infringement case where *Turbo Resources* sought to enjoin pending trial the defendant's use of the

expression “Premium Turbo Tested Motor Oil”) and the Supreme Court of Canada’s decision in *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311, where the plaintiff sought interlocutory relief requiring compliance with the packaging provisions recently enacted the *Tobacco Products Control Act* whose provisions were being challenged on *Charter* grounds, counsel for AIS argues whether a serious issue to be tried arises is assessed against the low standard of whether the applicant has made out an arguable case, one which is not frivolous or vexatious. Under this test, the motions judge limits his/her analysis to a preliminary investigation of the case on the merits.

[61] Counsel for AIS refers to a number of recent cases where this standard was adopted by the Courts in intellectual property cases citing: (1) *Boston Pizza International Inc. v. Boston Market Corp.*, (2003) 26 C.P.R. (4th) 78 (F.C.); and, (2) *CMAC Mortgages Ltd. v. Canadian Mortgage Expert Centres Ltd.*, (2007) 63 C.P.R. (4th) 360 (F.C.).

[62] On the other hand, counsel for AC argues AIS had to make out a *prima facie* case – a likelihood of success to satisfy the serious issue test. He argues the order sought is not an injunction but rather an order for security for damages that AIS alleges will eventually become due pursuant to its claim of patent infringement. He relies upon the following decisions: (1) *Reading & Bates Horizontal Drilling Co. et al v. Spie, Horizontal Drilling Co. Inc. et al*, (1986) 13 C.P.R. (3d) 37, a case where Justice Cullen ordered as an alternative relief to a Mareva injunction the deposit by the defendant of the sum of \$400,000 as security for damages of the plaintiff; (2) *Jelin Investments Ltd. v. Signtech Inc.*, (1990) 34 C.P.R. (3d) 148, where Madam Justice Reed ordered the posting of security for damages; and, (3) *Merck & Co. v. Nu-Pharm Inc.*, (2000) 4 C.P.R. (4th) 464, where Justice Muldoon, denying an application for an interlocutory injunction, ordered the payment by the

defendant in Court of 10% of its sales on a monthly basis noting that, in the circumstances of this case, this was the best way to secure justice. Counsel for AC submits that in all of these cases security for damages was involved and the successful party had shown a strong *prima facie* case. He also relied, by analogy, on the Supreme Court of Canada's decision in *Aetna Financial Services Ltd. v. Feigelman*, [1985] 1 S.C.R. 2.

[63] For the reasons that follow, I am of the view the proper gauge of serious issue, in this case, is the likelihood of success test – a strong *prima facie* case but, in any event, if I am wrong on this point, I hold on the evidence before me, AIS has not made out an arguable case. The evidence of AC's patent expert is uncontroverted – he was not cross-examined – he says AIS' allegation the AC/CUSS check-in kiosk infringes the '767 patent has no substance.

[64] I agree with counsel for AC the nature of the order sought by AIS, in this case, is not appropriately characterized as an application for an interlocutory order, where the status quo is sought to be maintained until trial and irreparable harm has been made out. It is more akin to what is sought in a Mareva injunction whose gist is the freezing of available assets and, in this case, going one step further seeking to impound assets or otherwise restricting rights without trial. In such cases, the applicant must show a fair *prima facie* case (see *Aetna* at paragraphs 7, 8, 10, 26, 28 and 30).

[65] This is the rationale, I believe, underlying the decisions of this Court relied upon by counsel for AC, in cases dealing with an order for security for damages before liability has been determined requires the demonstration of likelihood of success. Such a rationale, in my view, makes sense because the effect of such an order is to remove, in this case from AC, the right to use, before liability has been decided, its assets in the ordinary course of trade.

[66] In any event, AIS has not met the lower threshold of showing that its claim the AC/CUSS kiosks infringe the '767 patent has some merit – is arguable – on the evidence today before me. I must take the architecture of the AC/CUSS kiosks as it exists today – not what it may look like tomorrow which I perceive is a large part of AIS' case. On this point, an injunction for future harm is known as quia timet injunction which requires a showing of likelihood of success.

[67] The only evidence of possible infringement by the AC/CUSS check-in kiosks is the evidence of Mr. Huegel who candidly recognizes he was not an expert in matters related to patent law and who, on cross-examination, conceded he did not know very much about the operation of the AC/CUSS kiosks, not having used them.

[68] His evidence is to be contrasted with the evidence of the AC patent expert, who was not cross-examined by AIS' counsel, on the instructions he received in the manner of patents rules of interpretation as set out by the Supreme Court of Canada in *Free World Trust v. Électro Santé Inc.*, (2000) 9 C.P.R. (4th) 168. Moreover, this expert was not challenged on his analysis of the essential elements of the '767 patent in terms of claims 1 and 14 nor on his conclusion the AC/CUSS kiosks do not infringe the '767 patent. It is plain and obvious from material available from AC's web site, the AC/CUSS check-in kiosks can only be used if the AC customer has already made a reservation and has paid for his/her flight. These kiosks do not dispense AC tickets nor do they make reservation. They cannot be used to purchase tickets. These conclusions are fully supported by all of the evidence before me including Mr. Ouellette's discovery, Mr. Plamondon's analysis and AC's documentary evidence produced through various of its affiants. There is no evidence from AIS to

contradict these conclusions. Justice Rouleau reached a similar conclusion in *Giffin v. Canstar Sports Group Inc. et al*, (1990) 29 C.P.R. (3d) 26 where he found no serious issue in a patent infringement case applying the *Turbo Resources* test.

(b) Irreparable harm arising out of AC's present financial circumstances

[69] Even though it is not strictly necessary to deal with the irreparable harm since the three-part test set out in *RJR-MacDonald* is conjunctive and I have found no serious issue, I believe it is prudent to deal with AIS' argument that AC's current financial situation would deprive it of a remedy in damages should it be successful at trial.

[70] The law is clear "irreparable harm refers to the nature of the harm suffered rather than its magnitude. It is harm which either cannot be quantified in monetary terms or which cannot be cured usually because one party cannot collect damages from the other". (See *RJR-MacDonald* at page 341).

[71] The law is also clear the evidence as to irreparable harm must be clear and not speculative; the evidence must support a finding that an applicant would suffer irreparable harm (see, for example, *Centre Ice Ltd. v. National Hockey League*, (1994) 53 C.P.R. (3d) 34).

[72] AIS had the evidentiary burden of establishing AC's current financial situation is such that it would not be able to collect on any damages which it may be awarded if successful. An assessment of this argument necessarily requires cogent forensic financial evidence from AIS obtained in direct or under cross-examination that in a reasonable future taking into account all of Air Canada's assets

and liabilities, AIS could not collect a proper award of damages arising out of AC's patent infringement.

[73] I find that AIS has not provided sufficient evidence to discharge its evidentiary burden. It based its case on limited 2008-Q-3 results which showed deterioration from 2007-Q-3 results. AC's Treasurer explain these results are attributable to extremely high fuel costs which were not representative of AC's past and projected fuel cost experience. He explained other positive features to 2008-Q-3. Mr. Houle recognized the need to boost liquidity and outlined successful efforts in this regard. He was not cross-examined. His evidence is not contradicted. The result of all of the evidence is that AIS' case on irreparable harm is not clear and is largely speculative.

[74] I should mention that in reply submissions AIS' counsel attempted to introduce AC's latest consolidated annual financial statements. He wished to make an argument on this material. I refused their admission. Their introduction was improper without due notice and without providing AC an opportunity to comment.

[75] I mention of one last point. AC, argued even if AIS could establish irreparable harm, AIS would still not be entitled to the remedy sought. AC relied on the decision of Prothonotary Lafrenière in *Almecon Industries Ltd. v. Anchortek Ltd.*, (2004) 32 C.P.R. (4th) 142, where the plaintiff had established the defendant was liable for patent infringement and had brought a preservation order being concerned with its ability to recover damages. As it happened, the defendant declared bankruptcy before the plaintiff could argue its motion for a protection order

which it continued by making appropriate amendments to include, *inter alia*, the trustee in bankruptcy.

[76] The Prothonotary dismissed the motion. He referred to section 67(1)(a) of the *Bankruptcy Act* dealing with trust funds not being part of the property of the Bankrupt but dismissed this argument. Counsel for AIS tried to reinforce the trust argument by referring to a recent Quebec Court of Appeal involving the bankruptcy of Les Entreprises BigKnowledge.

[77] In the circumstance of this case and because of the findings I have made in respect to irreparable harm and serious issue, no useful purpose is served by dealing with this issue.

[78] For this reason, AIS' motion is dismissed with costs.

ORDER

THIS COURT ORDERS that this motion is dismissed with costs, fixed at the upper level of the units set out in Column IV of the Tariff in the *Federal Courts Rules*.

“François Lemieux”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1577-07

STYLE OF CAUSE: AIR CANADA v. AIS INFONETICS INC.

PLACE OF HEARING: Montreal, Quebec

DATES OF HEARING: April 21 and 22, 2009

**REASONS FOR ORDER
AND ORDER:** Lemieux J.

DATED: June 26, 2009

APPEARANCES:

Mr. François Guay
Ms. Emilie Dubreuil

FOR THE PLAINTIFF/
DEFENDANT BY COUNTERCLAIM

Mr. Bob H. Sotiriadis
Mr. Marvin A. Segal

FOR THE DEFENDANT/
PLAINTIFF BY COUNTERCLAIM

SOLICITORS OF RECORD:

Smart & Biggar
Montreal, Quebec

FOR THE PLAINTIFF/
DEFENDANT BY COUNTERCLAIM

Léger Robic Richard LLP
Montreal, Quebec

FOR THE DEFENDANT/
PLAINTIFF BY COUNTERCLAIM

Gross, Pinsky, Solicitors
Montreal, Quebec