

Federal Court
of Appeal



CANADA

Cour d'appel
fédérale

Date: 20100907

Docket: A-454-09

Citation: 2010 FCA 219

**CORAM: NADON J.A.
SHARLOW J.A.
LAYDEN-STEVENSON J.A.**

BETWEEN:

**ELI LILLY CANADA INC.,
ELI LILLY AND COMPANY,
ELI LILLY AND COMPANY LIMITED and
ELI LILLY SA**

Appellants

and

NOVOPHARM LIMITED

Respondent

Dealt with in writing without appearance of parties.

Order delivered at Ottawa, Ontario, on September 7, 2010.

REASONS FOR ORDER BY:

THE COURT

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REASONS FOR ORDER BY THE COURT

[1] The respondent Novopharm Limited has moved for reconsideration of the judgment of this Court dated July 21, 2010 allowing the appeal of the appellants (collectively “Lilly”) from a judgment of the Federal Court (2009 FC 1018). Lilly opposes the motion.

Facts

[2] During the period relevant to this case, Lilly manufactured and sold in Canada a drug called Zyprexa, which contains olanzapine. Olanzapine was the subject of Canadian Patent No. 2,014,113,

which was owned by Lilly. Lilly brought an action in the Federal Court (T-1048-07) against Novopharm for damages for the infringement of the 113 patent by Novopharm's manufacture and sale in Canada of a generic version of Zyprexa. Novopharm asserted that the 113 patent was invalid but admitted that if the patent was valid, it was infringed. Novopharm also asserted a counter claim for damages under section 8 of the *Patented Medicines (Notice of Compliance) Regulations*, SOR/98-166, because of the dismissal of Lilly's application to the Federal Court for a prohibition order under those regulations (*Eli Lilly Canada Inc. v. Novopharm Limited*, 2007 FC 596).

[3] In case management proceedings in the Federal Court, the action was bifurcated so that the validity of the 113 patent would be determined in one phase, and the determination of damages (if any) would be determined in a separate phase. Novopharm's claim for section 8 damages was deferred to the damages phase. The bifurcation order was not appealed.

[4] The trial of the first phase of the action resulted in a judgment dated October 5, 2009 favouring Novopharm. That judgment reads as follows (2009 FC 1018):

- a. The claims of the 113 patent in issue are invalid;
- b. Lilly's action for patent infringement is dismissed;
- c. Novopharm is entitled to relief under s. 8 of the *Patented Medicines (Notice of Compliance) Regulations* to be determined in a separate proceeding, and to its costs.

[5] On December 19, 2009, the Federal Court judge made two orders in T-1048-07. The first was an order giving certain directions for the assessment of the costs of the trial of the first phase. The second order gave directions as to the conduct of the trial of the second phase, which would determine Novopharm's claim for section 8 damages. The parties subsequently agreed on the quantum of costs, \$1,516,000, and on March 4, 2010, the judge made an order confirming the assessment of costs in that amount. Lilly was ordered to pay that amount, and did so. These orders were not appealed.

[6] Lilly appealed the Federal Court judgment dated October 5, 2009. Its notice of appeal sought, among other things, an order setting aside all three paragraphs of the Federal Court judgment, and an order for costs in this Court and in the Federal Court.

[7] The notice of appeal states numerous grounds of appeal. It states, among other things, that the judge "erred in awarding costs to Novopharm". However, no substantive issue was raised in the notice of appeal in relation to the award of costs to Novopharm, or in relation to Novopharm's claim for section 8 damages.

[8] Lilly's memorandum of fact and law was filed in February of 2010. It is 150 paragraphs long. Paragraph 40 states the issues on appeal, of which there are 8. The last of the stated issues is, "Did the Trial Judge err in granting Novopharm's counterclaim for section 8 damages when he made no findings to support this part of the Judgment?" However, that issue is not specifically addressed anywhere in the memorandum. Nor is any mention made of Novopharm's claim for

section 8 damages except by inference in paragraph 150 of the memorandum, entitled “Order Sought”, which reads as follows:

150. The Appellants respectfully ask this Court to set aside the Judgment of the Federal Court and grant judgment allowing the Appellants’ action, or in the alternative, order a new trial, and award the Appellant its costs in this Court and the Federal Court. Further, paragraph 3 of the Judgement [*sic*] should be set aside considering that no findings were made by the Trial Judge to support this part of the Judgement [*sic*].

[9] The appeal of the October 5, 2009 Federal Court judgment was heard in June of 2010. There were no submissions on costs and only cursory mention of Novopharm’s claim for section 8 damages. Novopharm pointed out that this claim was to be the subject of a separate proceeding in the Federal Court pursuant to the bifurcation order.

[10] This Court concluded that the Federal Court judgment was incorrect on certain substantive issues of patent law, and that a new trial of the first phase was required. The reasons for judgment dated July 21, 2010 (2010 FCA 197) do not discuss any issues relating to costs, Novopharm’s claim for section 8 damages, or paragraph 3 of the Federal Court judgment. Costs are mentioned in the last paragraph of the reasons for judgment only to describe the judgment to be made on the appeal. That judgment, which is the subject of this motion for reconsideration, was issued on July 21, 2010 and reads as follows:

The appeal is allowed with costs and the judgment of the Federal Court is set aside. The utility and sufficiency of disclosure grounds of alleged invalidity with respect to Canadian Letters Patent No. 2,041,113 is remitted to the Federal Court for determination in accordance with the Reasons for Judgment dated July 21, 2010 in this matter.

[11] This order on its face sets aside all three paragraphs of the Federal Court judgment, including paragraph 3 which is repeated here for ease of reference:

Novopharm is entitled to relief under s. 8 of the *Patented Medicines (Notice of Compliance) Regulations* to be determined in a separate proceeding, and to its costs.

Novopharm's motion for reconsideration of the judgment

[12] Novopharm is concerned that it is unclear from the judgment of this Court whether, at the retrial of the first phase of T-1048-07, or in the trial of the second phase of T-1048-07, the Federal Court judge is precluded from awarding costs to the successful party, or from considering Novopharm's claim for section 8 damages. Novopharm submits that the setting aside of paragraph 3 of the Federal Court judgment does not accord with the reasons for judgment because there was substantially no argument in the appeal on either of these issues and the reasons for judgment do not discuss them. Lilly argues that the issues addressed in paragraph 3 of the Federal Court judgment were in fact considered and there is no basis for concluding that the judgment does not reflect the Court's conclusions.

[13] Having carefully reviewed the record, we are of the opinion that there is no basis for reconsidering the judgment or amending it. However, we have the following comments about how the judgment is to be interpreted and applied.

Novopharm's claim for section 8 damages

- a. The question of Novopharm's claim for damages under section 8 of the *Patented Medicines (Notice of Compliance) Regulations* was not in issue in this appeal. This appeal raised only issues that were determined by the Federal Court in the first phase of the bifurcated trial, all of which related to the validity of the 113 patent. The judgment of this Court was not intended to affect in any way Novopharm's claim for section 8 damages, and does not do so.

- b. We note that Lilly appears to be of the view that Novopharm cannot claim section 8 damages if the 113 patent is ultimately found to be valid. That is an issue to be determined by the Federal Court judge in the second phase, if it is properly raised. It was not raised in this appeal, either directly or by necessary implication, and we have expressed no opinion on it.

- c. We do not read paragraph 3 of the Federal Court judgment as anything more than a confirmation, for greater certainty, that Novopharm's claim for section 8 damages is to be dealt with in the second phase of the bifurcated trial. For that reason, the fact that paragraph 3 was set aside with the remainder of the Federal Court judgment has no effect on the right of Novopharm to have its claim for section 8 damages determined by the Federal Court in the second phase of the trial. The judgment of the Court in this appeal can not and did not deprive the Federal Court of its

jurisdiction to determine Novopharm's claim for section 8 damages in that second phase.

Costs in the Federal Court

- d. Normally, when a trial judgment is set aside on appeal, any award of costs included in the judgment is also set aside, even if the reasons for judgment are silent on costs. That is so in this case. Therefore, Novopharm's award of costs in the Federal Court in relation to the first trial of the first phase has been and was intended to be set aside.
- e. However, the subsequent Federal Court orders in which the quantum of costs was determined and payment was ordered cannot be set aside by this Court because they were not appealed. It will be for the Federal Court judge in due course to consider what should be done (if anything) to deal with the fact that the costs were assessed and paid before the costs award was set aside. It will also be for the Federal Court judge in due course to determine what costs (if any) should be awarded in relation to any future proceedings in T-1048-07.
- f. Lilly has submitted that in allowing its appeal "with costs", this Court awarded Lilly its costs of the appeal as well as its costs of the first trial. That is a misinterpretation. When this Court allows an appeal "with costs", it allows only the costs of the appeal. If this Court had also intended to allow Lilly its costs of the first trial, the order

would have stated “with costs in this Court and the Federal Court”, or similar language. The order sought to be reconsidered does not award Lilly the costs of the first trial. At present, there is no order awarding any party the costs of the first trial. That also is a matter for consideration by the Federal Court judge after the retrial.

Conclusion

[14] For these reasons, the motion for reconsideration will be dismissed. No costs will be awarded on the motion.

“M. Nadon”

J.A.

“K. Sharlow”

J.A.

“Carolyn Layden-Stevenson”

J.A.