

# 2012 HAROLD G. FOX MOOT

## MOOT PROBLEM

NOVEMBER 18<sup>th</sup>, 2011

1. The following are reasons and judgment of the Trial Court of Canada, Intellectual Property Division. The decision of the Trial Court was subsequently overturned by the Court of Appeal; the reasons and judgment for which are also set out below.
2. Both Courts have jurisdiction over all issues raised in their respective decisions. The standard of review adopted by the Court of Appeal is also correct and not the subject of appeal.
3. The decision of the Court of Appeal is now appealed to the Supreme Moot Court for Intellectual Property Appeals.
4. All of the issues raised in the reasons given by the lower courts should be addressed by counsel for Kane Industries Inc. or Abel Enterprises Inc. in their submissions. Arguments not referenced in the reasons of the lower courts may be advanced by counsel in their submissions, but only if they relate to the issues identified in the lower courts' decisions.
5. Issues around costs and interest are not to be addressed.

**TRIAL COURT OF CANADA,**  
**INTELLECTUAL PROPERTY DIVISION**

**Date: 20110829**

**Docket: T-825-04**

**Citation: 2011 FCIP 150**

**Ottawa, Ontario, this 29<sup>th</sup> day of August, 2011**

**PRESENT: The Honourable Justice Bassin**

**BETWEEN:**

**KANE INDUSTRIES INC.**

**Plaintiff**

**and**

**ABEL ENTERPRISES INC.**

**Defendant**

Heard at Ottawa, Ontario, on July 1 – 23, 2011.

Judgment delivered at Ottawa, Ontario, on August 29<sup>th</sup>, 2011.

**REASONS FOR JUDGMENT**

**BASSIN J.**

- [1] The patent claim at the heart of this dispute is a model of brevity. It reads as follows: “A showerhead comprising a user-activated timer mechanism for periodically releasing controlled amounts of water softener liquid into water passing through the showerhead.”
- [2] The claim is the sole claim found in Canadian Patent No. 4,000,666, owned by the plaintiff in this action, Kane Industries Inc. (“Kane”). Kane is a large Canadian company,

with a manufacturing plant based in Fawcett Lake, Ontario. For many years Kane has dominated the Canadian market for plumbing fixtures, including showerheads.

- [3] In 1993, Kane's CEO and sole shareholder, Karl Kane, introduced the Soft-Spray™ showerhead into the Canadian market and, on December 1<sup>st</sup> of the same year, filed a Canadian patent application that led to the patent in suit (the "Kane Patent" – granted on December 31, 1994; the Kane Patent named Karl Kane as sole inventor). The Soft-Spray showerhead was an immediate success in the market. In most respects the new showerhead operated exactly like previous showerheads sold in Canada, but it also included a timer mechanism that, when turned on by the user, injected small amounts of water softener into the stream of water passing through the showerhead. Kane claimed that the result was "a more pleasing showering experience".
- [4] Within a year of introducing the Soft-Spray, Kane decided to market only that showerhead. The uncontradicted evidence at trial was that by January, 2000 Kane's Soft-Spray had 50% of the Canadian market for showerheads. At that time there was no other showerhead that included a water softener feature sold in Canada. However, the market was soon to change.
- [5] In early 2000, the SuddsiSpray™ showerhead was introduced into the Canadian market by noted Canadian entrepreneur Kenny DeLuge ("DeLuge"). In late 1999, DeLuge had set up Abel Enterprises Inc. ("Abel") and hired Karl Kane's estranged brother, Ken D. Kane, for the sole purpose of designing a showerhead that would include a timed water softener release mechanism (namely, the SuddsiSpray). Like the Soft-Spray, the SuddsiSpray looked and operated like other conventional showerheads, with the sole exception that water softener was introduced into the water stream as the water passed through the showerhead. The evidence was that DeLuge and Ken D. Kane were well aware of the Kane Patent from the outset.
- [6] On June 1, 2000, Kane sued Abel in this court for infringement of the Kane Patent. By the time this matter came to trial before me, the defendant had admitted that the subject-matter of the Kane Patent's only claim (set out at para. 1 above) was novel, inventive and useful. Abel also admitted that the SuddsiSpray showerhead infringed the Kane Patent.

The SuddsiSpray showerhead looked and operated very much like the Soft-Spray showerhead.

- [7] Although validity and infringement were not disputed, the trial before me was still hard-fought on two fronts: the parties had very different views on the quantum of damages and the parties disagreed on whether an injunction should be awarded.
- [8] The second issue is the most straightforward. I agree with the plaintiff that Canadian patent law ought not to encourage continued infringement of patent rights. Abel infringed the Kane Patent and should not be permitted to do so in the future. No further analysis is required. A permanent injunction against manufacture and sale of the SuddsiSpray is hereby granted.
- [9] Turning now to the issue of monetary relief. The plaintiff made clear in its pleadings and at trial that it was not seeking the remedy of an accounting of profits. Therefore, the only question for determination in considering monetary remedies due to infringement is the quantum of damages that ought to be awarded under s. 55(1) of the *Patent Act*. There is no claim for reasonable compensation for pre-grant infringement under s. 55(2).
- [10] Certain facts concerning the sales of showerheads are not in question:
- (a) Both Kane and Abel competed throughout Canada and due to the market structure every SuddsiSpray sale was effectively a lost sale to Kane of the Soft-Spray showerhead.
  - (b) Kane's profit per showerhead was the same from the time that Abel first entered the market until trial – \$2.00 per unit. Abel's total sales of SuddsiSpray showerheads during the time of infringement were exactly one million units.
- [11] Applying the principles set out in *Allied Signal*, the measure of damages is the lost profits on lost sales suffered by Kane, due to the infringement by Abel. This is not a case where a reasonable royalty is to be applied (and neither of the parties argued for a reasonable royalty, nor did their experts suggest it).

- [12] Section 55(1) of the *Act* sets out the recovery claimable by Kane: a remedy is provided to the patentee for “all damage sustained ... *by reason of the infringement*” (emphasis added).
- [13] The plaintiff’s expert, Dr. Nye Agra, concisely explained the nature of the market for showerheads in Canada and how the SuddsiSpray was sold. His opinion was that the marketing of the SuddsiSpray was such that on the shelves of retailers the product was always placed adjacent to the SoftSpray showerheads and consumers would see one as a replacement product for the other. Dr. Nye Agra calculated that the total lost profit suffered by Kane was the total profit per unit (\$2.00) multiplied by the total sales made by Abel. The damages were therefore said to be \$2 million.
- [14] However, I do not consider that this assessment identifies what damage was related to the infringement of the patent. The patent is for an improved showerhead. This Court must consider what harm suffered by Kane can be attributed to the taking of the improvement claimed in the Kane Patent. On this point, I follow the approach set out by the Supreme Court of Canada in *Monsanto Canada Inc. v. Schmeiser*, 2004 SCC 34.
- [15] In making the determination of how to identify the value of the invention, the defendant’s expert, Dr. Sue Nami, was of great assistance. Dr. Nami relied upon a survey of consumers which showed that close to half of all SuddsiSpray buyers were not only unaware of the water softener feature but never even turned on the timer to engage the patented feature. Further, Dr. Nami had regard to the market launch, just before trial, of the NovaSpray™ showerhead made by East of Eden Industries Inc. The NovaSpray is a traditional showerhead (with no water softener feature) which looks like both the Soft-Spray and SuddsiSpray showerheads. When introduced into the marketplace, with very little advertising or promotion, the NovaSpray immediately captured 80% of the sales made by the SuddsiSpray. Indeed, the NovaSpray rained on their parade. Dr. Nami concluded, and I agree, that the patented feature (of adding water softener) could not and did not account for all sales of the SuddsiSpray. The success of the NovaSpray (which sold at the same price point as both the Soft-Spray and the SuddsiSpray) indicates that the market was primarily interested in working showerheads that looked like the Soft-Spray

and SuddsiSpray, rather than the water softener feature touted by Kane and covered by the Kane Patent.

[16] Giving appropriate weight to the importance of the NovaSpray evidence, I conclude that although Kane was certainly successful with its SoftSpray and Abel certainly sold many units of its infringing product, the market was just not that “into” a water softener feature. The fact that the NovaSpray could achieve 80% of Abel’s sales with a non-infringing alternative shows that the invention was only a factor in, at most, 20% of Abel’s sales. For this reason, I reject the arguments of Kane that it is entitled to recover for all sales of SuddsiSpray showerheads made by Abel. Rather, and at best, only 20% of sales relate to the improved showerhead feature which is, in turn, relevant to the invention. Therefore damages are fixed by me at \$400,000.

[17] I make one final observation concerning damages, should I be wrong in my assessment of their measure as set out above. The fact that only half the SuddsiSpray buyers knew about, or used, the inventive feature is highly relevant. Thus, even ignoring the evidence of the NovaSpray product, the highest damage award that I would be prepared to grant is \$1,000,000 (based on ½ the 1,000,000 showerheads at \$2.00 profit each). Such an award would give fair recompense to Kane for the damages actually attributable to the taking of the inventive improvement by Abel.

[18] Issues of costs and interest are to be subject of a separate determination, to be carried out in due course.

**COURT OF APPEAL**

**Date: 20111101**

**Docket: T-825-04**

**Citation: 2011 FCA 455**

**London, Ontario, this 1<sup>st</sup> day of November, 2011**

**CORAM: STAAL J.A.,  
KERTAIN J.A.,  
TUBBE J.A.**

**BETWEEN:**

**ABEL ENTERPRISES INC.**

**Appellant**

**and**

**KANE INDUSTRIES INC.**

**Respondent**

Heard at London, Ontario, on October 1 – 23, 2011.

Judgment delivered at London, Ontario, on November 1<sup>st</sup>, 2011.

REASONS FOR JUDGMENT BY:

STAAL J.A.

CONCURRED BY:

KERTAIN J.A.

TUBBE J.A.

**REASONS FOR JUDGMENT**

**STAAL J.A.**

- [1] The appellants, Abel Enterprises Inc. (“Abel”), seek to have the trial judgment varied to remove the injunction made against them. For the reasons set out below, I would allow the appeal as the injunction ought not to have been granted in this case.
- [2] By cross-appeal, Kane Industries Inc. (“Kane”) seek to alter the damages award made by the Trial Judge by increasing it from \$400,000 to \$2 million. For the reasons that follow, I would allow the cross-appeal.
- [3] Dealing first with the issues of damages raised in the cross-appeal, the facts in this case are simple and the law must be applied consistently. In patent infringement matters, the law on damages is comprehensively set out in *Jay-Lor International Inc. v. Penta Farm Systems Ltd.*, 2007 FC 358, and this Court sees no basis for altering that decision. Each sale of an infringing showerhead by Abel was an infringement. If, due to a sale made by Abel, Kane lost a sale and its associated \$2.00 profit, then Kane is entitled to be made whole for that sale. Since the evidence at trial was that Abel had made one million such sales the calculation is a simple one. The cross-appeal is allowed and damages are fixed at \$2,000,000.
- [4] Although counsel for Abel strenuously argued that the existence of a non-infringing alternative is relevant in determining the value of the patented invention, I do not see how the views of the Supreme Court of Canada on the different remedy of an accounting of profits could have any application here. Even if the remedy of an accounting of profits would have resulted in a drastically lower award to Kane (due to the presence of a non-infringing alternative), I cannot see why our Court ought to be concerned. Kane sought to recover its own lost profits on its lost sales and the Trial Judge erred by not approaching the calculation on the simple basis that I have set out above.
- [5] With the greatest of respect, I am also compelled to observe that the Trial Judge was wrong in how she approached the issue of injunctive relief. An injunction is an equitable remedy and the Court must approach the question of whether an injunction is appropriate using equitable principles on the facts before the Court. Although the weighing of evidence leading to the award of an equitable remedy is within the bailiwick of a Trial Judge, in this case the Judge below made no such assessment, but appears to have held that an injunction will be awarded to a successful plaintiff in a patent infringement action

as a matter of course. In this she was in error. The same factors that are considered in determining the availability of other equitable remedies, such as the accounting of profits remedy, must be considered here (*Consolboard Inc. v. MacMillan Bloedel (Saskatchewan) Ltd.* (1978), 39 C.P.R. (2d) 191 (FCTD)).

[6] A salient factor that the Trial Judge below ignored was the motivation of the plaintiff. On the stand at trial, Karl Kane gave the following evidence about the genesis of this case:

Q: Why has your company brought this lawsuit?

A: I don't care one bit about the money. Abel will never hurt my business. I'm just too big to care about that pipsqueak company. It's that no good ex-brother of mine. I want to wash him down the drain. And I'm taking that DeLuge down too, and fast. I want them out of the business – out for good!

[7] Although patent rights are fundamentally economic rights, a party seeking an equitable remedy must come to the Court with clean hands. Along with other principles of equity, the motivation of Kane is a highly relevant factor in determining whether Kane is entitled to an injunction.

[8] Further, the Trial Judge's approach also ignored the evidence of the relative impacts of allowing continuing sales by Abel and of granting the injunction. As the transcript excerpt set out above shows, the impact on Kane, if Abel continues to make sales, is not significant. However, the evidence at trial indicated that to manufacture the SuddsiSpray showerhead Abel employed some 120 employees at the Abel plant at One Percent Place on Bay St. in Toronto, Ontario. My own view is that granting the injunction may result in the loss of these jobs (already possibly at risk, pending this expedited appeal). The related economic benefits that flow from those jobs could also be lost. This factor was ignored by the Trial Judge.

[9] Lastly, the Trial Judge did not look at the length of time that the patent has remaining in its life. Although the Trial Judge purported to grant a "permanent" injunction, the patent will expire in less than three years, and the injunction with it. Equity is not served by putting Abel out of business when, in a short while, any competitor will be free to sell a SuddsiSpray or Soft-Spray type showerhead.

[10] Although this Court is not swayed by the results reached in foreign courts, I note that the approach taken here by this Court is consistent with the *eBay* decision of the Supreme Court of the United States.

[11] For the above reasons, the appeal is allowed, the injunction rescinded, and the matter is returned to the Trial Judge to calculate an appropriate monetary remedy, in lieu of an injunction.

“I concur.”

Marge Rine Tubbe JA

“I too concur. Softness was not enough, Kane’s hands needed to be clean.”

Aaron Kertain J.A.