

Date: 20030526

Docket: A-226-00

Citation: 2003 FCA 234

CORAM: STONE J.A.

NOËL J.A.

SEXTON J.A.

BETWEEN:

APOTEX INC.

pellant

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and

BERNARD SHERMAN

pellant

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MERCK & CO., INC. and MERCK FROSST CANADA & CO.

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Heard at Toronto, Ontario, on April 8 and 9, 2003.

Judgment delivered at Ottawa, Ontario, on May 26, 2003.

REASONS FOR JUDGMENT

BY:

SEXTON J.A.

CONCURRED IN

BY:

STONE J.A.

ËL J.A.

NO

REASONS FOR JUDGMENT

SEXTON J.A.

[1] This is an appeal and cross-appeal from the Judgment of MacKay J., dated March 7, 2000 [*Merck & Co. v. Apotex Inc.* (2000), 5 C.P.R. (4th) 1], which held that both Apotex Inc. and Dr. Bernard Sherman, who at the time was the President and Chief Executive Officer of Apotex Inc., were in contempt of court, and from the Supplementary Judgment of MacKay J. dated June 5, 2001 imposing fines in respect of the contempt and awarding costs in favour of the respondents on a solicitor and client basis .

[2] In the 1990s, the leading prescription drug in Canada in sale value was enalapril maleate, for which Merck held a patent. Apotex Inc. ("Apotex") manufactured its generic equivalent. Merck alleged infringement and on December 14, 1994, MacKay J. released Reasons for Judgment in which he found infringement and held *inter alia* that Merck & Co., Inc. ("Merck") was entitled to a permanent injunction restraining further infringement on the part of Apotex. He also directed that counsel for the parties submit, for the Court's consideration, a draft judgment incorporating his findings. On December 15, 1994, before counsel had even commenced to discuss such a draft, Apotex sold \$9 million worth of the drug. This equated to a month of normal sales by Apotex. The main issue in this case is whether Apotex's actions amounted to a contempt of court.

Facts

[3] The Respondent Merck is a United States corporation organized under the laws of the State of New Jersey, where it has its principal place of business. It is the owner of the Canadian patent for enalapril maleate, issued on October 16, 1990, which was the basis of the patent infringement action initiated by Merck on September 20, 1991. Merck Frosst Canada Inc. ("Merck Frosst") is a corporation organized under the laws of the province of Ontario, a wholly owned subsidiary of Merck. Merck Frosst is the exclusive licensee of Merck, under the patent, in Canada.

[4] The patent includes the claimed invention of enalapril maleate which, when combined into tablets or liquid dosage form, provides a product that can be dispensed as a prescription drug to members of the public for treatment of hypertension and congestive heart failure.

[5] After enalapril maleate's introduction into the Canadian market in 1987 under the trade name VASOTEC, it became a popular product. In 1993, sales were in excess of \$150 million, and it was said to have been the leading prescription product in sales value in Canada. It constituted nearly one-third of total sales by Merck Frosst's pharmaceutical division. On a worldwide basis, it was said to be the second most valuable prescription drug sold.

[6] The Appellant, Apotex, is a manufacturer and distributor of generic pharmaceutical products. Apotex has neither sought, nor ever held, a license from Merck to import, manufacture, export or sell enalapril or enalapril maleate for use or consumption in Canada or in any other

place. In February 1990, Apotex applied to Health and Welfare Canada for a Notice of Compliance ("NOC") to market in Canada its version of enalapril maleate under the trade name APO-ENALAPRIL. When an NOC was not forthcoming, Apotex applied in late December 1992 for a *mandamus* order to compel the Minister to issue the notice. In turn, Merck applied for an order to prohibit the Minister from issuing an NOC to Apotex. Mr. Justice Dubé ordered that an NOC be issued and dismissed Merck's motion. This decision was upheld on appeal to this Court. Consequently, on September 2, 1993, Apotex received an NOC authorizing sale in Canada of APO-ENALAPRIL in tablet form. The tablets are similar in size, shape, colour, and concentration to Merck Frosst's VASOTEC tablets.

[7] Merck then applied for an interim and interlocutory injunction to restrain Apotex from selling its APO-ENALAPRIL product pending trial of the patent infringement action. Even though the injunction was refused on November 4, 1993, Apotex was ordered to maintain accounts of sales and shipments pending disposition of the action. Arrangements were also made for an expedited trial in the matter. The trial occurred in March and April 1994.

[8] On December 14, 1994, MacKay J. released his Reasons for Judgment [*Merck & Co. v. Apotex* (1994), 59 C.P.R. (3d) 133]. The Reasons were faxed to the office of counsel for Apotex, Mr. Radomski, at 2:53 p.m. on the same date. After finding infringement, the Reasons dealt with the relief sought by the plaintiffs, Merck, in the following terms:

... On the basis of my findings, they [the plaintiffs] are entitled to

(a) a declaration that claims 1 to 5 and 8 to 15 of Canadian Letters Patent No. 1,275,349 have been infringed by the defendant;

(b) a permanent injunction restraining the defendant by its officers, directors, servants, agents, employees or otherwise from infringing claims 1 to 5 and 8 to 15 of Canadian Letters Patent No. 1,275,349.

(c) an order ... for delivery up, or destruction under oath or under supervision of this Court, of all compositions, that is, APO-ENALAPRIL products, not including bulk enalapril maleate held in inventory ...

...

At the conclusion of trial in this matter, counsel suggested that formal judgment might most appropriately be considered after an opportunity for consultation between counsel, and if desirable a further appearance, before the Court, concerning the terms of judgment in light of my findings and conclusions. That seems to me an appropriate course at this stage, in particular since judgment will be rendered after a delay following trial which was unanticipated and for which I express my regret.

In the circumstances, these Reasons are filed with this final direction and an invitation to counsel for the plaintiffs to consult with counsel for the defendant on appropriate terms of the final judgment to be filed in light of my conclusions as set out in these Reasons. Counsel for plaintiffs should prepare a draft judgment, seek approval of counsel for the defendant as to its form and, if possible, its content, and submit the draft for consideration by the Court. If counsel for either or both of the parties wishes to be heard on the matter, a hearing shall be arranged.

[9] After receiving the Reasons, Dr. Sherman and Mr. Kay, the Executive Vice-President of Apotex, discussed by telephone with Mr. Radomski on the evening of December 14th their understanding of the Reasons. According to Apotex, the participants all interpreted the Reasons to reflect the Court's intention to permit the continuation of sales activities until the terms of the Judgment were settled. Apotex and Mr. Radomski expected that MacKay J. could have been persuaded to incorporate a term in the Judgment which would have permitted Apotex to sell the remainder of its existing inventory of finished tablets on the same terms as the previous unsuccessful request for an interlocutory injunction.

[10] On the evening of December 14, 1994, counsel for Merck sent a letter to Mr. Radomski, urging Apotex to suspend its sales of APO-ENALAPRIL on the basis that the Reasons had already imposed an injunction. The letter requested confirmation that "Apotex will cease to manufacture, deliver, distribute, sell or offer for sale its Apo-enalapril product", "will do nothing to dispose of its inventory", and "will advise its customers immediately that there is an injunction in place to that effect". Mr. Radomski responded by letter, dated December 14, 1994, and advised that Apotex held a fundamentally different interpretation of the Reasons - Apotex was of the view that the Reasons did not require the company to stop selling, and that business would continue as usual, at least until a formal Judgment and injunction was filed. Mr. Radomski also advised in this letter that they would be appealing the decision of MacKay J. and would be seeking a stay of any permanent injunction ordered pending disposition of the appeal. On December 15, 1994, counsel for Merck sent a letter to Mr. Radomski, which was received at 10:03 a.m., disagreeing with Apotex's position:

I have just received your letter of December 14, which arrived in our office at 9:39 last evening, in response to mine of the same date, and I have just this moment read it.

I take strong exception to your interpretation of the Reasons for Judgment of Mr. Justice MacKay and the terms of the Judgment which are set out at page 61 of those Reasons.

As I advised you in my letter yesterday, it is clear in my view that an injunction is presently in place and that any action by your client to continue to sell Apo-enalapril at this time would be in breach of that injunction. The point that you raised was considered by the Supreme Court of Canada and found against you. I refer you in particular to, first of all, the trial decision of Mr. Justice Gibson in *Baxter Travenol v. Cutter* (1981), 52 CPR (2d) at page 63, and in which His Lordship expressed in his Reasons for Judgment the terms of judgment which were to be embodied in a formal document thereafter.

That decision of Mr. Justice Gibson was considered by the Supreme Court of Canada in the same case as reported in (1984), 75 C.P.R. (2d), page 2, in which the Court held that the injunction was in place from the moment that the Reasons for Judgment were delivered.

I repeat what I said in my letter yesterday and ask for your immediate confirmation that your client has stopped all activities that would be in breach of the injunction.

I can assure you that this matter is being treated extremely seriously by my client and I expect that you will immediately instruct your client to cease and desist any further infringing activities and obey the injunction of the Court. Any communication your client has made to a provincial authority advising that no injunction is in effect must be immediately retracted. [emphasis in original]

[11] On the morning of December 15th, newspapers reported that APO-ENALAPRIL had violated the Merck patent and that MacKay J.'s ruling restrained Apotex from manufacturing and selling the product.

[12] At 11:15 a.m., Richard Barbeau, Vice President of Sales and Marketing of Apotex ("Mr. Barbeau"), either personally or through the Apotex sales organization, contacted all of Apotex's customers. These customers were assured that Apotex was still selling APO-ENALAPRIL, but were advised that there was a possibility that Apotex could be enjoined in the future. According to Mr. Kay's testimony, the customers were informed that Apotex was "free to continue to sell" APO-ENALAPRIL. The customers were told that "we could continue to sell, we don't know what the future is going to bring in the product, buy what you want to buy". In addition to the telephone calls, Apotex issued an information circular titled INFO Rx, which was written and signed by Dr. Sherman in the mid-afternoon on December 15th. This circular was sent on-line and by facsimile to all Apotex's customers. Dr. Sherman also prepared a press release in the same terms which was issued simultaneously to the media. The documents advised:

... On the other hand, yesterday, in a related litigation, the Federal Court released a decision against Apotex in favour of Merck. Apotex is immediately appealing this decision to the Federal Court of Appeal. We are also applying for a stay of any injunction pending appeal. Apotex and its solicitors are confident that we will prevail upon appeal of this particular decision.

No injunction has been directed against pharmacists, and we are hopeful, as aforesaid, that a stay pending appeal will prevent any disruption of continuing supplies.

The INFO Rx also stated:

We are concerned that you will again be subjected to pressure from Merck not to dispense APO-ENALAPRIL.

No injunction has been directed against pharmacists, and we are hopeful, as aforesaid, that a stay pending appeal will prevent any disruption of continuing supplies.

[13] At 11:30 a.m., Mr. Radomski received Merck's December 15th letter, which made reference to *Baxter Travenol Laboratories of Canada Ltd. et al. v. Cutter (Canada) Ltd.*, [1983] 2 S.C.R. 388, (1984) 75 C.P.R. (2d) 1 (S.C.C.) ["*Baxter v. Cutter*"], by hand-delivery, as he was in court at the time. According to Dr. Sherman's evidence, Mr. Radomski called him around noon advising that he received the December 15th letter from counsel for Merck. Mr. Radomski advised that Apotex should stop selling, and Dr. Sherman testified that he instructed Mr. Kay to "stop selling" as soon as he got off the phone, but gave no direct instructions to Mr. Barbeau and the Apotex sales staff. According to Dr. Sherman, "stop selling" meant that the inventory was frozen on the computer. When inventory is "frozen", invoices are not generated for customer orders. However, invoices already generated continued to be processed, meaning that the product was still picked, packed and shipped. No instructions were given by Dr. Sherman to stop processing the orders already received.

[14] Despite this "stop selling" order by Dr. Sherman, oral evidence from Kohlers Distributing Ltd. ("Kohlers"), a distributor of Apotex products, confirms that sales by Apotex continued long into the afternoon on December 15, 1994. MacKay J. found that a sale occurred as late as 4:00 p.m. Apparently, at about 4:00 pm, Mr. Barbeau called Mr. Organ, an employee of Kohlers, and subsequently an APO-ENALAPRIL order exceeding \$866,000 was placed.

[15] On December 15, 1994, Apotex issued 481 sales invoices totalling \$8,213,693.21 in sales of APO-ENALAPRIL to Canadian customers and an additional two invoices totalling \$580,130.40 U.S. (\$804,640.86 Cdn) to export customers, for a total exceeding \$9 million. This single day of sales was the equivalent to more than an average month of sales, 7.5 times greater than the previous highest day of sales, and more than 20 times the daily average of sales.

[16] On December 16, 1994, at about 8:26 a.m., Mr. Radomski faxed a letter to the Court:

Our client respectfully requests that an emergency conference call be convened today between counsel for the parties and the Honourable Mr. Justice MacKay. The purpose of this conference is to seek an interim stay of the implementation of the reasons for Judgment issued by Mr. Justice MacKay pending the return of Apotex' motion to stay the Order of Mr. Justice MacKay pending appeal therefrom. We would seek to schedule the latter motion next week.

Also, at about 10:58 a.m., Mr. Radomski sent a Draft Notice of Motion, unsworn affidavit of Dr. Sherman, and a covering letter to the Court Registrar and to counsel for Merck.

[17] Throughout the morning and early afternoon on December 16, 1994, Apotex continued shipping APO-ENALAPRIL that had been invoiced but not yet processed on December 15th.

[18] Mid-morning on December 16th, counsel for Merck responded by letter to Apotex's request for an emergency conference:

I object to a matter as serious as the suspension of a permanent injunction being dealt with by conference call with the trial judge. Mr. Radomski has the obligation to bring a proper motion before the Court for a suspension of the injunction and our client has the right to respond to such a motion and to have an opportunity for a full and proper hearing before the Court on this very serious matter.

Mr. Radomski responded by letter at about 12:43 p.m. the same day, repeating the request for an urgent emergency telephone conference call for the hearing of an interim stay motion. MacKay J. did not speak to counsel but issued directions which were read to Mr. Radomski over the phone by the Court Registry at about 1:45 p.m. MacKay J.'s Direction stated:

1. Judgment in this matter has not been filed, as the Reasons for Judgment now issued indicate, pending opportunity, as requested by counsel at conclusion of the trial, for counsel to make submissions concerning terms of judgment to implement the Reasons.

2. As I understand it there is no formal decision until judgment is filed, and thus nothing to be appealed from and no judgment to be stayed until a judgment is filed.

3. If the parties cannot agree on the terms of judgment and either wishes to be heard on that matter the Court will arrange a hearing at the mutual convenience of counsel at the earliest opportunity.

4. If Apotex applies by motion for a stay of Judgment when it is filed, Merck requests that application be heard by personal appearance of counsel, not by telephone conference. The Court would arrange for a hearing by personal appearance at the earliest opportunity convenient for counsel.

5. Counsel should consider whether a hearing by personal appearance can be arranged by agreement between them to 1) settle terms of judgment in accord with the Reasons now issued, 2) deal with any application to stay implementation of the judgment pending any appeal by Apotex, 3) terms, if any, for a reference as to damages / profits in accord with the earlier consent Order in this action, or any of these matters.

6. The only useful purpose of a telephone conference on an urgent basis would appear to be to seek possible agreement on a date or dates when matters listed in item 5 (above) might be heard. Counsel are requested to consult and advise the Registry if such a telephone conference is desirable. [my emphasis]

[19] It should be noted that neither the Draft Notice of Motion, nor correspondence to the Court from Mr. Radomski, referred to the sales activity of APO-ENALAPRIL by Apotex on December 15, 1994, or that Apotex was of the view that they were at liberty to keep selling.

[20] According to Dr. Sherman, Mr. Radomski called and advised him that "the court had confirmed [by the Direction] that we were correct, and that there was no injunction in effect and we were free to sell the product". Clearly, MacKay J. had not been asked, nor did he address, whether Apotex was "free to sell the product". Sales of APO-ENALAPRIL resumed by order of Dr. Sherman at that time.

[21] Between 4:35 p.m. and 5:40 p.m. on December 16th, a telephone conference was held, during which MacKay J. was advised by Merck of the *Baxter* case and of the fact that Apotex was continuing to sell APO-ENALAPRIL. As a result, MacKay J. issued a further direction, in which he made specific mention of *Baxter v. Cutter*. He later explained this direction in his Reasons on Apotex' stay motion, rendered January 24, 1995 [(1995), 60 C.P.R. (3d) 31]:

... In the absence of any expressed intention with respect to the effective date of an order in the nature of an injunction as provided by my reasons for judgment, the circumstances were similar to those in *Baxter Laboratories of Canada Ltd. v. Cutter (Canada) Ltd.* (1983), 75 C.P.R. (2d) 1, 2 D.L.R. (4th) 621, [1983] 2 S.C.R. 388. ... Yet Dickson J., as he then was, for the Supreme Court of Canada, held that a party to an action, having notice from its reasons for judgment that the court has determined an injunction would issue to preclude actions found to infringe patent rights, is liable for contempt if it continues activities which would be enjoined when the court's formal order is signed and filed.

[22] As a result of this telephone conference, Mr. Radomski called Dr. Sherman, advising that Apotex should stop selling. On Dr. Sherman's instructions, Apotex again froze its inventory. However, already generated invoices continued to be processed - shipments and deliveries of APO-ENALAPRIL continued well past December 16th. The full extent of these shipments is not known. However, MacKay J. found that there were at least five deliveries of APO-ENALAPRIL on Saturday, December 17, 1994, 63 deliveries on Monday, December 19, 1994, and one delivery of \$87,953 of APO-ENALAPRIL on Tuesday, December 20, 1994.

[23] By the close of business on December 16, 1994, Apotex had issued a further 238 invoices for APO-ENALAPRIL to Canadian customers, totalling \$362,652.54.

[24] Merck's motion to settle the terms of the Judgment on patent infringement and Apotex's motion for a stay of Judgment were argued before MacKay J. on December 21, 1994. The Judgment in the action was issued on December 22, 1994, and included orders for an injunction and a delivery up in the following terms:

3. The Defendant, by its officers, directors, servants, agents, employees, or otherwise, is hereby restrained and enjoined from infringing claims 1 to 5 and 8 to 15 inclusive of Canadian Letters Patent No. 1,275,349, and in particular from manufacturing, using, offering for sale and selling, in Canada or elsewhere, APO-ENALAPRIL tablets or any tablets or other dosage forms containing enalapril maleate as an active ingredient, whether such manufacture or sale be from

- (a) bulk enalapril or enalapril maleate acquired prior to the grant of the patent, or
- (b) any quantities of bulk enalapril maleate acquired after the grant of the patent.

4. The Defendant shall forthwith deliver up, or destroy under the supervision of this Court all compositions, that is, APO-ENALAPRIL products and any compositions or dosage forms containing enalapril maleate, as well as bulk enalapril maleate manufactured by Delmar Chemicals Inc. ...

[25] On December 23, 1994, MacKay J. issued an interim stay of the injunction, pending further hearing in early January, "insofar as it enjoins the defendant from offering for sale or selling APO-ENALAPRIL tablets in response to *bona fide* orders from pharmacists in the regular course of business". Consequently, sales of APO-ENALAPRIL resumed on December 23, 1994, and substantial sales were made during this period.

[26] Following a further hearing, MacKay J. dismissed Apotex' application for a stay of the Judgment on January 9, 1995. This withdrawal of the interim stay order was made effective after ordinary business hours on Monday, January 9, 1995. The Order of January 9, 1995 stated:

Upon the Court *ex propriu motu* considering that in this case the positions of third parties, engaged in distribution, purchase or sale of drug products at the wholesale or retail level, or health authorities, or institutions not being parties to this action, should be clarified in the interests of orderly marketing:

This court orders that:

....

2. The interim stay of the injunction ordered herein on December 23, 1994, pending ultimate determination of the defendant's motion for a stay, is withdrawn and is of no force and effect after the hour ordinarily fixed for close of business by the defendant at its various local office sites, on Monday, January 9, 1995.

3. Third parties, not having been parties to the action herein, who have acquired in good faith property in APO-ENALAPRIL products made by the defendant, before the close of business on January 9, 1995, shall be deemed not to be in violation or contempt of any order of this Court by their possession, distribution, sale or consumption of those products whether before or after January 9, 1995.

Therefore, the injunction was in full force and effect at the close of business on January 9, 1995.

[27] Commencing on January 10, 1995, Dr. Sherman declared a blanket "no returns" policy for APO-ENALAPRIL. This "no returns" policy was a change from Apotex's usual policy to accept returns due to overstock, stale-dating, defect or damage. MacKay J. found that, in order to avoid the consequence of the returns, Mr. Barbeau and his sales force were "imaginative": Apotex sales representatives assisted in arrangements to re-direct APO-ENALAPRIL between customers by offering distribution allowances and discounts and by issuing credits to customers to facilitate sales transactions. For instance, Apotex entered into a commercial arrangement with Kohlers whereby Apotex sales representatives directed returns of APO-ENALAPRIL from its customers to Kohlers. In general, Kohlers was a distributor who purchased pharmaceuticals from manufacturers including Apotex, reselling them to pharmacies. Kohlers was paid a distribution allowance by the pharmaceutical manufacturers to sustain its business. With respect to sales, Kohlers usually received an allowance of a 6% deduction or credit on its purchases from Apotex. According to the evidence, Mr. Barbeau initiated contact with Kohlers to determine whether Kohlers would be willing to purchase inventory from other sources, including from pharmacies who were not customers of Kohlers, and then sell the returned product to other customers. For this particular arrangement, Kohlers received a 6% distribution allowance, and, in some cases, an additional 4% prompt payment discount from Apotex. The allowances facilitated the transactions and avoided the return of APO-ENALAPRIL to Apotex, which would have resulted in a loss of the product. Gary Timm, Merck's forensic accountant, was of the opinion that the transactions were sales of APO-ENALAPRIL by Apotex to Kohlers. According to the Respondents, the total amount involved in such transactions in the period amounted to about \$1,561,170.21, plus additional unknown amounts.

[28] On April 19, 1995, the Federal Court of Appeal delivered its Judgment with respect to Apotex's appeal of the judgment of MacKay J. at trial [[1995], 2 F.C. 723]. The Court allowed the appeal in part. It indicated that section 56 of the *Patent Act*, R.S.C. c. P-4 allowed an infringer to use or sell an article without being liable to the patentee if the infringer "purchased, constructed or acquired" the article before the patent became open for public inspection. The Court held at para. 16 that "most of the enalapril maleate acquired by the appellant was shipped by the supplier, before the grant of the patent" and, thus, was non-infringing. However, the Court still declared three lots of enalapril maleate to be infringing because these lots were not re-purified until after the issuance of the patent.

[29] Being concerned about possible further infringements, counsel for Merck made repeated requests for compliance with earlier production Orders. Apotex produced on March 7, 1995 about 15 boxes of APO-ENALAPRIL invoices for the period October 3, 1994 to January 9, 1995. Relying on the analysis of these invoices, counsel for Merck brought a motion for a show cause order. On April 27, 1995, Pinard J. issued a Show Cause Order, charging Apotex with two acts of contempt, "all so as to defeat and subvert the Court's process herein and render nugatory the permanent injunction" by: (1) selling and causing to be sold APO-ENALAPRIL during the period between December 14 and 22, 1994 ["December sales"]; and, by (2) aiding and abetting in the transfer, distribution and sale by third parties, among themselves, during the period January 9, 1995 to date ["post-January, 1995 aiding and abetting"].

[30] Apotex brought a number of preliminary motions with respect to this Show Cause Order between November 27 and December 4, 1995. These motions sought *inter alia*: (1) to dismiss or permanently stay the show cause hearing; (2) to quash *subpoenas duces tecum* issued; (3) to disqualify Gowlings, solicitors for Merck, as prosecutor; and, (4) to prevent use in the show cause hearing of documentation or information obtained from Apotex as a result of a Court order in the patent proceedings. Specifically, the basis of the preliminary motion alleging prosecutorial misconduct and seeking to remove Gowlings as prosecutor of the contempt charge was the idea that contempt proceedings are criminal in nature. As a result, Apotex argued it had the right to have the alleged contempt prosecuted by the Attorney-General, or at least by a prosecutor independent from counsel for Merck. Apotex alleged that counsel for Merck acted with impropriety because of their "vindictive attitude" and inability to act with "the fair impartial demeanor proper for a prosecutor".

[31] MacKay J. issued three orders with respect to these preliminary motions on January 23, 1996. He refused all relief sought by Apotex, except that he quashed the subpoena issued to Mr. Kay. With respect to the motion for a stay and to remove Gowlings as solicitors, he stated:

I am not persuaded that the proceedings now initiated before the Court demand special arrangements for their prosecution, aside from those already established by jurisprudence of this Court in relation to contempt proceedings under Rule 355, and applicable principles under the *Charter* or the *Canadian Bill of Rights*. It is the responsibility to the Court to ensure that in the proceedings, rules of fundamental justice and due process of law are followed. ...

I am not persuaded that the conduct complained of can be characterized as abusive of the court's process or as otherwise tainting the process so as to warrant dismissal or a stay of further proceedings, or of an order to disqualify and restrain plaintiffs' solicitors from continuing to act in these proceedings.

[32] The orders of MacKay J. on these preliminary motions were appealed by Apotex. The show cause hearing was adjourned *sine die* on consent pending resolution of these appeals. The Court of Appeal dismissed all appeals with costs on October 31, 1996 [(1996), 70 C.P.R. (3d) 309]. On May 22, 1997, the applications for leave to appeal were dismissed by the Supreme Court of Canada [[1996] S.C.C.A. No. 638].

[33] The show cause hearing was commenced in July of 1997 and was not completed until February of 1998. At the close of the prosecutor's case, on February 25, 1998, Apotex again moved for an order dismissing or permanently staying the contempt proceedings. Again, Apotex argued that counsel for Merck had conducted the case in a manner fundamentally inconsistent with the obligations of the office of prosecutor, and that, as a consequence, Apotex had been denied its right to be tried in accordance with the principles of fundamental justice. As an alternative to this order for dismissal or permanent stay, Apotex sought an order staying the proceedings until the duties of Merck had been assumed by an impartial and disinterested

prosecutor. Apotex argued many of the same allegations of impropriety as in its preliminary motion on this issue. In addition, Apotex argued that it suffered non-disclosure or late disclosure of evidence with respect to testimony, and improperly asserted privilege. MacKay J. dismissed this motion by Order dated June 24, 1998, with Reasons dated July 22, 1998 [T-2408-91]. It should be noted that at no time did Apotex or Dr. Sherman give Notice of a Constitutional challenge under section 57 of the *Federal Court Act*, nor at any time did Apotex or Dr. Sherman ask the Attorney General of Canada to conduct the show cause proceedings.

[34] MacKay J. issued his Reasons for Judgment with respect to the contempt proceedings on March 7, 2000, finding that Apotex and Dr. Sherman were both in contempt of court.

Findings of the Trial Judge on Contempt

[35] MacKay J. made the following specific findings in his Judgment. He concluded that both Apotex by its officers and Dr. Sherman in his personal capacity committed contempt by carrying out the December sales of APO-ENALAPRIL after Dr. Sherman had read the Reasons for Judgment dated December 14, 1994. "These Reasons indicated that, as of that day, the Court had resolved that Merck was entitled to a permanent injunction prohibiting Apotex by its officers, and others, from infringing upon the valid claims of Merck's patent." Citing *Baxter v. Cutter, supra*, MacKay J. stated that the action taken in the interim period between the Reasons for Judgment being released and the formal Judgment being filed may constitute contempt, if, with knowledge of the Reasons, one acts in a manner that the Court has clearly indicated in its Reasons is prohibited. In this case, MacKay J. found beyond a reasonable doubt that this test had been met, and recited at paragraph 26 Dickson J.'s words at page 8 in *Baxter v. Cutter* as deciding the matter:

... Once a judge has rendered his decision by giving reasons, and assuming any prohibitions contained therein are clearly worded, it is not, in my view, open to any person to flout his disposition of the case on the ground that there is no judgment yet in effect. The situation after reasons for decision is very different from a situation in which the defendant acts prior to any court determination. Once reasons for decision have been released, any action which would defeat the purpose of the anticipated injunction undermines that which has already been given judicial approval. Any such action subverts the processes of the court and may amount to contempt of court.

[36] MacKay J. concluded that Apotex, but not Dr. Sherman personally, had committed contempt of court by aiding and abetting the third party sales between January 9, 1995 and April 27, 1995. He found at paragraph 57 that "by facilitating sales of its product among third parties, not merely by exchange of information but by its financial involvement in providing distribution allowances and prompt payment allowances, [and by] treating some transactions as if they were sales made directly by Apotex to third party purchasers" Apotex "did interfere with the orderly administration of justice and did impair the authority and dignity of the Court". These transactions "were not transactions exclusively between third parties", and "Apotex' actions in relation to these transactions ... did subvert the Court's process".

[37] On the issue of prosecutorial misconduct, MacKay J. stated that he was not persuaded that any of the alleged conduct impaired the opportunity for the moving parties to make full answer and defence.

[38] In Supplementary Reasons, MacKay J. imposed a \$250,000.00 fine on Apotex and a \$4500.00 fine on Dr. Sherman personally [(2001), 12 C.P.R. (4th) 456]. He considered the following factors in coming to this decision: (1) the apology of Dr. Sherman, as a mitigating factor; (2) the January facilitating activities of Apotex, which came "close to deliberate flaunting of the Court's Judgment, in spirit at least"; (3) the extraordinary nature and severity of the contempt, as an aggravating factor; (4) the damages suffered by Merck, such that the profits garnered by Apotex through its actions were irrelevant; (5) the past conduct of Apotex, as a mitigating factor, and the future deterrence of similar behaviour as being of insignificant weight; and, (6) the fact that Apotex acted on the advice of counsel, as a mitigating factor.

[39] Finally, MacKay J. determined that Merck should be paid costs on a solicitor-client basis in a fixed lump sum in the amount of \$1,500,000.00, for which the defendants, Apotex and Dr. Sherman, would be jointly and severally liable [[2002] FCT 1210; [2002] F.C.J. No. 1637]. He stated at paragraph 20 that "the party who assumes that responsibility [on behalf of the public] ought not to be left to bear costs incurred to establish contempt where contempt is found". MacKay J. considered the following factors in making this decision: (1) the result of the proceeding; (2) the importance and complexity of the proceeding; (3) the public interest in having the proceeding litigated; and (4) the fact that the manner in which Apotex and Dr. Sherman defended their positions resulted in increased costs for Merck, especially since Apotex brought a number of unsuccessful motions to stay the proceedings.

Appellants' Arguments

[40] With respect to the December sales period of contempt, Apotex argues that the test with respect to the level of intent necessary for proving contempt is different for a breach of a formal order under the first branch of Rule 355(1) than for an interference with the orderly administration of justice with respect to Reasons for Judgment under the second branch of Rule 355(1). With respect to the first branch, where there is a breach of an order that is clear and unambiguous, the mental elements of the offence consist of acting deliberately or wilfully "with full knowledge of the existence and terms of the injunction issued". The intention to commit an act proscribed by that Order is sufficient to prove contempt. However, with respect to the second branch - acting "in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court" - the test requires a demonstration of contumacy, thus obliging the prosecutor to prove beyond a reasonable doubt that the accused engaged in conduct knowing that the Court intended to prohibit it. The prosecution must prove that the accused deliberately acted so as to interfere with the orderly administration of justice. Thus, the Appellants assert that MacKay J. applied the wrong test for intent in this context. Where the contempt finding is based not on a breach of an order but on interfering with the orderly

administration of justice, an accused cannot be held in contempt of court when he reasonably and *bona fide* believed that the impugned activity had not been prohibited by the Reasons, and did not intend to otherwise interfere with the orderly administration of justice. Therefore, according to the Appellants, MacKay J. treated the Reasons as if they were an order, and applied the test for an order to the Reasons. In support of its propositions, the Appellants point to MacKay J.'s statement in paragraph 38 of his reasons that "it may be that subjectively, Dr. Sherman did not intend to violate the injunction provided for in the Reasons, or to subvert the process of the Court".

[41] Apotex claims as follows. It did not have this level of intent and, thus, cannot be found in contempt of court. Apotex honestly and reasonably interpreted the Reasons as not immediately instituting an injunction. Considering the Direction made by MacKay J. and the history of events preceding the release of the Court's reasons, including the Court's refusal to grant Merck an interlocutory injunction in this case, Apotex's collective understanding of the Reasons as not immediately implementing an injunction was reasonable. Apotex asserts that if MacKay J. had always intended his Reasons to effectively impose an immediate injunction, then he would not have stated in response to the emergency conference call of December 16, 1994 that there was "nothing to be stayed" until Judgment was filed.

[42] Also, with respect to the first period of contempt involving the December sales, the Appellants argue that MacKay J. misapplied *Baxter v. Cutter* because the Reasons by MacKay J. were not clearly worded to truly anticipate an injunction. Unlike in *Baxter v. Cutter* where the Reasons were clear and unambiguous, the fact that Apotex' interpretation of the Reasons was reasonable and the fact that the filed Judgment differed from the Reasons reveals that MacKay J.'s Reasons were unclear and ambiguous. Thus, the Appellants argue that the ruling in *Baxter v. Cutter* should not apply in this context.

[43] With respect to the post-January, 1995 period of aiding and abetting, the Appellants argue that no contemptuous actions occurred. Because of the third party clause in the January 9, 1995 Order, the Appellants argue that it did not breach the permanent injunction. Apotex did not itself sell APO-ENALAPRIL to its customers. Neither can it be claimed that Apotex committed contempt by interfering with the orderly administration of justice because "to establish a breach" or other violation of a Court order, the Court must specifically find that the accused engaged in an activity proscribed by that order. The order in question did not actually prohibit Apotex from engaging in activities which could "assist" third parties to transfer APO-ENALAPRIL among themselves. As well, conduct which "assists" activities that the Court has expressly permitted, and which are themselves not in contravention of any order, cannot "interfere" with the administration of justice. A party can certainly assist legal activities.

[44] In its factum filed with this Court, Apotex, for the most part, repeats the same arguments and relies on the same evidence for prosecutorial misconduct as was put before MacKay J. in its motion, which was dismissed on June 24, 1998.

[45] With respect to the penalty imposed by MacKay J., Apotex asserts that the following mitigating factors, present in this case, justify an appropriate reduction in the penalty:

- (a) the act was the contemnor's first offence;
- (b) the Order was ultimately found to have been improperly imposed;
- (c) the contemnor was acting on the advice of counsel;
- (d) the act was not done with the intention of interfering with the administration of justice;
- (e) the contemnor attempted to comply with the Order;
- (f) a formal apology was tendered to the Court by Dr. Sherman;
- (g) the breach was a result of a mistake as to what the Order required.

Apotex argues that the fine imposed by MacKay J. is far outside the range of what has previously been assessed for acts of contempt. A sentence must be proportional to the act committed, and must be similar to that given for similar offences.

[46] The Respondents Merck (Appellants by Cross-Appeal) submit that MacKay J. erred in setting the fine too low. In particular, MacKay J. erred by:

1. Failing to give significant weight to the principle of deterrence, in the context of a corporate contemnor.
2. Failing to have sufficient regard to the corporation's financial circumstances, given the need to deter and denounce the conduct.
3. Giving consideration to the fact that Merck's concerns about injury could be recoverable in damages or an accounting of profit.

[47] As to costs, the Appellants argue that there is no automatic entitlement to costs following a contempt proceeding, and that the solicitor and client scale should be reserved for particularly scandalous or reprehensible misconduct committed in the course of a proceeding. It was wrong for MacKay J. to assert that the party prosecuting "ought not to be left to bear costs incurred to establish contempt where contempt is found". MacKay J. fettered his discretion in failing to consider that many allegations of contempt were not successfully established at trial, and that the bill of costs was evidentially deficient.

Issues

[48] This appeal raises five questions:

1. Did MacKay J. err in applying the test for contempt, specifically the level of intent necessary to establish a case of contempt? In other words, did MacKay J. err in finding that Apotex acted in a contemptuous manner, despite concluding that Dr. Sherman may not have subjectively intended to breach the order or interfere with the orderly administration of justice?
2. Did MacKay J. err in finding that Apotex acted in a contemptuous manner by "assisting" its third party customers in transferring APO-ENALAPRIL?
3. Did MacKay J. err in failing to find that Merck committed prosecutorial misconduct during the course of the contempt proceedings, such that a stay of the contempt proceedings ought to have resulted?
4. Should this Court interfere and decrease, or increase, the fine imposed against Apotex and Dr. Sherman?
5. Did MacKay J. err in assessing costs on a solicitor and client basis, without paying heed to the divided success in proving contempt in the contempt proceedings?

Relevant Statutory Provisions

[49] The relevant provisions of the *Federal Court Rules*, C.R.C. 1978, c. 663, as they were when the contempt proceeding was initiated, are as follows:

355. (1) Anyone is guilty of contempt of court who disobeys any process or order of the Court of a judge thereof, or who acts in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court. In particular, any officer of justice who fails to do his duty, and any sheriff or bailiff who does not execute a writ forthwith or does not make a return thereof or, in executing it, infringes any rule the violation whereof renders him liable to a penalty, is guilty of contempt of court.

(2) Except where otherwise provided, anyone who is guilty of contempt of court is liable to a fine, which in the case of an individual shall not exceed \$5,000, or to imprisonment for a period not exceeding one year. Imprisonment, and in the case of a corporation, a fine, for refusal to obey any process or order may be repeatedly inflicted until the person condemned obeys.

(4) No one may be condemned for contempt of court committed out of the presence of the judge, unless he has been served with a show cause order ordering him to appear before the Court, on the day and at the hour fixed to hear proof of the acts with which he is charged and to urge any grounds of defence that he may have. ... [my emphasis]

The relevant provision of the *Federal Court Rules*, 1998 SOR/98-106, as amended, is as follows:

400. (1) The Court shall have full discretionary power over the amount and allocation of costs and the determination of by whom they are to be paid. 400. (1) La Cour a entière discrétion pour déterminer le montant des dépens, les répartir et désigner les personnes qui doivent les payer.

Analysis

A) CONTEMPT INVOLVING DECEMBER SALES

1. Level of Intent Necessary Under the Second Branch of Rule 355(1)

[50] It is my opinion that there is no logical reason why the character of intent required under the second branch of Rule 355(1) [interfering with the orderly administration of justice] should be different from that under the first branch. In both cases, the issue should be whether the Order (which would fall under the first branch) or the Reasons for Judgment (which would fall, among other actions, under the second branch) was clear. If the Reasons are clear, then an intent to commit the act is sufficient. By this I mean that with respect to the first branch of the Rule, provided that the Order is clear, if the defendant intended to commit the prohibited act, then there is contempt. With respect to the second branch of the Rule, provided that the Reasons are clear, if the defendant intended to commit an act, which results in an interference with the orderly administration of justice or an impairment of the authority or dignity of the Court, then there is contempt.

[51] This reasoning is borne out by the jurisprudence. For instance, in the Supreme Court of Canada's decision in *Baxter v. Cutter, supra*, the appellants had similarly become entitled to an injunction against the respondent in a patent infringement action. The Reasons for Judgment were delivered on December 11, 1980, but the formal judgment was not signed and issued until December 18, 1980. In the meantime, the respondent, like Apotex in our case, continued to sell the infringing product. The appellants sought and obtained a Show Cause Order under Rule 355 of the *Federal Court Rules*. The evidence was that the respondent, Cutter, had been legally advised by its solicitor that it was entitled to ship the goods before the issuance of the formal Judgment. The solicitor actually testified at the contempt hearing and stated that he had read the trial judge's reasons upon their release and that he had telephoned Cutter, advising that it should dispose of all the infringing goods in the possession of Cutter in Canada. He did not appear as counsel on the contempt hearing. In contrast, in our case Mr. Radomski, counsel for Apotex, did not give any evidence as to the advice he gave to Apotex about MacKay J.'s Reasons for Judgment; rather, the evidence only came from those to whom he gave such advice, such as Dr. Sherman. However, Mr. Radomski did appear to argue the contempt case before the trial judge and before this Court.

[52] The import of the Reasons for Judgment issued by Gibson J. in *Baxter v. Cutter* (1980), 52 C.P.R. (2d) 163 is very similar to the Reasons issued by MacKay J. in our case. Gibson J.'s reasons for decision included the following:

As a consequence, Bellamy [*sic* Baxter Travenol] is entitled to judgment against Cutter, declaring, ordering and adjudging as follows:

1. That as between the parties hereto, Canadian Letters Patent No. 685,439 and Claims 1 to 4 thereof are valid and have been infringed by the defendant [Cutter] in manufacturing and selling to the Canadian Red Cross multiple blood bag sets having valves as exemplified by those of Exhibits P-8 and P-8A to this trial.

2. The defendant, its employees, servants, and any person acting under its directions, are restrained and enjoined from manufacturing, offering for sale, selling or distributing multiple blood bag sets having valves as exemplified by those of Exhibits P-8 and P-8A to this trial.

In the present case, MacKay J. dealt with the relief sought by Merck in the patent infringement action in the following terms:

... On the basis of my findings they [the plaintiffs] are entitled to

(a) a declaration that claims 1 to 5 and 8 to 15 of Canadian Letters Patent No 1,275,349 have been infringed by the defendant;

(b) a permanent injunction restraining the defendant by its officers, directors, servants, agents, employees or otherwise from infringing claims 1 to 5 and 8 to 15 of Canadian Letters Patent No. 1,275,349.

...

The only difference between the details of these two sets of reasons is that Gibson J. elaborates on how the patent was infringed (by selling and manufacturing) and on what is enjoined by the injunction (manufacturing and selling). However, it was obvious from MacKay J.'s Reasons that Apotex infringed Merck's patent by its manufacture and sale of APO-ENALAPRIL, and that any workable injunction would have to enjoin manufacturing and selling in order to curb future infringements.

[53] In *Baxter v. Cutter*, Baxter requested that, if it was successful, formal judgment be given at the time reasons were issued. Gibson J. indicated that he would not accede to this request, and the final paragraph of his reasons stated:

Counsel for either the plaintiffs or the defendant may prepare in both official languages an appropriate judgment to implement the foregoing conclusions and may move for judgment in accordance with Rule 337(2)(b). [my emphasis]

In MacKay J.'s Reasons for Judgment, he similarly invited counsel for both sides to consult to draft an "appropriate" judgment, in light of his conclusions:

At the conclusion of trial in this matter, counsel suggested that formal judgment might most appropriately be considered after an opportunity for consultation between counsel, and if desirable a further appearance, before the Court, concerning the terms of judgment in light of my findings and conclusions. That seems to me an appropriate course at this stage, in particular since judgment will be rendered after a delay following trial which was unanticipated and for which I express my regret.

In the circumstances, these Reasons are filed with this final direction and an invitation to counsel for the plaintiffs to consult with counsel for the defendant on appropriate terms of the final judgment to be filed in light of my conclusions as set out in these Reasons. Counsel for plaintiffs should prepare a draft judgment, seek approval of counsel for the defendant as to its form and, if possible, its content, and submit the draft for consideration by the Court. If counsel for either or both of the parties wishes to be heard on the matter, a hearing shall be arranged. [my emphasis]

I cannot see any significant differences between these two sets of Reasons. The Appellants point to the fact that there were differences between MacKay J.'s Reasons for Judgment and his Judgment to support its method of distinguishing the *Baxter v. Cutter* case. In our case, MacKay J. added the third party clause into the January 9, 1995 Order. However, in *Baxter*, there were also changes from the Reasons for Judgment to the Judgment, relating to the reference to determine damages or an accounting of profits. Therefore, in my opinion, *Baxter v. Cutter*, for all of the above reasons, is indistinguishable from the present case.

[54] Dickson J. for the Supreme Court of Canada outlined at pages 395-397 in *Baxter v. Cutter* the applicable principles to adopt in this situation:

Gibson J. acted under Rule 337(2)(b). Cutter notes, correctly in my view, that Rule 337 draws a clear distinction between reasons for decision or conclusions on the one hand, and a judgment on the other hand. There is no judgment until a document in Form 14 is executed. I agree with Cutter and the Federal Court of Appeal that, by virtue of Rule 337, a judgment in that court only takes effect on the date a document in Form 14 is executed. In the present case there was no injunction, and hence there could be no breach of the injunction, prior to December 18, 1980. If this case had involved an attempt to execute or directly enforce a judgment, the effective date would be decisive of the result. In my view, however, Cutter and the Federal Court were in error in assuming the effective date of the injunction is decisive in a contempt proceeding. The inquiry does not end with a consideration of whether the injunction as such has been breached.

The general purpose of the court's contempt power is to ensure the smooth functioning of the judicial process. Contempt extends well beyond breach of court orders. Subsection (1) of Rule 355 of the *Federal Court Rules*, repeated here for ease of reference, provides in part as follows:

Rule 355.(1) Anyone is guilty of contempt of court who disobeys any process or order of the Court or a judge thereof, or who acts in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court.

(Emphasis added.)

Paragraph (a) of the show cause order in the present case invoked the first part of Rule 355(1), whereas paragraph (b) invoked the underlined portions. Even if there was no actual breach of an injunction so as to constitute contempt under paragraph (a), it is still necessary to consider paragraph (b).

Contempt in relation to injunctions has always been broader than actual breaches of injunctions. Cattanach J. recognized this in the present case. Thomas Maxwell is named in the show cause order as having committed contempt in his personal capacity although he is not a party to the action. He is not personally bound by the injunction and therefore could not personally be guilty of a breach. Nevertheless, Cattanach J. acknowledged he could still be found in contempt if he, with knowledge of its existence, contravened its terms. Although technically not a breach of an injunction, such an action would constitute contempt because it would tend to obstruct the course of justice; *Kerr on Injunctions*, 6th ed 1927, at p. 675; *Poje v. Attorney General for British Columbia*, [1953] 1 S.C.R. 516.

The same kind of analysis applies to the period between reasons for decision and the pronouncement of judgment. Cutter argues, in effect, that this constitutes a period of grace in which the defendant can contravene the prohibitions set out in the reasons for decision with impunity. To accept that argument would be to accede to the proposition that it is open to a party completely to defeat an injunction. That would subvert the whole process of going to court to settle disputes. That is precisely what the contempt power is designed to prevent. [my emphasis]

Nowhere in *Baxter v. Cutter* does the Supreme Court of Canada indicate that it need be shown that the defendant intended to act in such a way as to interfere with the orderly administration of justice, or to impair the authority or dignity of the Court.

[55] Since the Supreme Court merely decided the preliminary objection made by Cutter (that the acts complained of could not be in breach of the judgment of Gibson J., which was not issued until December 18, 1980) a court still had to decide whether Cutter had actually committed the contempt by disobeying the Reasons for Judgment, rendered on December 11. After the Supreme Court of Canada rendered its decision, Cutter applied for directions with respect to the charge under which it was required to show cause. Cattanach J., who heard that motion granted directions, and stated "that the matters which must be proven" are: (1) that Cutter and Maxwell had knowledge of the prohibitions in Gibson J.'s reasons for judgment dated December 11, 1980; and (2) that there was a contravention of a prohibition therein (436). Dubé J., who decided the case on its merits for the Federal Court, Trial Division [(1984), 1 C.P.R. (3d) 433] found that this test was met and stated at page 439:

I am convinced beyond a reasonable doubt, firstly, that the defendant knew of the existence of the prohibitions contained in the reasons for judgment of Gibson J., and, secondly, that the defendant contravened the prohibitions by failing to destroy the goods, or delivering up the goods to the plaintiff, and most specially by disposing of the goods by sale and otherwise during the relevant period. That ought to settle the issues referred to this court by the Supreme Court of Canada. However, serious points of law were raised and they deserve consideration.

Dubé J. went on to consider whether *mens rea* is required to be proved in a contempt of court case. Following the Supreme Court, Dubé J. concluded at page 440 that it is not necessary to show that the defendant was intentionally contumacious or that he intended to interfere with the administration of justice:

[The defendant's solicitor] obviously believed that he was legally right. He, therefore, did not possess the ingredient of a "guilty mind" necessary to commit a crime and, in consequence, his principal (the defendant) argues that it ought not to be found guilty of contempt.

The defendant relies in particular on *Koffler Stores Ltd. v. Turner et al.* (1971), 2 C.P.R. (2d) 221 at p. 223, [1971] F.C. 145, wherein Pratte J. (then of the Trial Division) would not "punish the defendants for having, in good faith, given a possibly wrong but not unreasonable interpretation to an order of this Court". The order was an injunction restraining the defendant from infringing the plaintiff's trade mark.

As to the conduct of this defendant in the instant case, Cattnach J. had this to say in his February 3, 1981 judgment (at p. 9 [pp. 151-2]):

I expressed the view at the hearing, and to which view I adhere, that the conduct of the defendant through its chief executive officer, has the stench of sharp and perhaps even misleading practice and that the defendant and its chief executive officer were devoid of standards of ethics but that in all likelihood such ethics are neither expected nor required in the jungle of the business world and the rewards may be greater to those vested with inherent predatory cunning.

Borrie and Lowe's Law of Contempt, 2nd ed. (1983), considers the requirement for *mens rea* in Chapter 13, titled "Civil Contempt". The answer is clearly "that it is not necessary to show that the defendant is intentionally contumacious or that he intends to interfere with the administration of justice". The authors, at p. 400, quote Sachs L.J. in *Knight et al. v. Clifton et al.*, [1971] Ch. 700 at p. 721, [1971] 2 All E.R. 378 at p. 393, as follows:

"when an injunction prohibits an act, that prohibition is absolute and is not to be related to intent unless otherwise stated on the face of the order"

The authors quote Warrington J. In *Stancomb v. Trowbridge Urban District Council* [[1910] 2 Ch. 190 at p. 194], who said that if a person "in fact does the act, and it is no answer to say that the act was not contumacious ... ". In *Re Agreement of Mileage [Conference Group of Tyre Manufacturers' Conference, Ltd.]*, [1966] 2 All E.R. 849 at p. 862], contempt was held to have

been established even though the acts were done "reasonably and despite all due care and attention, in the belief, based on legal advice, that they were not breaches."

Finally, the mandate of the Supreme Court of Canada to this court is crystal clear: two matters only are to be established: firstly, was there a knowledge of Gibson J.'s reasons for judgment and, secondly, was there a contravention of that judgment? Neither the good faith of the defendant nor its error in law are factors to be considered. The Supreme Court, of course, was fully aware of the defendant's legal position on contraventions of Gibson J.'s reasons for judgment and yet did not include that factor in its directions to this court. [my emphasis]

Likewise, in the present case, Dr. Sherman and Apotex knew of MacKay J.'s Reasons for Judgment and committed acts in contravention of those Reasons.

[56] This Court upheld Dubé J.'s decision in *Baxter v. Cutter* [(1987), 14 C.P.R. (3d) at 449] on intent, although it reduced the penalty imposed from \$100,000 to \$50,000. Urie J.A. stated at page 454:

Having said that, counsel conceded, correctly I think, that the presence or absence of good faith on the part of an alleged contemnor is not relevant in the determination of whether or not there was an act of contempt. It is relevant only in considering the penalty to be imposed, as a mitigating factor.

In fact, Urie J.A. went on to approve of Dubé J.'s comments and recited his words at page 456:

Finally, the mandate of the Supreme Court of Canada to this court is crystal clear: two matters only are to be established: firstly, was there a knowledge of Gibson J.'s reasons for judgment and, secondly, was there a contravention of that judgment? Neither the good faith of the defendant nor its error in law are factors to be considered. The Supreme Court, of course, was fully aware of the defendant's legal position on contraventions of Gibson J.'s reasons for judgment and yet did not include that factor in its directions to this court.

It is clear from the foregoing that the trial judge was well aware of the unavailability of the defence of lack of contumacity in respect of the contempt *per se*. However, it may be that he did not consider that non-contumacious conduct can be a mitigating factor on the question of penalty. [my emphasis]

Thus, a lack of intent to interfere with the orderly administration of justice or to act with contempt is only relevant to the question of penalty, and the only reason the fine was reduced by Urie J.A. was that the trial judge had failed to appreciate that. Thus, while non-contumacious conduct is not a defence to a finding of contempt *per se*, it can be a mitigating factor in the determination of penalty.

[57] The Appellants only cite a few cases in their factum to support the proposition that the prosecutor must show that the alleged contemnor wilfully intended to disobey the Court by doing the act prohibited. While referred to in their factum, the Appellants did not mention these cases in oral argument. First, in *Skipper Fisheries Ltd. v. Thorbourne*, [1997] N.S.J. No. 56 (NSCA), the Nova Scotia Court of Appeal found that Skipper Fisheries Ltd. ("Skipper"), charged with contempt, did not wilfully flout the Court order by failing to disclose information. However, this case can easily be distinguished on its facts. Skipper was the plaintiff in the main action in which it claimed damages relating to a fishing boat. Skipper was found in breach of the rules for non-disclosure of documents and was found to be in contempt of court for this non-disclosure. The trial judge dismissed Skipper's action as a punishment. The majority of the Court of Appeal found that the order was unclear and ambiguous, as it did not require disclosure by a specific date. As a result, Skipper did not technically disobey its terms. The Court held that in order to actually dismiss the main action for damages as punishment for contempt there must be proof of a deliberate breach. The Court stated at paragraph 89:

The dismissal of the action is only to be ordered in the case of a willfully disobedient party, not of one who had made a mistake on the advice of counsel or otherwise - and it is done only in the last resort. ... In general, another opportunity is given to act properly and answer the questions, even after an order has been made and disobeyed ... [my emphasis]

Therefore, this case does not support the Appellants' position. This case should not be taken out of context - it deals with the appropriateness of the dismissal of a main action as a punishment for contempt. It deals primarily with penalty, and not contempt *per se*.

[58] Second, the Appellants cite *Canada Games Co. v. Hasbro Canada Inc.*, [1989] F.C.J. No. 500 (F.C.T.D.) to support their position on intent. However, this case, too, can be distinguished on its facts. An order was made against the defendants, Hasbro Canada Inc. ("Hasbro"), requiring them to file with the plaintiff, on a monthly basis, information on the sales figures of a toy allegedly infringing the plaintiff's trade-mark. The defendants appealed the order, arguing that the information was valuable confidential commercial trade information, and applied for a stay of execution of this interim order, pending the appeal. Joyal J. for the Federal Court, Trial Division refused to stay the order, but decided to amend the order to provide for the protection of the information. There was also a motion before the Court, in which the plaintiffs alleged that the defendants had breached the order by failing to provide the sales figures information. Counsel for the defendants said the technical breach was a mistake and was not wilful, in that they thought that the filing of an appeal in the Quebec courts automatically stayed the execution of the order. Joyal J. dismissed the motion, but gave costs to the plaintiff. Thus, in its very short reasons, the Court dealt with both an application to stay the order and a motion by the plaintiffs to have the defendants show cause for breaching the same order. Considering that the trial judge amended the order to allow for the protection of the information demanded and said to be the cause of the breach, I cannot think that his decision to dismiss the motion for the show cause order was fully based on the lack of "wilfulness" on the part of the defendants. Therefore, this case does not assist the Appellants in demonstrating their point.

[59] The Appellants also refer to *Beverley Hills Home Improvements Inv. v. Greenberg* (1993), 47 C.P.R. (3d) 66 (Ont. Gen. Div.) in support of their proposition that the prosecution must prove beyond a reasonable doubt that the accused deliberately acted so as to interfere with the orderly administration of justice, but the Court actually said the exact opposite at page 83:

It is not necessary to establish that the alleged contemner intended to put himself in contempt; that is, actual intent to interfere with the course of justice is not required. See for example, *R. v. Perkins* (1980), 5 C.C.C. (2d) 369 (B.C.C.A.) ...

... Appellant intended to and did write and publish respectively the impugned article that is the intent, the mens required; actual intent to interfere with [the] course of justice is not required.

Conversely, breach of an injunction is not excused because the person committing it had no direct intention to disobey the order ... Neither is it a defence to contempt proceedings that the activities were done reasonably with all due care and attention, in the belief, based on legal advice, that they were not breaches ... [my emphasis]

[60] Therefore, the jurisprudence establishes that it is not necessary to show that the alleged contemnor intended, by doing the action, to "interfere with the orderly administration of justice or to impair the authority or dignity of the Court". This is too high a level of intent to require in civil contempt cases. Rather, it is sufficient to find that the Court's intention was clear and that the alleged contemnor knowingly committed the prohibited act. For instance, Apotex must have intended to sell APO-ENALAPRIL - the sales must not have occurred accidentally. Good faith just goes to mitigation of sentence.

[61] The Supreme Court of Canada case of *U.N.A. v. Alberta (Attorney General)* (1992), 89 D.L.R. (4th) 609 provides further support for the proposition that the intent as alleged by the Appellants is not required for civil contempt, such as in a patent case. At pages 636-637 the Court states:

A person who simply breaches a court order, for example by failing to abide by visiting hours in a child custody order, is viewed as having committed civil contempt. However, when the element of public defiance of the courts's process in a way calculated to lessen societal respect for the courts is added to the breach, it becomes criminal. This distinction emerges from *Poje v. British Columbia (Attorney General)*, [1953] 1 S.C.R. 516:

The context in which these incidents occurred, the large numbers of men involved and the public nature of the defiance of the order of the court transfers the conduct here in question from the realm of a mere civil contempt, such as an ordinary breach of injunction with respect to private rights in a patent or trademark, for example, into the realm of a public depreciation of the authority of the court, tending to bring the administration of justice into scorn.

...

To establish criminal intent the Crown must prove that the accused defied or disobeyed a court order in a public way (the *actus reus*), with intent, knowledge, or recklessness as to the fact that the public disobedience will tend to depreciate the authority of the court (the *mens rea*).

...

While publicity is required for the offense, a civil contempt is not converted to a criminal contempt merely because it attracts publicity, ... but rather because it constitutes a public act of defiance of the court in circumstances where the accused knew, intended, or was reckless as to the fact that the act would publicly bring the court into contempt. [my emphasis]

These statements indicate that the subjective knowledge submitted by the Appellants as a requirement for contempt in this case is in fact the level of subjective intent which sets criminal contempt apart from its civil counterpart. In the present case, which is a civil contempt involving a patent infringement action, this level of intent is just not required.

[62] In *R. v. Hill* (1976), 73 D.L.R. (3d) 621, where a lawyer did not show up for court, the British Columbia Court of Appeal stated at page 629 that "an intent to bring a Court or Judge into contempt is not an essential ingredient of this offence". Likewise, in *Re Sheppard and Sheppard* (1976), 67 D.L.R. (3d) 592, where the appellant was held in contempt of an order restraining him from leasing or renewing leases of the matrimonial home, the Ontario Court of Appeal stated at page 595:

We are all of the view, therefore, that in order to constitute a contempt it is not necessary to prove that the defendant intended to disobey or flout the order of the Court. The offence consists of the intentional doing of an act which is in fact prohibited by the order. The absence of the contumacious intent is a mitigating but not an exculpatory circumstance.

[63] It should be pointed out that in their written factum the Appellants did not argue that the *Canadian Charter of Rights and Freedoms* supported their argument **with respect to intention**, nor did the Appellants even bring up the *Charter* in their oral argument in chief during the hearing. Obviously, the Respondents in their argument before this Court also did not mention the *Charter*. The *Charter* is not mentioned by MacKay J. in his Reasons and it would appear not to have been raised before him. Counsel for Dr. Sherman for the first time devoted a very small part of his self-described five minute reply, to the *Charter* with respect to this issue, where he asserted that the level of intent suggested by the Respondents could never survive a section 7 *Charter* challenge. Clearly, the *Charter* was not an issue on this point, and, consequently, I have not addressed it.

2. Were the Reasons by MacKay J. Clear?

[64] Apotex argues that its interpretation of the Reasons and the announced injunction therein was reasonable having regard to the history and context of the proceedings, specifically MacKay J.'s earlier dismissal of Merck's motion for an interim injunction. I do not see that any significance can be attached to this dismissal of the interim injunction motion. The fact that a motion for an interim injunction was dismissed, thus permitting the defendant to continue selling the product in question while the trial proceeded, cannot be used to interpret the Reasons for Judgment issued at the end of that trial. This is especially the case when these Reasons later found that the activity for which the interim injunction was sought to prevent, constituted infringement for which a permanent injunction was granted. Indeed, quite the opposite conclusion should be drawn.

[65] The following aspects of the history of the litigation between Merck and Apotex involving enalapril are relied upon by Apotex to buttress its position that its interpretation of the Reasons was reasonable:

- (i) that Apotex had been marketing and selling its enalapril maleate products throughout the preceding 14 months;
- (ii) that the continued sale of Apotex' enalapril maleate tablets had been shown not to cause irreparable harm to Merck;
- (iii) that whatever losses Merck was shown to have suffered as a consequence of Apotex' sale of enalapril maleate tablets would be entirely recovered if Merck succeeded;
- (iv) that Apotex was maintaining an accurate record of all sales of its enalapril maleate tablets, and that these documents were available to Merck and the Court in determining any question of damages or the appropriate quantum if Merck elected to seek an accounting of profits;
- (v) that the Court had reserved its decision on the merits for eight months, and there was no suggestion that the Court's earlier conclusions on the question of irreparable harm and the adequacy of damages had changed during this time;
- (vi) MacKay J. had indicated that he intended to accommodate the parties following the release of his Reasons, allowing them to speak to the question of the relief to be granted, if any, and then stated in the Reasons themselves that it was appropriate to do so, "in particular since judgment will be rendered after a delay following trial ...".

In my opinion, these points do not somehow render the Reasons "uncertain". The Reasons are clear. Apotex was enjoined. MacKay J. was fully familiar with this litigation, including the fact that Apotex had been marketing and selling APO-ENALAPRIL for a year and a half and that Merck had failed prior to trial to obtain an interlocutory injunction. It was with this knowledge that he declared that a permanent injunction should issue, in addition to an order for delivery up of all enalapril product held by Apotex. In fact, the Appellants conceded in oral argument that no

one was more aware of the context and history of the proceedings than MacKay J., who had been presiding on the matter since its inception as a patent infringement action in 1991.

[66] Apotex also points to MacKay J.'s Direction, issued in response to Mr. Radomski's letter to the Court requesting an emergency conference, as demonstrating that no injunction was intended to be immediately effective in the Reasons and as permitting Apotex to continue selling APO-ENALAPRIL during the interim period before the Judgment was filed. However, all that MacKay J. directed on December 16, 1994 was that the judgment had not yet been entered and that therefore there was no judgment in place to which a stay could apply. MacKay J. did not suggest that his Reasons for Judgment would be varied or that Apotex could continue to sell. It is trite law that the Court will not "stay" reasons for judgment. MacKay J. reasonably responded to "a proposed motion to stay implementation of the Reasons pending hearing of a motion to stay an injunction" by simply observing that "there was nothing to be stayed or appealed until judgment was filed". Surprisingly, Mr. Radomski's letter did not even hint that Apotex had been selling, and planned to continue to sell, APO-ENALAPRIL. Therefore, MacKay J.'s response cannot be taken as responding to the notion that continued selling was permitted. In fact, MacKay J. stated at paragraph 8 of his Reasons for Judgment in the contempt proceeding, rendered on March 7, 2000, the following:

At that stage the Court was not aware of the correspondence between counsel or of the position taken by Apotex that it was free to continue, or that it did continue, selling Apo-Enalapril, which the Reasons had concluded was product infringing upon Merck's patent interests.

[67] Apotex further points to the fact that the filed Judgment differed from the Reasons to support the notion that the Reasons were unclear and that Apotex' interpretation of the Reasons as allowing the sale of APO-ENALAPRIL in the interim period was reasonable. However, as discussed above, the Judgment in *Baxter v. Cutter, supra* also differed from the Reasons in that case, and the Supreme Court in *Baxter* still considered the Reasons to be clear and unambiguous despite these changes. In any event, in the present case there was no change to the paragraph which provided that a permanent injunction would issue. There was no ambiguity in the Reasons on this point.

[68] In light of my conclusion that an intention to subvert the process of the court is not required to prove contempt of court, but only goes to mitigation of sentence, it is unnecessary to analyse MacKay J.'s reasons on the issue of subjective intent. However, because the Appellants focus so much on the "reasonableness" of their interpretation of the Reasons to support the argument that they lacked any subjective intent to interfere with the orderly administration of justice, I will examine the Reasons to demonstrate that MacKay J. did not find this "reasonableness" credible and did not subscribe to the view that his Reasons were unclear. In my view, MacKay J. concluded that Dr. Sherman, his counsel, and his fellow staff could not have reasonably interpreted the Reasons in the manner in which they did. Indeed, MacKay J. seemed to find the story unbelievable, for at paragraph 35, he stated:

Dr. Sherman qualified his understanding, when cross-examined, by referring to the paragraphs of the Reasons quoted above in paragraph 6, which referred to delay and asked counsel to consult on appropriate terms of final Judgment, as counsel had requested at the conclusion of trial. Those paragraphs he read as implying, without any expressed indication in the Reasons, that the relief, including presumably the declaration of infringement, the permanent injunction and the order for delivery up were not to be effective until some unspecified date. A determination of this sort, which Dr. Sherman inferred from his reading of the Reasons for Judgment, would be so extraordinary, in my opinion, that the Reasons would only be so understood by persons knowledgeable about the legal process, as Dr. Sherman is by reason of his direction of legal affairs for Apotex, and counsel for Apotex is, if the Court had clearly expressed an intention that its findings and conclusions should be considered to be effective only at some specified time in the future. No such express wording of the application of the findings and conclusions is set out in the Reasons. [my emphasis]

Simply put, MacKay J. expressed the view that no person such as Dr. Sherman, who was responsible of legal affairs for Apotex, and no person such as Mr. Radomski, a very knowledgeable lawyer, could construe the Reasons for Judgment as meaning that the permanent injunction and order for delivery up would only become effective at some unspecified future date. Such a interpretation is not only unreasonable but unbelievable in these circumstances. Thus, in my opinion, MacKay J. did not accept Apotex's explanation for the December sales, and his comments about "subjective intent" in paragraph 38 should be read in this context.

[69] In paragraph 38, MacKay J. stated the following:

It may be that subjectively Dr. Sherman did not intend to violate the injunction provided for in the Reasons, or to subvert the process of the Court. However,

... in order to constitute a contempt it is not necessary to prove that the defendant intended to disobey or to flout the Order of the Court. The offence consists of the intentional doing of an act which is in fact prohibited by the Order. The absence of the contumacious intent is a mitigating factor but not an exculpatory circumstance.

Apotex did, and so did Dr. Sherman do, just what he intended. Apo-Enalapril product was sold, and sold in quantity, after the Reasons for Judgment specifying Merck's entitlement to a permanent injunction were read by officers and by counsel of Apotex. By so doing both Apotex and Dr. Sherman, in my opinion, committed contempt. In the words of Dickson J. in *Baxter v. Cutter*:

... Once reasons for decision have been released, any action which would defeat the purpose of the anticipated injunction undermines that which has already been given judicial approval. Any such action subverts the processes of the Court and may amount to contempt of court. [my emphasis]

It is clear from the jurisprudence that subjective intent is irrelevant to the issue of the contempt, and only goes to mitigation of sentence. MacKay J. realized and adverted to this. Thus, in my opinion, MacKay J.'s comment about subjective intent in his Reasons for Judgment is not important to his finding of contempt, as it is only relevant to penalty. This comment does not provide any support for the Appellants' argument that their interpretation of the Reasons was reasonable.

[70] In my opinion, MacKay J. was correct in saying that the Reasons for Judgment in the patent infringement action were clear and unambiguous, and did not reasonably lend themselves to the interpretation alleged by the Appellants. There was no significant difference between MacKay J.'s Reasons for Judgment and those found to be clear in *Baxter v. Cutter, supra*, and the history and context of the litigation in no way supports the position that the Reasons allowed for the Appellants to reasonably interpret the Reasons in the manner they did.

[71] If Apotex and Dr. Sherman had wanted to continue selling APO-ENALAPRIL after the Reasons for Judgment were rendered on December 14th, what should they have done? Rather than assuming that the Reasons did not impose an immediate injunction on the basis of the history and context of the proceedings, the Appellants should have applied to the Court to settle the terms of the judgment immediately and should have sought a provision allowing the continuation of sales. The Appellants should have **openly** sought directions as to whether they could continue to sell APO-ENALAPRIL in the interim period before the Judgment was filed. Instead, the Appellants avoided seeking an answer to the real question which they needed answered and simply assumed the risk that its actions would not be found to be contemptuous. The very fact of Appellants' admitted reversals from selling to non-selling indicates that they knew, at a minimum, that they might well be mistaken in their "interpretation" of the Reasons. They should not be rewarded for taking this risk.

[72] Federal Court case law supports these propositions. In *Lubrizol Corp. et al. v. Imperial Oil Ltd. et al.* (1994), 58 C.P.R. (3d) 167 (F.C.T.D.); varied on another point relating to exemplary damages [1996] 3 F.C. 40 (F.C.A.) [*"Lubrizol"*], the defendant was enjoined from manufacturing and selling a product called ECA 10444, but went on to manufacture and sell a product called ECA 10271. In the Reasons for Judgment following trial, it had been held that ECA 10444 and ECA 10271 were the same product. As a result, the defendant was enjoined from such conduct. The Federal Court, Trial Division found that exemplary damages were appropriate and ordered them in the amount of \$15 million with costs on a solicitor-client basis to reflect the indignation of the Court. Despite that this Court varied the judgment on appeal with respect to exemplary damages because Lubrizol had not been given a sufficient opportunity to present evidence on this matter, the Court's statement at page 170 about this "never-ending saga", in which the defendant chose to defy the interlocutory injunction imposed against it rather than lose an important customer, was not overruled in any way on appeal:

I have also determined that the breach was a deliberate, flagrant and callous disregard of the injunction. If Imperial Oil were of the honestly held view that ECA 10271 did not violate the patent, it would have been an easy process to apply to the court, or, probably more correctly to Reed J., for an order declaring that ECA 10271 was a different product than ECA 10444. This approach would have been the correct one rather than barrelling ahead with manufacturing and eventually selling to Shell their alleged new product. (page 170)

...

They took that risk, when guidance from the court was available, and must face the consequences. (page 173) [my emphasis]

Likewise, Apotex took the risk in continuing APO-ENALAPRIL sales, when guidance from the Court was readily available, and must now face the consequences. As stated by the Federal Court, Trial Division in *Canada (Attorney General) v. First National Export & Import Co.* (1996), 66 C.P.R. (3d) 1 at page 2, "obeying court orders is not a game. The defendant in this case treated it as such."

3. Conclusion with Respect to December Sales

[73] Therefore, in my opinion, the Appellants' actions meet the proper test for finding contempt. The test to apply asks the following two questions: (1) Did the alleged contemner have the knowledge of the prohibitions in the reasons for judgment?; and, (2) Was there an act that constituted a contravention of a prohibition therein? MacKay J.'s Reasons were clear and unambiguous and the Appellants had read those Reasons - Apotex and Dr. Sherman understood that the Reasons were unfavourable to them, that their product had been found to be infringing Merck's patent, and that a permanent injunction was part of the relief granted. They also knowingly committed the prohibited act - the selling of APO-ENALAPRIL. Therefore, I agree with MacKay J. that Apotex was in contempt of court on this issue.

B) CONTEMPT INVOLVING POST-JANUARY 1995 "AIDING AND ABETTING" OF THIRD PARTY SALES

[74] It is important at this point to review MacKay J.'s reasoning with respect to finding contempt for these actions. He stated at paragraph 50 that "it is unnecessary to determine whether or not these transactions were sales in the traditional sense, by Apotex", but concluded that the actions of Apotex interfered with the orderly administration of justice and impaired the authority and dignity of this Court. Despite the fact that the Court's Order on January 9, 1995 expressly excluded (from the application of the injunction) sales of APO-ENALAPRIL by third parties who acquired the drug in good faith, MacKay J. concluded that these transactions were unacceptable because Apotex financially committed itself to these third parties and treated some transactions as if they were sales made directly by Apotex to third party purchasers. They were not transactions exclusively between third parties. The Apotex argues that MacKay J. erred in this analysis because third party sales were legally exempted from the injunction, and one cannot

be found to be "aiding and abetting" an act when the act assisted was a legal act. I agree with this argument. The provision of assistance by Apotex to such third parties, whether financial or otherwise, does not amount to contempt . If such selling by third parties was not prohibited, then surely there cannot be anything wrong with assisting such legal transactions. This is the simple answer to this charge.

[75] The Respondents argued, *inter alia*, that Apotex made sales during this period which were in breach of the injunction. Indeed this may well be the case. For example, there are at least 11 transactions in which Apotex filled out a Returns Form for, and issued a credit for, returned enalapril to its customers. In turn, Kohlers appears to have received the returned goods. Then the goods were sold to another customer. For example, in one such transaction, Apotex filled out a Returns Form, and issued a credit for the return of enalapril to its customer. The amount of the credit issued to this customer for an "overstock" of enalapril corresponds with the amount indicated as the value of the enalapril returned to Kohlers on the Kohlers's Daily Customer Returned Goods Report, dated the day after the Apotex Form was filled out. Kohlers' customer was listed as Apotex, and the product numbers, strengths, sizes, and prices matched with those on the Apotex Returns Form. It would appear that this was a sale by Apotex. All of these transactions suggest that Apotex was actually selling enalapril, despite the Order enjoining them from doing so.

[76] However, the Trial Judge found that it was unnecessary to determine whether these transactions were sales. Presumably, this was because the Show Cause Order did not charge Apotex with contempt by making sales during this period. The show cause Order stated:

(1) an Order pursuant to Rule 355 of the *Federal Court Rules* that Bernard Sherman ..., Jack Kay, ... appear before this Court ... to show cause why they and the defendant herein should not be condemned for contempt of this Court for:

...

(b) acting in such a way as to interfere with the orderly administration of justice, and impair the authority and dignity of this Court, by selling and causing to be sold, distributing and removing ... during the period between December 14 and 22, 1994 ... and by aiding and abetting in the transfer, distribution and sale by third party wholesalers, pharmacy chains and pharmacists or [sic] APO-ENALAPRIL tablets among themselves throughout Canada during the period January 9, 1995 to date, ...

Rather, the Show Cause Order merely charged Apotex with contempt of court by selling during the period between December 14 to 22, 1994, and with aiding and abetting third party sales during the period January 9, 1995 to April 27, 1995. Thus, even though there may have been sales by Apotex during this latter period, since the Show Cause Order did not make this a charge against Apotex, Apotex cannot be found in contempt.

[77] Therefore, the Trial Judge erred in concluding that, by providing assistance to third parties in selling and distributing, Apotex had interfered with the orderly administration of justice. The Order of January 9, 1995 expressly permitted such sales and distributions. Merely providing assistance does not put Apotex in contempt of court.

C) PROSECUTORIAL MISCONDUCT

[78] Apotex argued two motions in the Trial Division with respect to this issue. First, Apotex argued a preliminary motion (prior to the contempt hearing). The Order dismissing this motion was appealed to this Court and dismissed. Leave to appeal to the Supreme Court of Canada was also dismissed. Second, Apotex argued the issue in a motion at the close of the prosecutor's case in the contempt hearing. Many of the grounds for disqualifying Gowlings as counsel for Merck in this second motion were also argued in Apotex' first preliminary motion. Primarily, the only new evidence of this "improper behaviour" presented by Apotex in this second motion was provided by complaints about Merck's lack of disclosure and its improper use of privilege. Consequently, this issue has been repeatedly argued, with little alteration in its argument. MacKay J. dismissed Apotex' second motion at the close of prosecution's case in the contempt hearing stating that, while the activities of counsel for Merck were not "above criticism in all respects", he was "not persuaded" that the Court should dismiss or stay the proceedings because there was no abuse of process or manifest unfairness to Apotex to warrant such a stay or dismissal. He was not persuaded that Apotex's right to full answer and defence was prejudiced by the lack of disclosure or by any alleged abuse. With respect to the concern about impartial counsel and the need for a public prosecutor, MacKay J. had this to say at paragraph 33:

The same theme, then based on the moving parties' concerns before the commencement of these proceedings, underlay their preliminary motion ... That earlier motion was dismissed by Order dated January 23, 1996. In Reasons for that Order I commented, at [1996] 2 F.C. pp. 245-6:

I am not persuaded that the proceedings now initiated before the Court demand special arrangements for their prosecution, aside from those already established by jurisprudence of this Court in relation to contempt proceedings under Rule 355, and applicable principles under the *Charter* ... It is the responsibility of the Court to ensure that in the proceedings, rules of fundamental justice and due process of law are followed.

[79] I do not see any reason to disturb the findings of MacKay J. on this issue. A dismissal or stay of proceedings for an abuse of process is an extraordinary remedy and one where it is necessary to show that the abuse "must have caused actual prejudice of such magnitude that the public sense of decency and fairness is affected". The test is an onerous one: *Blencoe v. British Columbia (Human Rights Commission)*, [2000] 2 S.C.R. 307, at para. 133; *R. v. Regan (G.A.)* (2002), 282 N.R. 1 (S.C.C.) at para. 53-57. MacKay J. found that none of the Appellants complaints supported a dismissal or a stay of proceedings, as the Appellants were not prejudiced in their right to make full answer and defence. The Trial Judge was the person in the best

position to assess the significance of the conduct in question, and he found no evidence that would have affected the fairness of the trial. In my opinion, this Court cannot intervene in this decision absent a palpable and overriding error affecting the Trial Judge's assessment of the facts, a finding that the Trial Judge misdirected himself, or a finding that the decision is so clearly wrong as to constitute an injustice: *Canada v. Tobias*, [1997] 3 S.C.R. 391, at 427-429. The Appellants have not established any such error.

D) SENTENCE

[80] The Appellants argue that the fines relating to both Apotex and Dr. Sherman are too high. The Respondents assert in their cross-appeal that, while the fine relating to Dr. Sherman is appropriate, the fine relating to Apotex is much too low.

[81] In this case, MacKay J. appeared to take the relevant factors relating to sentencing into account. He considered Dr. Sherman's letter of apology; the activities of the contemnors; the nature and severity of the contempt (the gravity of the offence); past conduct; deterrence; and the fact that the actions taken were based, at least partially, on the legal advice conferred by Mr. Radomski.

[82] There is an area, however, where his reasoning on sentence is suspect, and that area relates to the principle of deterrence. MacKay J. stated at para. 12:

There is no record of any such failure on the part of Apotex or Dr. Sherman before this. There is no reason to expect that this failure will re-occur. There is Dr. Sherman's assurance to that effect, and he and Apotex will know that it cannot be said hereafter they have not previously been found to be in contempt. In my view, deterrence of Apotex or others, from future similar acts of contempt, is to be considered, but it is not a factor to be given great weight in penalties assessed in this case. [my emphasis]

Although he mentioned the deterrence of "others", he did not seem to focus on this factor. Rather, he seemed to be merely directing his mind to the deterrence factor as applied to Apotex and Dr. Sherman. In my view, in a fact situation such as the present one, deterrence of other corporations is an important consideration, and I have some difficulty with his statement that deterrence is not a factor to be given great weight in this case.

[83] Mr. Justice E.G. Ewaschuk's comments in *Criminal Pleadings & Practice in Canada*, 2nd ed., Volume 1 (Aurora: Canada Law Book Inc., 2002) at page 18:0380 support the importance of deterrence in cases involving corporate offenders:

In sentencing a corporate offender, the trial judge must, keeping in mind that a corporation cannot be imprisoned and that general deterrence of other corporations is the prime consideration especially in relation to commercial crimes, impose a substantial and exemplary monetary penalty designed to prevent the corporation from retaining illegally acquired profits and not so small as to be regarded as a licence fee to be passed on to its customers. To determine a fit

penalty, the trial judge should consider, along with other relevant factors, the size, scale and nature of the accused's operations and the premeditation and deliberation involved in committing the offence. [my emphasis]

[84] In *Baxter v. Cutter, supra*, this Court upheld the sentence imposed by Dubé J. and stated that he had not made an error in law in using as a guide for the determination of the magnitude of the fine a percentage of the value of the sales of the offending product. Thus, to determine a fit penalty, MacKay J. should not have de-emphasized the importance of deterrence considering the value of the infringing sales in the present case, and the fact that a corporation was involved.

[85] In addition, deterrence is a particularly important factor in sentencing involving contempt cases. In *Health Care Corp. of St. John's v. Newfoundland and Labrador Assn. of Public and Private Employees*, [2001] N.J. No. 17 (Nfld. S.C.T.D.), Green C.J. for the Newfoundland Supreme Court outlined the importance of deterrence as a sentencing principle in the contempt context:

2. Deterrence, both general and specific, but especially general deterrence, as well as denunciation, are the most important factors to be considered in the imposition of penalties for civil, as well as criminal, contempt.

[86] The reasoning of this Newfoundland case was adopted by the Canadian Judicial Council in its May 2001 publication, *Some Guidelines on the Use of Contempt Powers*. At pages 40-41, the Council quoted Green, C.J.'s comments in *Health Care, supra*:

As Green, C.J. has stated:

[I]t can be said that no judge relishes the idea of having to initiate proceedings for contempt with the possibility of imposing sometimes severe penalties, including deprivation of liberty and significant financial penalties, on citizens who may often be completely law-abiding and respectful of the law in other respects. No court wants to do that, but it will and must do it if confronted with actions that amount to violations of its lawful orders. ...

For cases involving failure to obey an injunction, Green C.J. set out the following helpful sentencing principles:

...

2. Deterrence, both general and specific, but especially general deterrence, as well as denunciation, are the most important factors to be considered in the imposition of penalties for civil, as well as criminal, contempt.

[87] Interestingly, in a recent Ontario Superior Court of Justice judgment, *West Lincoln (Township) v. Chan*, [2001] O.J. No. 2133, a case involving civil contempt, the Court stated at paragraph 37:

The primary purpose of contempt proceedings is deterrence both general and specific. The punishment for contempt should serve as a disincentive to those who might be inclined to breach court orders. Our legal system is severely weakened when court orders are ignored. In most cases, I think, deterrence is not achieved merely by the act of getting caught. In other words, the simple purging of the contempt usually is an inadequate punishment. Imagine the societal chaos if, for example, a bank robber could purge his crime supply by returning the money. [my emphasis]

[88] Furthermore, deterrence is a factor not to be minimized in the area of intellectual property. As stated by the Federal Court, Trial Division in *Louis Vuitton S.A. v. Tokyo-Do Enterprises Inc.* (1990), 37 C.P.R. (3d) 8 at page 13, it is important to deter the violation of protective injunctions in intellectual property cases:

If those who get caught were to get away unscathed that would encourage such activities and consequently destroy the intended effect of the laws that have been passed, especially with respect to the protection of intellectual and industrial property.

Even if Apotex, itself, was unlikely to commit further contempts of court, there is a general deterrent effect to be taken into account in relation to intellectual property matters involving other corporations.

[89] Therefore, where a corporation has committed contempt in relation to an intellectual property matter, deterrence is a matter which merits serious consideration. A corporation cannot be imprisoned, so the only penalty that can be imposed is a fine. Where, as here, a corporation has, by its contemptuous act, sought to increase its own profits, the fine must not be so small as to amount to a mere licence fee, which other corporations, in contemplation of similar activity, can simply budget for. In my view, the December sales are a very serious contempt, as demonstrated by the \$9 million in sales that occurred on the day the Reasons were released without informing MacKay J. of these actions. A nominal fine in the range suggested by Apotex would be insufficient.

[90] While the matter could be remitted to the Trial Judge for reconsideration, it must be remembered that this litigation has been ongoing for more than 10 years. There is no point in extending this litigation unnecessarily, and for this reason I intend to exercise the power given to this Court in subparagraph 52(b)(i) of the *Federal Court Act*, R.S.C. 1985, c. F-7, and deal with the issue of quantifying the sentence.

[91] In quantifying the sentence, I consider the following points. MacKay J. imposed a fine of \$250,000 on Apotex, but he did not allocate this amount as between the contempt relating to the December activities and the post-January 9th activities. It must also be remembered that he

considered there to be mitigating circumstances relating to the December activities which, it might be argued, would have the effect of reducing the fine for that contempt. On the other hand, as I have said, MacKay J. erred in giving little weight to the factor of deterrence, an error that would have the effect of increasing the fine. I must also take into account that the finding of contempt relating to the post-January 9th sales must be set aside.

[92] Taking into account all of these various considerations, I would reduce the fine against Apotex Inc., to \$125,000.00. I would not change the fine against Dr. Sherman, set at \$4,500.00, because this personal fine imposed against Dr. Sherman is only with respect to the December sales and has nothing to do with the second period of contempt. I can find no serious error in the reasoning of the Trial Judge in this respect.

E) COSTS

[93] I do not think that, as a matter of principle, it was inappropriate for MacKay J. to award costs against the Appellants on a solicitor and client basis. In fact, many authorities indicate that this is the customary practice in contempt cases. In *Pfizer Canada Inc. v. Apotex Inc.* (1998), 86 C.P.R. (3d) 33 (F.C.T.D.) ["Pfizer"] for instance, Hugessen J. for the Federal Court, Trial Division stated at page 35:

It is, of course, customary, in matters of this sort, to require that persons found guilty of contempt pay costs on a solicitor and client basis to the party who has brought the matter to the court's attention. The policy underlying the jurisprudence is clear: a party who assists the court in the enforcement of its orders and in the enforcement of respect for its orders, should not, as a rule, be put out of pocket for having been put to that trouble. [my emphasis]

Also, in *Dimatt Investments Inc. v. Presidio Clothing Inc.* (1993), 48 C.P.R. (3d) 46, MacKay J. for the Federal Court, Trial Division stated at pages 53-54:

I ordered that reasonable costs, on a solicitor-and-client basis be awarded to the plaintiff. This accords with normal practice in a successful application for an order finding contempt, ensuring that the role of the party acting to support compliance with an order of the court does not result in undue costs for the applicant.

In addition, in *Innovation and Development Partners / IDP Inc. v. Canada* (1993), 64 F.T.R. 177, Cullen J. for the Federal Court, Trial Division stated at page 181:

In addition to imposing a fine, I shall order that reasonable costs on a solicitor-and-client basis be awarded to the defendant. In making this order as to costs, I am keeping with the normal practice of awarding costs on a solicitor-and-client basis to parties who have successfully prosecuted contempt proceedings, thereby ensuring that the party acting to support compliance with an order

of the court does not bear the costs of proceedings that were necessary to maintain the orderly administration of justice. [my emphasis]

[94] However, having regard to the fact that Merck has been unsuccessful with respect to the second period of contempt involving the January facilitation of third party sales, the award of costs must reflect this division of success. I would award solicitor and client costs to the Respondents at trial and on the appeal on all issues, except for the second period of contempt for which no costs will be awarded. The costs should be assessed by an assessment officer.

Conclusion

[95] The appeal should be allowed in part by setting aside the finding of contempt relating to the post-January 9, 1995 time period, by reducing the fine for Apotex to \$125,000 and by ordering costs as set forth in paragraph 94. The cross-appeal should be dismissed without costs.

"J. EDGAR SEXTON"

J.A.

"I agree

A.J. Stone J.A."

"I agree

Marc Noël J.A."

FEDERAL COURT OF CANADA

Names of Counsel and Solicitors of Record

DOCKET: A-226-00 A-410-02

STYLE OF CAUSE: APOTEX INC. ET AL v. MERCK & CO., INC. ET ALL

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: APRIL 8 and 9, 2003

REASONS FOR JUDGMENT

OF THE COURT BY: SEXTON J.A.

CONCURRED IN BY: STONE AND NOËL JJ.A.

DATED: MAY 26, 2003

APPEARANCES BY:

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