Federal Court of Canada
Trial Division

Section de première instance de
la Cour fédérale du Canada

JUL 3 1 1997

T-2534-85

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Between:

UNILEVER PLC, and
LEVER BROTHERS LIMITED,

Plaintiffs,

- and -

PROCTER & GAMBLE INC., and
THE PROCTER & GAMBLE COMPANY,

Defendants.

REASONS FOR ORDER

Muldoon, J

The plaintiffs move for an order

1 Requiring the defendants Procter & Gamble Inc., and the Procter & Gamble Company ([herein sometimes] Procter & Gamble) to produce documents and other information relevant to the damages issues at the Reference or more particularly set forth in the categories of documents attached as Schedule "A" to this Notice of Motion,

2. Costs of this motion; and

3. Further and other relief.

Just under a month later, but observing the same returnable date and time as stated in the plaintiffs' motion, the defendants move for an order:

1. For directions on the Reference including directing the Plaintiffs and the Defendants to make best efforts to agree on a Statement of Issues,

2. That any issues in dispute between the parties regarding the Statement of Issues be resolved by the Court on a special hearing date to be agreed upon,

3. That the production of documents and examinations for discovery follow the resolution of paragraphs 1 and 2 above,

4. That the issue of whether or not Procter and Gamble's actual profits made after September 1977 on the sales of Bounce are relevant to the determination of the damages in this case be determined by "the trial judge" pursuant to section 6(d) of the Judgment of Mr. Justice Muldoon, or alternatively, by the motion judge who hears 2 above;

5. For the Defendants' costs of this motion; and

6. Further and other relief

That which has the parties now making cross, if not counter motions is their continuing, perhaps eternal, relationship under a judgment of this Court dated April 26, 1993, wherein the plaintiffs' Canadian patent 1,017,101 was declared valid and infringed by the defendants, among other adjudications, as a consequence of which the defendants were made subject to the following provisions:

> 6. The defendants shall pay to the plaintiffs damages by way of royalties upon infringing sales, to be determined on a reference pursuant to the order of the Honourable Mr. Justice Dubé made herein on June 24, 1987, and in accordance with section 39 of the ***Federal Court Act***, such damages to be calculated as hereinafter provided:
>
> (a) the amount of damages payable to the plaintiffs shall be calculated in accordance with the evidence upon, and shall accord:
>
> (i) a generous, but non-confiscatory, rate of royalty on all sales of BOUNCE in Canada, and all sales of Canadian made BOUNCE to the Canadian and overseas markets ever since BOUNCE was imported or assembled and packaged and sold in and from Canada until February 9, 1993, and

(ii) for the period commencing February 10, 1993, until and including the expiry date of the patent, a rate of royalty which is in excess of the rate fixed pursuant to sub-paragraph (i) above, but which is still non-confiscatory,

(b) the defendants shall disclose to the plaintiffs all the documents relevant to the fixing and calculation of the rates of royalty, and the amounts of royalties aforesaid, failing which the plaintiffs shall have a mandatory injunction ordering the defendants under pain of punishment, to produce their books and accounting records as prescribed in paragraph 57(1)(b) of the *Patent Act*,

(c) a reference into the rates and amounts of royalties, aforesaid, and all matters associated with the calculation of the damages shall be determined in the first instance by a referee designated by the Associate Chief Justice pursuant to Rule 500, for enquiry and report to the trial judge;

(d) any outstanding questions, issues or matters shall, pursuant to Rule 504, be referred back to the trial judge;

* * *

9 The defendants shall pay to the plaintiffs pre-judgment interest on their unliquidated claim calculated in accordance with section 138 of the *Ontario Courts of Justice Act*, S O 1984, Chap 11,

10. The defendants shall pay the plaintiffs post-judgment interest on the damages, as well as their taxed costs, at a rate calculated from the date of judgment herein, as determined with section 129 of the *Ontario Courts of Justice Act*, R.S.O 1990, Chap. C-43,

The most important evidence filed by the defendants herein is the affidavit of Ronald M Anson-Cartwright, Chartered Accountant, Chartered Business Valuator, of Toronto He seems to have been influenced to the detriment of his professional good sense by his litigation-hardened client, Procter & Gamble. So Mr. Anson-Cartwright swears.

> 42) The determination of a royalty based on the hypothetical negotiation between the parties at a given point in time is consistent with real world licensing practice as well as general business valuation practice.

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Who says the fixing of royalties, that is, the measure of damages should be as at any given time but the present? Not the trial judge. Why would this Court countenance the infliction by silly games of partial blindness or ignorance on the referee when, by now, all the facts of the defendants' sales are well known? The poor referee will not have to be bedeviled by pretending to be ignorant of the real facts known to willing negotiators playing close-to-the-vest back in a 1977 "hypothetical negotiation" Today both side's positions can be thoroughly and precisely seen through and the referee is entitled to be furnished with as much material which will enable him or her to do so Such is the judgment's meaning. Perhaps the longer the process drags on, the more audit material and accounting papers the plaintiffs will be entitled to, until the very last moment when the defendants will be entitled to a satisfaction piece. So, if the date of fixing the two royalty rates be in the past, the fixing of such rates can be accomplished with today's knowledge

Mr. Anson-Cartwright further deposes·

> 46) Dr. Bernard I. Friedlander, in paragraph 16 of his Affidavit, expresses his opinion that "*in the ordinary course of assessing any royalty, the **single most important factor** is the **economic benefit** of the license in the hands of the licensee* . " While I agree that economic benefit is an important factor, I disagree that the economic benefit is equated to the actual profits It is also not the single most

important factor where contemporaneous licenses and royalty rates are available It must be understood that the parties entering into the licensing agreement would only have had available to them information which existed at the relevant time (which in this case is September, 1977), including projections into the future (projections of anticipated profits as of September, 1977), and actual profits (actual profits available as of September, 1977) for the purpose of quantifying the economic benefit of the license

47) Dr. Friedlander's stated in paragraph 16 that *"a usual starting point for any determination in licensing negotiations is the **forecasted and actual profits** the licensee will derive from the exploitation of the license/patented technology"* I disagree that actual profits, and even forecasted profits, are the usual starting point for licensing negotiations In my view, the negotiators of the license could not have taken the actual profits subsequently earned as a starting point for a royalty determination. Rather, they could only have taken into account actual profits reported from the exploitation of the patent as of the date of negotiations and forecasted profits at that time.

* * *

49) In paragraph 17 of his affidavit, Dr Friedlander states that "the **<u>anticipated profits</u>** of the licensee provide one of the basis for determination of the royalty" He then sets out a quote which states or implies that the profit to be considered is the **anticipated profit** from the invention as follows

> "A fair return is a proper share of the profit the licensee is **<u>anticipated to gain</u>** from the use of the technology Please notice the emphasis on profit In my judgment, proper sharing of **<u>anticipated profit</u>** is the key to any successful technology transfer arrangement "
>
> Wm Marshall Lee
> "Deterring Reasonable Royalty"
> *The Law and Business of Licensing, Licensing in the 1990's*
> Vol. 2, p. 2061 at p. 2062.

> 50) Dr Friedlander then stretches the logic of "anticipated profits" and includes as a proper starting point for the determination of a rate of royalty "the profits earned on the product(s) which embodied the patented invention" and therefore claims that "it is, in my opinion, essential that the Defendants' profitability on the Bounce product be known in order to properly assess what is a generous, but non-confiscatory, rate of royalty"
>
> 51) Dr. Friedlander, in my opinion, illogically concludes that it will be necessary for Procter & Gamble to make available most of their books and accounting records to determine profits in respect of all sales of Bounce in Canada to the expiry of the R/R Patent in September, 1994.

This Court finds that Dr. Friedlander is correct and Mr. Anson-Cartwright is in error as starkly illustrated in his paragraph 52, which runs

> 52) When the list of relevant documents is settled on, it should, in my opinion, include documents in existence at the time of the negotiation, as well as those specific documents (prices and volumes of infringing sales) ordered by Mr Justice Muldoon. In my opinion, it should <u>not</u> contain documents relevant to Procter & Gamble's actual profits after the date of hypothetical negotiation since an award based on these profits was specifically denied by Mr. Justice Muldoon.

Perhaps the term "accounting for profits" has not been adequately explained to Mr. Anson-Cartwright The term can bear at least two common-sense meanings. The first meaning is that for its punishment the infringer must account to the patentee for all of the infringer's ill-got profits and disgorge them to and in favour of the patentee That dessert was not ordered or adjudged in this case: indeed, it is inimical to that which was ordered, damages by way of royalties. That the damages were ordered not to be confiscatory - a restraint on the plaintiffs and a benefit to the defendants - is why the defendants' profits (at least gross and net revenues from sales) are needed to be known to the referee lest he or she award damages by way of royalties which inadvertently slip over the line and actually confiscate some of the defendants' profits. So in the second sense of "accounting for profits", it can be seen that not a penny of the defendants' net profits or revenues can be awarded, but such profits need to be known and disclosed, as a datum, in order to avoid including any in the award of damages. This is common sense and ought to be clear to even a retained expert, of whom there seems to be a superabundance herein

Now, depending on Procter & Gamble's corporate priorities, there is a narrow way out This litigation is in the domain of private law, not public law, and the litigation "belongs" to the litigants without any public interest being involved. So also does the judgment belong to the litigants, and therefore Procter & Gamble is not prevented, by any public policy or interest from waiving or renouncing the benefit accorded to it by the Court in restricting the quantum of damages to "non-confiscatory". If Procter & Gamble's priority be not to disclose profits at all costs, it may renounce or waive its "non-confiscatory" benefit and take the risk that the referee's award of "generous" and ""in excess of" generous royalties might well be confiscatory, and neither the plaintiffs not the Court nor yet the public will care at all. If the defendants wish to do that, they may, but they will have no heard or valid complaint about the quantum thereafter awarded.

If the defendants be unwilling to pursue the risks of that course, they should maintain their "non-confiscatory" benefit and reveal both gross and net revenues and profits on their sales of ***BOUNCE***, thereby giving to them the protection of non-confiscation

The plaintiffs' motion is allowed according to its terms, with costs. If the defendants elect to waive their benefit of "non-confiscation" of profits, they will still need to produce all information and documents sought by the plaintiffs except only such as specifically state pertinent gross and net profits; but the defendants shall not be excused from producing information and/or documents from which the plaintiffs or the referee might be able to infer gross and net profits. After all, while the defendants' net revenues are immunized from payment of damages by the non-confiscation provision, the damages-by-way-of-royalties obviously must be paid to the plaintiffs out of the defendants' gross revenues on their sales of ***BOUNCE*** during all material times

The foregoing directions illustrate why it is a bootless exercise to attempt to go back in time and to reconstruct what might have been negotiated royalties The opportunity is now (and, in effect, always was) lost forever. Had royalties been negotiated prior to infringement of the plaintiffs' patent: either the defendants would have persuaded the plaintiffs to demand moderate royalties in order to keep the defendants' infringing product, ***BOUNCE***, reasonably priced in its market; or the defendants would have increased the price in order to recoup the royalties in whole or in part It is difficult, now to imagine those permutations of circumstances for presentation to the referee in order to strike the two rates of royalties ordered by the judgment However, the Court will not now attempt to prevent the parties' attempt to do so Is it dreaming the impossible dream to hope that the parties might even yet agree on the two generous but non-confiscatory royalty rates? Of course, if the defendants now, or by close of business in the Toronto registry on Wednesday, August 6, 1997, renounce the protection and benefit of the non-confiscatory provision, they risk one or even two confiscatory rates of royalties being assessed by the referee If the defendants do and say nothing about the provision, or submit to it, then the judgment shall stand as written and the defendants shall produce the documents as set forth in Schedule "A" to the plaintiffs' notice of motion (The respective parties might well henceforth be styled judgment creditors and judgment debtors.)

As to the defendants' motion earlier above recited, the matter of profits has been disposed by the above reasons. The defendants may proceed according to the choice above expressed The matter seems, at least to this judge, not to be so unclear or complex as the defendants (judgment debtors) like to let on. The production of documents is ordered herein, and forthwith The plaintiffs may take examinations for discovery of the defendants just as soon as documents are forthwith produced None of this is any surprise to the defendants at this stage of proceedings The issues are not complex, but perhaps this judge sees matters too clearly. So, there is really nothing to the defendants' motion and it will be dismissed

As to costs, the defendants shall pay the plaintiffs' party-and-party costs of the plaintiffs' successful motion just as soon as they can be taxed. They should not be allowed to languish long without taxation and payment On the defendants' unsuccessful motion, for this one time only, there shall be no costs awarded to either side

F.C. Muldoon
Judge

Ottawa, Ontario
July 9, 1997

FEDERAL COURT OF CANADA
TRIAL DIVISION

NAMES OF SOLICITORS AND SOLICITORS ON THE RECORD

COURT FILE NO	T - 2534 - 85
STYLE OF CAUSE	UNILEVER PLC AND LEVER BROTHERS LIMITED v PROCTER & GAMBLE INC , and THE PROCTER AND GAMBLE COMPANY
PLACE OF HEARING	TORONTO, ONTARIO
DATE OF HEARING	JUNE 3, 1997

REASONS FOR ORDER OF THE HONOURABLE MR. JUSTICE MULDOON

DATED JULY 9, 1997

APPEARANCES

W Ian C Binnie	FOR PLAINTIFFS
Ronald E Dimock	FOR DEFENDANTS

SOLICITORS OF RECORD

McCarthy, Tétrault Toronto, Ontario	FOR PLAINTIFFS
Dimock, Stratton, Clarizio Toronto, Ontario	FOR DEFENDANTS

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