



T-626-97

SEP 09 1997

Between:

INTERNATIONAL HOLLOWCORE  
ENGINEERING INC.,

Plaintiff,

- and -

ULTRA-SPAN TECHNOLOGIES INC., and  
FREDERICK W. SELLERS, and JOSEPH L. KISS,

Defendants.

- and -

GEORGE PUTTI

Defendant by Counterclaim

**REASONS FOR ORDER**

**JOHN A. HARGRAVE  
PROTHONOTARY**

These reasons arise out of the Plaintiff's motion to set security for costs in an impeachment proceeding pursuant to section 60(3) of the *Patent Act*. Section 60(3) is a mandatory provision requiring security for costs before such an action is commenced. The Section takes priority over Rule 700(3) of the *Federal Court Rules*, which allows security to be posted at any time: see *Mission View Vineyards Ltd. v. Traut* (1993), 62 F.T.R. 47 and *Meriah Surf Products Ltd. v. Windsurfing International Inc.* (1981) 54 C.P.R. (2d) 73 at 75-76 (F.C.A.). However, counsel have approached the matter of timing pragmatically, contending only the issue of the amount of security for costs. In this instance the Plaintiff seeks to provide security in the nominal amount of \$100.00, by reason of the circumstances of the case.

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**BACKGROUND**

By way of background the principles of the Plaintiff, Mr. Putti and the Defendant, Mr. Kiss, who at one point had a common employer, each hold patents relating to machines for the manufacture of extruded concrete slabs with hollow cores. The patents held by Messrs. Putti and Kiss have their common ancestry in an apparently uneconomic concrete slab extruding machine produced by Spiroll Corporation in the early 1960's: the present patents at issue are for machines that are modified and improved versions of the Spiroll Corporation machine.

Mr. Putti obtained his basic patent in 1972, followed by five further patents by the year 1982. Mr. Kiss, who refers to the 1972 Putti patent in the review of prior art in his patent, obtained his patent in 1986. The machine described in the 1986 Kiss patent is said, by Mr. Putti, to mirror his 1981 machine.

The manufacturer of concrete slab extruding machines came full circle, from the 1960's Spiroll Corporation machine, when in 1979, Mr. Putti granted a five year licence to Spiroll Corporation to build his redesigned machine. At the present time, Mr. Putti manufactures and sells the same machine through his company, the Plaintiff, International Hollowcore Engineering Inc., which is known as the IHE machine. In the result the Plaintiff has either licensed out the manufacturer of the IHE machine, or has built and manufactured it himself through the Plaintiff company, since 1979.

In February of 1997 the Defendant company alleged that the Plaintiff's IHE machine infringed on the Defendant's machine, making the allegation both to the Plaintiff and to a customer of the Plaintiff, although to the date of this present motion the Defendant, Ultra-Span Technologies Inc., has not provided requested details of the infringement.

The Plaintiff feels the present situation, an abstract warning of infringement not only to itself, but to a customer, is both a surprise and intolerable. Rather than wait for possible further interference, or for possible infringement proceedings the Plaintiff has, as a pre-emptive measure, commenced an impeachment proceeding. This leads to the Plaintiff's submissions that the security should be nominal.

### *ANALYSIS*

The Plaintiff submits that as a general rule those who attack the validity of a patent are subject to the Court's discretion to order security for costs, referring to *Electec Ltd. v. Comstock Canada* (1989), 24 C.P.R. (3d) 137 at 140. I question whether the Court has any discretion as to granting security, for the provision of section 60(3) of the *Patent Act*, requiring security for costs in an impeachment proceeding, is mandatory: rather, it is the amount of security which is at the Court's discretion.

The Plaintiff notes the purpose of security for costs, under section 60(3) of the *Patent Act*, is as a deterrent to prevent unfounded, irresponsible and frivolous attacks on a patent: see *Apotex Inc. v. Hoffmann-La Roche Ltd.* (1980), 48 C.P.R. (2d) 3 at 6, *Meriah Surf Products Ltd. (supra)* at 77 and the general discussion on this point in *Electec* at page 140 and following. Such a deterrent is only proper, for once a patent is granted the holder, by virtue of section 43 of the *Patent Act* the patent holder enjoys a statutory presumption of validity, subject to evidence to the contrary.

Counsel for the Plaintiff refers to the historic security in an impeachment action, \$1,000.00, to what it calls a usual award of \$5,000.00 and to a search of the case law which discloses no cases in which more than \$10,000.00 has been ordered as security. These cases, in which security for costs has been in various amounts up to \$10,000.00 as security for an impeachment action, predate the present Federal Court tariff costs, a point to which I shall return.

The final important point in the Plaintiff's argument is that:

"In determining whether an Order for security for costs is necessary, and if so the appropriate quantum, the key consideration is always the surrounding circumstances. *ACIC (Canada) Inc v Merck & Co Inc* (1995), 62 C.P.R. (3d) 362. (page 3 of written argument)

In my view, the *ACIC* case merely reiterates that as protection against frivolous and vexatious attacks on a patent, whose claims have been in part determined to be valid, a defendant is entitled to substantial security for costs, set at \$10,000.00 in that instance, under the previous quite moderate Federal Court tariff. The *ACIC* case does not deal with whether or not security for costs is necessary. This last aspect has been dealt with by the Court not only in *Mission View (supra)* at page 50, but also in two cases decided in 1980.

In *Apotex Inc. v. Hoffmann-La Roche Ltd. (supra)* the Court pointed out that the language of what is now section 60(3) of the *Patent Act* is not "...susceptible of the interpretation that the Court may direct that no costs shall be deposited." (page 4). Subsequently, Mr Justice Mahoney, as he then was, quoted this passage from *Hoffmann-La Roche* in *Alros Products Ltd. v. Sealed Air Corporation* (1981), 51 C.P.R. (2d) 66 in the context of setting aside service of a statement of claim in what was characterized as a responsible impeachment action, because security had not been posted. In short, the court has no discretion whether or not to require security under section 60(3) of the *Patent Act*, but rather is at liberty to set an appropriate amount of security. This concept was reinforced by Mr. Justice Heald in *Meriah Surf Products Inc. (supra)* when he referred to the plain and unequivocal wording used in what is now section 60(3) of the *Patent Act* as a general rule requiring security in an impeachment action, a general rule, with an exception, for it does not apply to a defendant, in an impeachment action, who in turn seeks a declaration of invalidity. (pages 75 and 76). This precise approach to interpretation of section 60(3) leaves no reason to find security need not be given merely because a plaintiff has been forced, for business reasons, to

commence an impeachment action which appears not the least bit frivolous or vexatious.

Given the rationale for the mandatory provision of security under section 60(3), to place a curb on and to give protection against unfounded attacks on the validity of a patent, the issue becomes the criteria to apply in fixing the amount of such security. This was an issue with which Mr. Justice Strayer, as he then was, dealt with in *Electec Ltd. v. Comstock Canada (supra)*: he decided that the Court must try to deduce criteria from the apparent purpose of the security for costs provision in the Patent Act. He rejected the idea that concepts such as deterrence and protection against irresponsible or frivolous actions against patentees ought to have a direct bearing on the amount of security for costs. He pointed out there was no longer an arbitrary figure for security for costs, as was the case under earlier patent legislation in effect between 1900 and 1971. He concluded that "... the defendant patentee is to be protected for his costs to the extent that this is normally done when 'security for costs' are awarded by a Court." (pages 141-142). In order to reach a figure, Mr Justice Strayer looked at a total estimate of party and party costs, including those of trial, of about \$16,000.00, reduced it to \$14,000.00 and ordered security for two thirds that amount, \$9,000.00 referring to this latter reduction as common practice in Ontario and English courts (a practice from which the English Courts have retreated: see *Procon Ltd. v. Provincial Building Ltd.* [1984] 1 W.L.R. 557 at 567 and 571 (C.A.)). He was, however, looking to actual taxable costs as a guide. The *Electec* case involved an application to raise security from a nominal \$1,000.00 to a figure more appropriate for 1989, however, the principle is clear: a court ".... should take into account factors normally considered in ordering 'security for costs', including the actual costs of the action." (page 143). Here a factor that must be included is the new Tariff B, which comes closer than the previous Tariff B to reflecting actual costs of litigation.

The Plaintiff submits the amount of security for costs ought to be tempered by the fact that the Plaintiff has, in effect, been goaded into this impeachment proceeding by the Defendant who has complained of infringement, not only to the Plaintiff, but also to a customer of the Plaintiff. This present need for a pre-emptory strike, so the Plaintiff may get on with business in a climate of certainty, is understandable, but I do not see it entitles the Plaintiff to relief, as to the amount of security, at this stage. Rather such relief, assuming the Plaintiff is successful at the end of the day, might be an element to be factored into taxed costs once the whole matter is resolved.

Plaintiff's counsel points to six patents held by the Plaintiff, all predating the Defendant's patent. That of course does not mean the Defendant's patent is any less valid, at the moment, from the point of view of the presumption of validity. The Defendant's patent ought to received the same protection as that of any other Defendant. However, while this is not the time to assess the merits of the Plaintiffs case, there is the fact that the Defendants have provided no particulars of their charge of infringement.

The Defendant has prepared a skeleton bill of costs showing estimated taxable costs under column three of Tariff B. Costs, including those related to a five day trial, in round figures and including tax, amount to \$24,500.00. Disbursements, including tax, are estimated at \$5,018.30, say \$5,000.00 in round figures. The total estimated costs and disbursements are some \$29,500.00.

While the estimated fees are selected from the middle column of Tariff B they are, for the most part, toward or at the top end of the range within column 3. But this is not necessarily a fault, for security must bear a relationship to the present day costs of litigation and patent litigation in particular. Projected disbursements appear, at this stage, to be reasonable.

An aspect that justifies trimming security for costs is the possibility of resolution short of trial. As I have indicated the Defendant's allegation of infringement so far lacks any particulars and therefore may be weak. Further, as a general proposition, most actions are settled rather than tried. This action may very well be settled before trial. A court may consider this prospect, particularly when security is sought at an early stage in a proceeding: *Procon Ltd. v. Provincial Building Ltd. (supra)* at 567 and 571. If this assessment proves not to be the case, the Defendant may, at some mid-point, seek a further order for security.

Security for costs will be \$7,400.00 in total at this point in order to secure the Defendant through examinations for discovery, including any pre-trial conference, notices to admit the facts and \$2,000.00 to go toward experts fees. The costs of this motion will be in the cause.

(Sgd.) "John A. Hargrave"

Prothonotary

Vancouver, British Columbia  
August 12, 1997

**NAMES OF COUNSEL AND SOLICITORS OF RECORD**

**STYLE OF CAUSE: INTERNATIONAL HOLLOWCORE  
ENGINEERING INC.**

**- and -**

**ULTRA-SPAN TECHNOLOGIES INC.  
and FREDERICK W. SELLERS, and  
JOSEPH L. KISS**

**- and -**

**GEORGE PUTTI**

**COURT NO.: T-626-97**

**PLACE OF HEARING: Vancouver, BC**

**DATE OF HEARING: July 14, 1996**

**REASONS FOR ORDER OF  
MR. JOHN A. HARGRAVE, PROTHONOTARY  
dated August 12, 1997**

**APPEARANCES:**

**Mr. Kal Kelly for Plaintiff and  
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Ms. Grace for Defendant**

**SOLICITORS OF RECORD:**

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**SP**