

**IN THE SUPREME MOOT COURT FOR INTELLECTUAL PROPERTY APPEALS**

BETWEEN:

**KANE INDUSTRIES INC.**

Appellant / Cross-Respondent

– and –

**ABEL ENTERPRISES INC.**

Respondent / Cross-Appellant

Appeal concerning whether the injunction was justified and  
whether the quantum of damages was assessed correctly

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**FACTUM OF THE APPELLANT**

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## PART I – OVERVIEW

1. The heart of the *Patent Act*<sup>1</sup> is the fundamental bargain between a patentee and the public.<sup>2</sup> To encourage innovation, the inventor is guaranteed the “*exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others...*”<sup>3</sup> in exchange for disclosing “*inventive solutions to practical problems.*”<sup>4</sup> This case is about the integrity of this bargain. It is compromised if the patentee cannot enforce this exclusive right and be compensated fully for its infringement.

2. The Appellant, Kane Industries (“Kane”) was granted a patent for an improved showerhead that provided a “more pleasing showering experience.” The Respondent, Abel Enterprises (“Abel”), admitted to infringing this patent. Despite this clear infringement, which resulted in lost sales and profits to Kane, the patentee was erroneously denied a permanent injunction when the Court of Appeal overturned the injunction granted by the Trial Court. At trial, Kane was incorrectly awarded only a proportion of its lost profits, although the Court of Appeal correctly reversed this decision and assessed damages based on the full amount of lost profits.

3. On appeal, Kane submits that it should be awarded a permanent injunction. After a finding of infringement of a valid patent, a permanent injunction should be awarded in all but the most exceptional circumstances. This case does not qualify as one of those exceptions.

4. On cross-appeal, Kane submits that it should be awarded damages equal to the profits lost on sales as a result of Abel’s infringement. Damages should be liberally assessed following a finding of infringement. Apportionment should not be applied to the damages Kane is entitled to.

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<sup>1</sup> *Patent Act*, RSC 1985, c P-4.

<sup>2</sup> *Free World Trust v Électro Santé Inc*, 2000 SCC 66 at para 13, [2000] 2 SCR 1024; *Cadbury Schweppes Inc v FBI Foods Ltd*, [1999] 1 SCR 142 at para 46, 83 CPR (3d) 289; *Apotex Inc v Wellcome Foundation Ltd*, 2002 SCC 77 at para 37, [2002] 4 SCR 153 [*Apotex*].

<sup>3</sup> *Patent Act*, s 42 [emphasis added].

<sup>4</sup> *Apotex*, *supra* note 2 at para 37.

5. This Court should set aside the Court of Appeal order dispensing with the permanent injunction and the original order granting the injunction should be restored. This Court should also uphold the Court of Appeal decision to award damages based on the total profits lost to Kane Industries as a result of Abel's infringement.

## **PART II – STATEMENT OF FACTS**

6. **Appellant's Patent.** In 1993, Kane Industries, founded by Karl Kane, introduced the Soft-Spray showerhead into the Canadian market. It operates like previous showerheads except it includes a "user-activated timer mechanism for periodically releasing controlled amounts of water softener liquid into water passing through the showerhead." At the time it was introduced, no other showerhead had a water softening feature. This improvement, which resulted in a "more pleasing showering experience", resonated with consumers and the showerhead was an immediate marketplace success. On December 1, 1994, Kane was granted a patent protecting this improved showerhead design. By January 2000, the Soft-Spray showerhead had captured 50% of the market in Canada for showerheads.<sup>5</sup>

7. **Respondent's Infringement.** In 1999, Abel Enterprises was established. It hired Ken Kane, the brother of Karl Kane, with the singular purpose of designing a showerhead with a timed water softener release mechanism. In early 2000, Abel introduced the SuddsiSpray showerhead to the Canadian market. Abel admits that the SuddsiSpray infringes Kane's patent and concedes that the patent is novel, inventive and useful.<sup>6</sup>

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<sup>5</sup> *Kane Industries Inc v Abel Enterprises Inc*, 2011 FCIP 150 at paras 1, 3-4 [*Trial Decision*].

<sup>6</sup> *Ibid* at paras 5-6.

8. **Action.** On June 1, 2000, Kane sued Abel for patent infringement.<sup>7</sup> Kane seeks a permanent injunction preventing Abel from manufacturing and selling the SuddsiSpray for the three years<sup>8</sup> remaining on the patent and damages to compensate for lost profits due to the infringement.<sup>9</sup>

9. **Evidence at Trial.** Karl Kane brought the lawsuit because he wants to restore his patent exclusivity and prevent his brother from continuing to sell products that infringe on the patent.<sup>10</sup>

10. Every SuddsiSpray showerhead includes the patented water softening feature.<sup>11</sup> As a result, every SuddsiSpray showerhead infringes the patent.<sup>12</sup> Abel sold a total of one million infringing SuddsiSpray units. Kane's profit is \$2 per showerhead. Thus, the total lost profit to Kane is \$2 million.<sup>13</sup>

11. Dr. Nye Agra, a Canadian showerhead market expert, explained that consumers perceive the Soft-Spray and SuddsiSpray to be replacement products for one another. Both companies compete in the same showerhead markets across Canada and the products were always placed adjacent to each other.<sup>14</sup> While Kane is a larger company than Abel,<sup>15</sup> Dr. Nye Agra confirmed that every SuddsiSpray sale was effectively a lost Soft-Spray sale for Kane.<sup>16</sup>

12. While a survey showed that some SuddsiSpray purchasers are unaware of and do not use the water softening feature, the devices they purchased still have that functionality. This infringement is unchanged by the fact that the NovaSpray, a similarly priced product that looks

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<sup>7</sup> *Ibid* at para 6.

<sup>8</sup> *Abel Enterprises Inc v Kane Industries Inc*, 2011 FCA 455 at para 9 [*Appeal Decision*].

<sup>9</sup> *Trial Decision*, *supra* note 5 at para 7.

<sup>10</sup> *Appeal Decision*, *supra* note 8 at para 6.

<sup>11</sup> *Trial Decision*, *supra* note 5 at para 5.

<sup>12</sup> *Appeal Decision*, *supra* note 8 at para 3.

<sup>13</sup> *Trial Decision*, *supra* note 5 at paras 10, 13.

<sup>14</sup> *Ibid* at paras 10, 13.

<sup>15</sup> *Appeal Decision*, *supra* note 8 at para 6.

<sup>16</sup> *Trial Decision*, *supra* note 5 at para 13.

like both showerheads but does not include the water softening feature, was able to capture 80% of SuddsiSpray's market share with minimal marketing promotion.<sup>17</sup>

13. **Trial Court Decision.** Bassin J. held that Abel infringed Kane's patent and should not be permitted to continue doing so. She awarded a permanent injunction prohibiting Abel from manufacturing and selling the SuddsiSpray showerhead. Bassin J. held that damages should be assessed based on sales attributable to the patented mechanism and awarded \$400,000.<sup>18</sup>

14. **Appeal Court Decision.** The Court of Appeal held that every lost sale because of an infringing SuddsiSpray sale should be compensated and awarded \$2,000,000 in damages. However, Staal J.A. held that the Trial Judge erred in not considering equitable principles and reversed the permanent injunction award.<sup>19</sup>

### **PART III – POINTS IN ISSUE**

15. The issues raised in this appeal and cross-appeal are two-fold:

**ISSUE 1:** Did the Federal Court of Appeal err in failing to grant a permanent injunction? If so, should a permanent injunction be issued by this court?

**ISSUE 2:** In response to the cross-appeal, did the Federal Court of Appeal err in awarding the Appellant/patentee its lost profits flowing from the infringement of the patent?

### **PART IV – ARGUMENTS IN BRIEF**

**ISSUE 1: THE FEDERAL COURT OF APPEAL ERRED IN FAILING TO GRANT A PERMANENT INJUNCTION AND A PERMANENT INJUNCTION SHOULD BE ISSUED BY THIS COURT.**

16. Kane's permanent injunction should be restored. After a finding of infringement of a valid patent, a permanent injunction should be awarded in all but the most exceptional

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<sup>17</sup> *Ibid* at para 15.

<sup>18</sup> *Ibid* at paras 8, 16.

<sup>19</sup> *Appeal Decision, supra* note 8 at paras 3, 5, 11.

circumstances. Equitable factors should be narrowly applied. Even when those factors are considered in this case, they favour granting a permanent injunction.

**A. Permanent injunctions are the usual remedy for infringement and are granted in all but the most exceptional circumstances.**

17. Kane has the sole and exclusive right to construct, use and sell its patented invention under the *Patent Act*. If the court finds infringement, it may, as it sees fit, restrain or enjoin Abel from using, manufacturing or selling the SuddsiSpray.<sup>20</sup> Since the Trial Court determined that the patent is valid and is being infringed,<sup>21</sup> a permanent injunction is the appropriate remedy.<sup>22</sup>

18. A permanent injunction is the common remedy for patent infringement. As a discretionary remedy, however, it may also be refused in an appropriate case.<sup>23</sup> The court should only refuse to grant a permanent injunction in rare circumstances<sup>24</sup> but the criteria for refusal have not been considered in detail by this court.<sup>25</sup>

19. The current state of the law in the United Kingdom has been considered instructive by this court in the development of Canadian patent law.<sup>26</sup> The leading case on injunctions in the United Kingdom is *Shelfer v. City of London Electric Lighting Company* where the Court set out a four condition test for determining when damages may be awarded in lieu of an injunction.<sup>27</sup> While the *Shelfer* test was originally developed in the context of a nuisance case over a century ago, it is still followed and has been applied in recent intellectual property decisions.<sup>28</sup>

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<sup>20</sup> See *Patent Act*, ss 42, 57(1).

<sup>21</sup> *Trial Decision*, *supra* note 5 at paras 6, 8.

<sup>22</sup> See *Janssen-Ortho Inc v Novopharm Ltd*, 2006 FC 1234 at para 133, 57 CPR (4th) 6 [*Janssen-Ortho*]; *Merck & Co v Apotex Inc*, 2006 FCA 323 at para 69, 55 CPR (4th) 1.

<sup>23</sup> M. Rothstein, “Comparing Some Aspects of American and Canadian Patent Litigation” (2011) 24 IPJ 53 at 55.

<sup>24</sup> *Valence Technology, Inc v Phostech Lithium Inc*, 2011 FC 174 at para 240, 92 CPR (4th) 123.

<sup>25</sup> M. Rothstein, *supra* note 23 at 55.

<sup>26</sup> See *Apotex Inc v Sanofi-Synthelabo Canada Inc*, 2008 SCC 61 at para 60, [2008] 3 SCR 265.

<sup>27</sup> *Shelfer v City of London Electric Lighting Company*, [1895] 1 Ch 287 (CA), [1891-94] All ER Rep 838.

<sup>28</sup> See e.g. *Chiron Corporation and Others v Organon Technika Limited (No 10)*, [1995] FSR 325 (Pat) (Patent Case); *Fisher v Brooker*, [2009] UKHL 41, [2009] 4 All ER 789 [*Fisher*] (Copyright Case).

20. The principles that follow from the English approach are that, although it remains a discretionary remedy, permanent injunctions are usually granted against patent infringers. Discretion should only be applied when the defendant shows that the injunction would be oppressive or “grossly disproportionate” to the right protected. Grounds of delay, acquiescence or triviality are also considered.<sup>29</sup> It is a high bar and the House of Lords has held that only in exceptional circumstances will the court refuse an injunction to protect what it considers to be a property right that normally is not subject to the exercise of a court’s discretion.<sup>30</sup> This high standard should also apply in Canada since this court has held that patents are proprietary rights.<sup>31</sup>

21. Applying these principles to this case, there are two clear reasons why a permanent injunction should be granted to Kane. First, Abel cannot show that an injunction is oppressive or grossly disproportionate to the protected right. It can continue to conduct business simply by producing a showerhead without the patented invention. Second, Kane has not engaged in activities that would bar entitlement to a permanent injunction. It did not delay launching proceedings or acquiesce to Abel’s infringement. Kane filed suit less than six months after the SuddsiSpray was introduced into the marketplace.<sup>32</sup> As well, the infringement is not trivial. The SuddsiSpray infringes the whole Kane patent, which covers the entire showerhead, not just the water softening feature.<sup>33</sup>

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<sup>29</sup> D. Vaver, “Sprucing up Patent Law” (2010) 23 IPJ 63 at 80.

<sup>30</sup> *Fisher*, *supra* note 28 at paras 7-8.

<sup>31</sup> *Apotex*, *supra* note 2 at para 37.

<sup>32</sup> *Trial Decision*, *supra* note 5 at para 6.

<sup>33</sup> *Ibid* at para 1.

**B. The Federal Court of Appeal erred in determining that the equitable criteria it applied favour denying a permanent injunction.**

22. The Court of Appeal endorsed criteria that included three equitable considerations: plaintiff's motivation, relative impact of an injunction and length of time remaining on the patent.<sup>34</sup> These three factors favour awarding a permanent injunction in this case.

*i. Kane comes to the court with clean hands, but Abel does not.*

23. Kane appears before the Court with clean hands. Kane's motivation is to restore the exclusive rights granted by the *Patent Act*. Kane seeks to put Abel "out of the business" of selling showerheads that infringe on its valid patent.<sup>35</sup> If Abel does not stop selling the infringing product, then it must be enjoined from doing so.

24. Kane's actions do not rise to the standard required to deny equitable relief. Its actions relate to the selling of showerheads, not to the subject matter of the claim which is the design of the showerhead itself.<sup>36</sup> Kane's past conduct is relevant to the refusal of equitable relief under the clean hands doctrine only where the conduct relates directly to the subject matter of the claim, i.e. the patent.<sup>37</sup> A charge of misconduct based on general morals or personal conduct is not enough.<sup>38</sup>

25. Abel, however, does not appear before the Court with clean hands. Abel was established with the sole purpose of selling a showerhead identical to the Soft-Spray, hiring Karl Kane's

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<sup>34</sup> *Appeal Decision*, *supra* note 8 at paras 6-9.

<sup>35</sup> *Ibid* at para 6.

<sup>36</sup> See *Ibid* at para 6.

<sup>37</sup> *Volkswagen Canada Inc v Access International Automotive Ltd*, 2001 FCA 79 at para 21, [2001] 3 FC 311

[*Volkswagen*]; *Proctor & Gamble Co v Kimberly-Clark of Canada Ltd* (1990), 29 CPR (3d) 545, (FCA) at para 3.

<sup>38</sup> *Volkswagen*, *ibid* at para 21. See also *Weatherford Canada Ltd v Corlac Inc*, 2011 FCA 228 at para 150, 95 CPR (4th) 101. Court noted in *obiter* that in the United States, the doctrine of inequitable conduct requires a significantly higher standard than general good faith.

estranged brother to design it. Its actions go directly to the content of the patent itself and Abel went into this venture with its eyes wide open, having full knowledge of the Kane patent.<sup>39</sup>

**ii. Granting an injunction would not necessarily result in job losses at Abel.**

26. Abel's factory could continue to operate following a permanent injunction. The Court of Appeal held that "granting an injunction *may* result in the loss of... jobs."<sup>40</sup> It erred by not fully evaluating this reasoning. Abel can redesign the showerhead without the infringing mechanism. A permanent injunction does not prevent Abel from selling all showerheads, only those which infringe Kane's patented water softening mechanism.

27. If the Court is concerned with the economic impact of a plant that is idle while the showerhead design is altered or the factory is retooled, then the permanent injunction can be suspended for a reasonable period of time to allow Abel to make these changes.<sup>41</sup>

28. Even if Abel suffers some economic impact, it is a self-inflicted wound. Abel designed and sold a product it knew to infringe a valid patent.<sup>42</sup>

**iii. A permanent injunction for the length of time remaining on the patent restores marketplace dynamics.**

29. In *Apotex Inc. v. Wellcome Foundation Ltd.*, this court held that a patent is "a method by which inventive solutions to practical problems are coaxed into the public domain by the promise of a limited monopoly for a limited time. Disclosure is the *quid pro quo* for valuable proprietary rights to exclusivity which are entirely the statutory creature of the *Patent Act*."<sup>43</sup> To fulfill the bargain promised to the inventor, the full term of twenty years exclusivity<sup>44</sup> granted by the *Patent Act* must be protected regardless of how much time is remaining on the life of patent.

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<sup>39</sup> *Trial Decision*, *supra* note 5 at para 5.

<sup>40</sup> *Appeal Decision*, *supra* note 8 at para 8 [emphasis added].

<sup>41</sup> See e.g. *Janssen-Ortho*, *supra* note 22 at para 133.

<sup>42</sup> *Trial Decision*, *supra* note 5 at para 5.

<sup>43</sup> *Apotex*, *supra* note 2 at para 37.

<sup>44</sup> *Patent Act*, s 44.

Falling short of the full term leaves a gap in protection which undermines the legislative intent<sup>45</sup> of the *Patent Act*.

30. Innocent competitors should not be punished because of their choice to respect the patent. The Court of Appeal held that equity is not served by granting a permanent injunction because of its erroneous view that this would put Abel out of business while any competitor would be able to sell a showerhead with the patented feature when the life of the patent expires in three years.<sup>46</sup> However, not granting the injunction is inequitable because it essentially rewards Abel for infringing the patent while punishing those competitors that respected the patent.

31. Only a permanent injunction for the full term would prevent Abel from being able to springboard into the marketplace. Near the end of a patent, springboarding becomes a special consideration when considering an injunction.<sup>47</sup> Innocent competitors must wait until the patent expires before they can use it. Allowing Abel to continue infringing is unfair because it gets a head start into the marketplace while innocent actors are barred from taking advantage of the patent.

**C. The American *eBay* test for determining when to grant a permanent injunction should not be applied in Canada.**

32. The United States Supreme Court considered the criteria for granting a permanent injunction in *eBay Inc. v. MercExchange, LLC*.<sup>48</sup> In finding that eBay infringed MercExchange's patent for a business method, the Court outlined a four factor test for determining when a permanent injunction should be applied. The Court of Appeal cited *eBay* approvingly, but the *eBay* test should not be applied in Canada.

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<sup>45</sup> R. Dimock, ed, *Intellectual Property Disputes*, loose-leaf (consulted on 20 December 2011), (Toronto: Carswell, 2009), ch 15 at 15-3.

<sup>46</sup> *Appeal Decision*, *supra* note 8 at para 9.

<sup>47</sup> *Baker Hughes Inc v Galvanic Analytical Systems Ltd*, 37 CPR (3d) 512 at para 9, 28 ACWS (3d) 827 (FC TD).

<sup>48</sup> *eBay Inc v MercExchange LLC*, 126 S Ct 1837 at 1839 [*eBay*].

33. Under the *eBay* test, the plaintiff must demonstrate that 1. it has suffered irreparable harm; 2. the available remedies, such as monetary damages, are insufficient to compensate for that harm; 3. the balance of hardships favours a remedy in equity; and 4. the public interest would not be disserved by a permanent injunction.<sup>49</sup>

34. There are four reasons why the *eBay* test for permanent injunctions should not be applied in Canada: 1. it is appropriate for interlocutory injunctions but not for permanent injunctions; 2. it undermines the incentives provided to inventors; 3. it effectively results in a compulsory licensing scheme; and 4. it creates the wrong incentives for large corporations.

*i. The test is appropriate for interlocutory injunctions but not for permanent injunctions.*

35. The *eBay* test resembles the test applied in Canada for interlocutory injunctions and adopting it would make the two regimes very similar. However, they have distinct characteristics and should have separate criteria.

36. The standard for granting an injunction after a finding of infringement should be a lower bar than for an interlocutory injunction. In Canada, the grant of an injunction after trial to protect against an infringement of a valid patent is not subject to the strict tripartite criteria<sup>50</sup> that are applied to interlocutory injunctions.<sup>51</sup> An interlocutory junction is invasive and before trial, it is unsettled whether there has been an infringement so the test should be strict. However, after a trial decision has been rendered, the same considerations do not apply because the court will have decided if there has been infringement. Where infringement is found, a permanent injunction will be justified.

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<sup>49</sup> *Ibid.*

<sup>50</sup> *RJR-MacDonald Inc v Canada (Attorney General)*, [1994] 1 SCR 311 at paras 44-75, 54 CPR (3d) 114 [*RJR*].

<sup>51</sup> *Dableh v Ontario Hydro*, [1996] 3 FC 751 at para 51, 68 CPR (3d) 129 (FCA).

**ii. *The test undermines the incentives provided to inventors.***

37. The incentive to invent is discouraged in two ways. First, if the *eBay* test is implemented in Canada, this harder test will result in fewer permanent injunctions being issued.<sup>52</sup> This signals to inventors that their exclusive patent rights will not be fully protected. Second, the test favours denying injunctions to those inventions that are most beneficial to the public because consideration is given to whether granting the injunction disserves the public interest. This means inventions with the most potential to benefit the public may not be given proper protection.

**iii. *The test effectively results in a compulsory licensing scheme.***

38. A monetary award in lieu of an injunction has the same effect as a compulsory licensing scheme.<sup>53</sup> However, the *Patent Act* already has provisions that define when compulsory licensing can be obtained where there is an abuse of patent rights.<sup>54</sup> In the absence of legislative authority, a court cannot impose such a compulsory license.<sup>55</sup>

**iv. *The test creates undesirable incentives for large corporations.***

39. The *eBay* test provides incentives for large corporations to not negotiate licensing agreements from small non-practising patent owners. Many of these patent owners may have wanted to employ their patents but couldn't secure the financing necessary to do so. With a decreased risk that a permanent injunction will be awarded, large corporations are motivated to

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<sup>52</sup> In the United States, the *eBay* decision has resulted in an increase in denied permanent injunctions. The American Intellectual Property Law Association surveyed permanent injunction cases as of September 2007 and found that pre-*eBay*, 5% of requests for a permanent injunction were denied. Post-*eBay*, it had risen to 26%. Report available at [http://www.foley.com/files/tbl\\_s31Publications/FileUpload137/4541/InjunctiveReliefAftereBay.pdf](http://www.foley.com/files/tbl_s31Publications/FileUpload137/4541/InjunctiveReliefAftereBay.pdf).

<sup>53</sup> *R v James Lorimer & Co*, [1984] 1 FC 1065 at para 11, 77 CPR (2d) 262 (FCA) [*Lorimer*].

<sup>54</sup> *Patent Act*, s 65.

<sup>55</sup> *Lorimer*, *supra* note 53.

infringe these patents. From their perspective, at best, no litigation will result and at worst, a permanent injunction will not be awarded and only monetary damages will be assessed.<sup>56</sup>

**D. Even if the *eBay* test is applied to this case, the factors favour granting a permanent injunction.**

40. As stated above, the *eBay* test requires the plaintiff to demonstrate irreparable harm, insufficiency of available remedies, a balance of hardships that favours granting an equitable remedy, and no disservice to the public interest if a permanent injunction is awarded.<sup>57</sup>

41. Kane has suffered actual irreparable harm, not just speculative harm. Kane has lost market share to Abel.<sup>58</sup> This implies that Kane has suffered harm to its brand from the presence of a copycat product on the market. Brand damage qualifies as irreparable harm because irreparable refers to the nature of the harm suffered rather than its magnitude.<sup>59</sup>

42. Monetary damages alone are insufficient to compensate Kane for the infringement. The damage to Kane's brand recognition or good will cannot be measured.<sup>60</sup>

43. Kane will suffer greater hardships than Abel unless a permanent injunction is granted. Abel can comply with an injunction by not including the infringing mechanism into its production of the SuddsiSpray. This removal of a part will make it cheaper to construct. On the other hand, continued infringement will cause Kane's market share losses and brand damage to increase.

44. The public interest is not disserved by a permanent injunction. Granting the injunction does not remove the patented invention from the marketplace since Kane practices the patent.

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<sup>56</sup> Y. Tang, "The Future of Patent Enforcement After *eBay v. MercExchange*" (2006) 20 Harv JL & Tech 235 at 249-251.

<sup>57</sup> *eBay*, *supra* note 48 at 1839.

<sup>58</sup> A loss of sales implies that some market share is also lost.

<sup>59</sup> *RJR*, *supra* note 50 at para 59.

<sup>60</sup> *Ibid*. See also *z4 Technologies, Inc v Microsoft Corporation*, 434 F Supp 2d 437 at 441 (ED Tex).

The public maintains access at the same cost.<sup>61</sup> In addition, if injunctions are presumed to be granted unless the circumstances fall under narrow exceptions, the increased certainty of being awarded an injunction promotes settlement and reduces litigation costs.

**ISSUE 2: THE FEDERAL COURT OF APPEAL DID NOT ERR IN AWARDING KANE ITS LOST PROFITS FLOWING FROM THE INFRINGEMENT OF THE PATENT.**

45. The Court of Appeal's decision to award damages based on lost profits should be upheld. Damages should be liberally assessed and Kane is entitled to full compensation for profits lost as a result of Abel's infringement. A reduction in damages is inappropriate since the SuddsiSpray showerhead infringes the entire patent. Apportionment principles are not applicable here because this is not a case involving an accounting of profits. The Trial Judge erred in applying apportionment to damages and relying on third party and consumer use data to justify a reduction in damages.

**A. Once infringement and loss have been established, damages should be liberally assessed.**

46. In cases of patent infringement, damages should be liberally assessed.<sup>62</sup> Every infringement is a wrong against the patent holder. Once the patent holder has proven losses as a result of infringement, the patent holder should be fully compensated.<sup>63</sup> Anything less than full compensation would undercut the exclusive right guaranteed by the *Patent Act* and upset the *quid pro quo* offered by patent law. Rights without sufficient protection are hollow.

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<sup>61</sup> The three showerheads are sold at a similar price point. *Trial Decision*, *supra* note 5 at para 15.

<sup>62</sup> *AlliedSignal Inc v Du Pont Canada Inc* (1998), 142 FTR 241 at para 19, 78 CPR (3d) 129 (FC TD) [*AlliedSignal*], citing with approval a statement by Wilberforce LJ in *General Tire & Rubber Co v Firestone Tyre & Rubber Co*, [1976] RPC 197 at 212, [1975] 2 All ER 173 HL (Eng).

<sup>63</sup> *Beloit Canada Ltd v Valmet-Dominion Inc*, [1997] 3 FC 497 at paras 127-130, 73 CPR (3d) 321 (FCA) [*Beloit*].

47. Every SuddsiSpray sale was an infringement of Kane's patent. Each of SuddsiSpray's one million sales by Abel was a lost sale to Kane.<sup>64</sup> Kane is entitled to compensation for each infringing showerhead sold.<sup>65</sup>

48. It is not relevant that Abel could have damaged Kane less by pursuing a non-infringing path.<sup>66</sup> Damages compensate patent holders for actual damages suffered as a result of infringement.<sup>67</sup> An acceptance of hypothetical situations misrepresents what actually happened and increases the complexity, length, and uncertainty of trials. This uncertainty discourages settlement.

49. The patent holder "is entitled to the profits on the sales it would have made but for the presence of the infringing product in the market."<sup>68</sup> Abel chose to sell infringing showerheads and Kane sustained damages "by reason of the infringement."<sup>69</sup> If Abel had not sold the infringing showerheads, Kane would have made the sales.

**B. Damages should be assessed based on infringement of the entire showerhead not a part thereof.**

50. Abel did not simply use a patented component in the showerhead. The entirety of Abel's showerhead is infringing. Kane's patent claim explicitly covers a showerhead comprising the water softening feature.<sup>70</sup>

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<sup>64</sup> *Trial Decision*, *supra* note 5 at paras 10, 13.

<sup>65</sup> *Electric Chain Co of Canada v Art Metal Works Inc*, [1933] SCR 581, 1933 CarswellNat 46 at paras 41-42 [*Electric Chain*].

<sup>66</sup> This principle was established in *The United Horse-Shoe and Nail Co Ltd v John Stewart & Co* (1888), 13 AC 401 at 409, 5 RPC 260 HL (Eng) [*United Horseshoe*]. Halsbury LC states "what does it matter if it is ever so much established that the loss which the pursuers have sustained by the unlawful act of the defenders might also have been sustained by them under such circumstances as would give the pursuers no right of action". *United Horseshoe* is cited with approval in *Jay-Lor International Inc v Penta Farm Systems Ltd*, 2007 FC 358 at para 116, 59 CPR (4th) 228 [*Jay-Lor*].

<sup>67</sup> *Beloit*, *supra* note 63 at para 66.

<sup>68</sup> *AlliedSignal*, *supra* note 62 at para 21.

<sup>69</sup> *Trial Decision*, *supra* note 5 at para 12. The trial judge quoted section 55(1) of the *Patent Act* as the basis to erroneously lower the damages.

<sup>70</sup> *Ibid* at para 1.

51. Damages are always assessed with respect to the entire patented device.<sup>71</sup> When dealing with a combination patent, compensation must be on the basis of the complete article.<sup>72</sup> Since the validity of the patent's claim was not contested,<sup>73</sup> protection must extend to the entire showerhead.<sup>74</sup>

52. Even if the claim is divided into its constituent parts, it is still inappropriate to reduce damages since the water softening feature is only relevant when used with a showerhead.<sup>75</sup> The invention is intended to be used with showerheads and it was only sold as part of a showerhead. The purchase of one is intricately tied to the purchase of the other. Each of Abel's infringing sales resulted in the loss of a showerhead sale for Kane, not just the loss of the water softening feature.

**C. Damages should not be reduced based on the principles established in *Monsanto*.**

53. The Court of Appeal correctly held that the Trial Judge erred in applying the principles from *Monsanto Canada Inc v. Schmeiser*<sup>76</sup> to damages. Apportionment should only apply to an accounting of profits. It is an error to apply apportionment when determining damages.

***i. Damages and an accounting of profits are not interchangeable remedies.***

54. An accounting of profits and damages are alternative remedies.<sup>77</sup> Damages are a remedy granted at common law while an accounting of profits is an equitable remedy. Damages

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<sup>71</sup> See *Canada v Irving Air Chute Inc*, [1949] SCR 613, 1949 CarswellNat 10 at para 27 [*Irving*]. See also *Electric Chain*, *supra* note 65 at para 41.

<sup>72</sup> *Irving*, *ibid* at paras 25-27.

<sup>73</sup> *Trial Decision*, *supra* note 5 at para 6.

<sup>74</sup> This should be contrasted from *Beloit*, *supra* note 67 at para 130. The court did not give full compensation for indirect damages from the sale of non-infringing components. The non-infringing components were not part of the patented article. The facts in *Beloit* would be analogous to seeking compensation for accessories sold in conjunction with a showerhead rather than the showerhead itself.

<sup>75</sup> *Colonial Fastener Co v Lighting Fastener Co*, [1937] SCR 36 established the principle that where the purpose of the patented object was for use with another object, the patent holder would not be properly compensated unless damages were calculated based on both objects. *Beloit*, *ibid* at para 126 made note of *Colonial Fastener* and indicated that damages may be based on an entire article, of which a patented article forms a part, when the patented article is only of importance in its use with the entire article.

<sup>76</sup> *Monsanto Canada Inc v Schmeiser*, 2004 SCC 34, 31 CPR (4th) 161 [*Monsanto*].

compensate the patent holder's loss while an accounting of profits prevents an infringer's unjust enrichment.<sup>78</sup> These remedies are fundamentally different and principles from one cannot be directly applied to the other.

**ii. Apportionment does not apply to damage calculations.**

55. Apportionment is a principle used to calculate the portion of profits that were unjustly received by the infringer.<sup>79</sup> Only the profits made as a result of the infringement are negated.<sup>80</sup> In the case of sales that include non-patented elements, apportionment limits the profits taken to the profits derived directly from the infringement.

56. Apportionment should not be applied to damages. It is applied in an accounting of profits because “[i]t would be unreasonable to give the patentee profits which were not earned by the use of his invention”.<sup>81</sup> This reasoning cannot be transplanted to damages since damages are not concerned with unjust enrichment. Damages compensate for the losses the patent holder would not have suffered but for the infringement. This is fundamentally different from the equitable concern of denying an infringer the profits that resulted from wrongful actions.

57. Apportionment as applied in *Monsanto* cannot be applied to damages. In calculating a remedy, the Court in *Monsanto* only considered what additional profit the infringer derived from the patented invention when compared to the best non-infringing alternative.<sup>82</sup> This approach is inappropriate for damages. With damages, infringers are liable and must compensate patent holders for every infringement, even if the infringement is small or the least useful part of the

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<sup>77</sup> *Ibid* at para 100.

<sup>78</sup> *Lubrizol Corp v Imperial Oil Ltd*, [1997] 2 FC 3 at para 8, 71 CPR (3d) 26 (FCA) [*Lubrizol*].

<sup>79</sup> *Ibid* at paras 8-9.

<sup>80</sup> *Ibid* at para 15.

<sup>81</sup> *Jay-Lor*, *supra* note 66 at para 116. The court cites with approval *United Horse-Shoe*, *supra* note 66 which establishes the principle that apportionment does not apply in damages cases.

<sup>82</sup> *Monsanto*, *supra* note 76 at para 102.

invention.<sup>83</sup> Inventions do not need to be profitable to be patented.<sup>84</sup> Unprofitable inventions would receive no protection if damages are based on profitability to the infringer. Protection of rights cannot rely on market demand.

58. A patent holder is entitled to be compensated for any lost sales or royalties resulting from an infringement.<sup>85</sup> If the patent holder suffers an actual loss as a result of an infringement, the holder should be compensated for that loss regardless of the infringer's profits.

**D. The Trial Judge erred in considering third party success and consumer use when calculating damages.**

59. Third party success and consumer use are factors that should not impact a calculation of damages. These factors do not change the loss suffered by Kane as a result of the infringement and should not reduce the compensation to which Kane is entitled.

*i. NovaSpray's success is not relevant to a calculation for damages.*

60. NovaSpray's success is irrelevant to a calculation of the losses resulting from infringement. A third party's success with a non-infringing alternative does not lessen the actual damages caused by an infringing product. That Abel could have competed without infringing is not relevant since Abel chose to infringe the patent and damaged Kane as a result.<sup>86</sup>

61. NovaSpray's market success was independent from Abel's infringement and it is not possible to draw any conclusions based on NovaSpray's success. NovaSpray's ability to capture the majority of SuddsiSpray's sales without the water softening feature despite limited advertising and promotion and being of similar appearance and price indicates that there was some independent factor that convinced consumers to purchase the NovaSpray.<sup>87</sup> Whatever the

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<sup>83</sup> *Jay-Lor*, supra note 66 at para 116; *Electric Chain*, supra note 65 at para 41.

<sup>84</sup> D. Vaver, *Intellectual Property Law*, 2d ed (Toronto: Irwin Law Inc, 2011) at 337.

<sup>85</sup> *Beloit*, supra note 67 at para 66; *AlliedSignal*, supra note 62 at para 21.

<sup>86</sup> See *Jay-Lor*, supra note 66 at para 115.

<sup>87</sup> Information regarding NovaSpray's success can be found in the Trial Decision, supra note 5 at para 15. More than 50% of SuddsiSpray buyers were aware of the water softening feature. NovaSpray's ability to immediately capture

independent factor may be, it is clear that the water softener is not the sole market factor. NovaSpray's success cannot be relied upon to reach any conclusion with respect to the damage caused by Abel's infringement.

62. The Trial Judge's award of \$400,000 in damages<sup>88</sup> is not appropriate. This award was based on the independent market success of a third party. NovaSpray's success is irrelevant to the losses suffered as a result of Abel's infringement. Damages suffered as a result of infringement should not be retroactively lowered because it was possible for the infringer to compete lawfully. Damages are calculated based on the sales that would have been made but for Abel's infringement.<sup>89</sup> Kane lost sales of one million units due to the SuddsiSpray. If Abel had not sold the infringing showerheads, Kane would have sold an additional one million showerheads. Kane lost \$2,000,000 in profits that it would have earned but for the infringing sales by Abel.

*ii. Client usage patterns are not relevant to a calculation for damages.*

63. Abel's ability to compete directly with Kane as a result of the infringement is not impacted by consumer knowledge of the patented feature. SuddsiSpray's marketing was meant to establish SuddsiSpray as a replacement product for Soft-Spray.<sup>90</sup> Kane's invention was a market success<sup>91</sup> and Abel was able to misappropriate that success by offering an equivalent product to consumers. Abel was only able to offer equivalence by infringing Kane's patent. This

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80% of the market indicates there is an unknown factor contributing to this success. Without this factor, the data suggests 30% of SuddsiSpray's market is unwilling to receive the feature for free. This is inconsistent with the relative market success of Soft-Spray.

<sup>88</sup> *Trial Decision, supra* note 5 at para 16.

<sup>89</sup> *AlliedSignal, supra* note 62 at para 21.

<sup>90</sup> *Ibid* at para 13.

<sup>91</sup> *Ibid* at para 4.

equivalence allowed Abel to compete directly with Kane rather than with the market at large. As a result of the infringement, Kane lost the ability to offer a distinct advantage.<sup>92</sup>

64. Surveys cannot rebut the actions of the infringer. Kane suffered losses as a direct result of Abel's infringement, regardless of consumer use or knowledge.

65. If surveys are deemed useful to a determination of damages, the marketing survey should still be disregarded as it failed to determine the consumer's motivations for making the purchase. The survey only asks about the consumer's use of the product but did not ask the relevant question of why the consumer purchased the specific showerhead. Any sales based on knowledge of functional equivalence would be missed by this survey.<sup>93</sup>

66. An award of \$1,000,000 would be insufficient to cover the damages suffered by Kane. The manufacture and sale of each showerhead was an infringement of Kane's patent. Abel was able to compete directly with Kane as a result of the infringement. Kane is entitled to be fully compensated for the \$2,000,000 in lost sales resulting from the infringement.

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<sup>92</sup> Note that in *AlliedSignal*, *supra* note 62 at para 34, the Court indicates that relative "[a]dvantages of the patented product over competing products" and the "[a]dvantages of an infringing product over the patented product" are relevant factors to consider in determining damages.

<sup>93</sup> *Trial Decision*, *supra* note 5 at paras 1, 15.

**PART V – STATEMENT OF ORDER SOUGHT**

67. The Appellant seeks an order to allow the appeal by reinstating the permanent injunction prohibiting the Respondent from manufacturing and selling the SuddsiSpray showerhead. It also seeks an order denying the cross-appeal, leaving intact the order to assess the quantum of damages based on the Appellant's lost profits.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Signed this 16<sup>th</sup> day of January, 2012.

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Team No. 7A

Counsel for the Appellant

## PART VI – TABLE OF AUTHORITIES

<b>LEGISLATION</b>	<b>Paragraph</b>
<i>Patent Act</i> , RSC 1985, c P-4.	1, 17, 29, 38

  

<b>JURISPRUDENCE</b>	<b>Paragraph</b>
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<i>Proctor &amp; Gamble Co v Kimberly-Clark of Canada Ltd</i> (1990), 29 CPR (3d) 545 (FCA).	24
<i>R v James Lorimer &amp; Co</i> , [1984] 1 FC 1065, 77 CPR (2d) 262 (FCA).	38
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<b>SECONDARY SOURCES</b>	<b>Paragraph</b>
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M. Rothstein, "Comparing Some Aspects of American and Canadian Patent Litigation" (2011) 24 IPJ 53.	18
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