

Federal Court



Cour fédérale

Date: 20161103

Docket: T-1406-16

Ottawa, Ontario, November 3, 2016

PRESENT: Madam Prothonotary Mandy Aylen

BETWEEN:

INVESTEL CAPITAL CORPORATION

Plaintiff

and

SNAPCHAT, INC.

Defendant

ORDER

UPON motion by the Defendant, Snapchat, Inc. [Snapchat], heard at the general sitting in Ottawa on November 2, 2016 seeking the following relief:

(a) An order pursuant to Rule 416 of the *Federal Courts Rules* [Rules], that:

- a. The Plaintiff, Investel Capital Corporation [Investel], is required to deposit in Court \$75,000.00 as security for Snapchat's costs in this proceeding up to the completion of the first round of examinations for discovery;

- b. This action is stayed until Investel deposits the security for costs ordered in sub-paragraph a. above;
 - c. This action shall automatically be dismissed should Investel not deposit the security for costs ordered in sub-paragraph a., above, within 30 days of the date of the order; and
 - d. Snapchat is at liberty to seek further or increased security for costs after completion of the first round of examinations for discovery, or should there be a material change in circumstances;
- (b) An order pursuant to Rule 181 of the *Rules* requiring Investel to serve and file an Amended Statement of Claim in which Investel provides particulars of the material facts which support the bald allegations of infringement asserted against Snapchat in paragraphs 14 to 21 of the Statement of Claim;
- (c) An order pursuant to Rule 8 of the *Rules* granting Snapchat an extension of time to serve and file its Statement of Defence until forty (40) days after the later of:
- a. The disposition of this motion;
 - b. Investel depositing security for costs in accordance with an order granted pursuant to paragraph (a), above; or
 - c. Investel serving and filing an Amended Statement of Claim in accordance with an order granted pursuant to paragraph (b), above; and

(d) An order awarding Snapchat its costs of this motion on an elevated scale, payable forthwith.

CONSIDERING the Notice of Motion and the draft bill of costs appended thereto filed October 27, 2016, the affidavit of Michael S. Duchesneau sworn October 27, 2016 and the exhibits thereto, and the written representations of Snapchat;

CONSIDERING the affidavit of Lawry Trevor-Deutch sworn October 31, 2016 and the exhibits thereto and the written representations of Investel;

CONSIDERING the submissions of the parties at the hearing of the motion;

With respect to the request for security for costs, Snapchat submits that Investel is ordinarily resident outside Canada as it is a corporation duly registered in the British Virgin Islands and therefore pursuant to Rule 416(1)(a) of the *Rules*, Snapchat is *prima facie* entitled to an order requiring Investel to post security for costs. Snapchat does not rely on any other subsections of Rule 416(1) in support of its request for security for costs.

Before the Court will make an order requiring a plaintiff to post security for costs, a defendant must first establish that the plaintiff is in one of the categories described in Rule 416(1). Once that is established, the burden then shifts to the plaintiff to establish why the Court should depart from the ordinary practice of awarding security for costs in the circumstances of the case (see the Order of Madam Prothonotary Tabib dated June 1, 2006 in *J2 Global Communications, Inc. v Protus IP Solutions Inc.*, T-139-06).

Snapchat asserts that it has met the onus of establishing that Investel is ordinarily resident outside Canada as Investel has admitted in its Statement of Claim that it is a corporation

registered in the British Virgin Islands. On that basis alone, Snapchat asserts that there is a presumption that Investel is ordinarily resident outside Canada. According to Snapchat, the burden of proof shifts to Investel to overcome that presumption and demonstrate that Investel is in fact ordinarily resident in Canada.

Snapchat has cited no authority to support its assertion that there is a shifting burden of proof in establishing ordinary residency, nor any authority to suggest that the place of corporate registration is a “presumptive” indicator of ordinary residence. I find that there is no shifting of the burden of proof as asserted by Snapchat and accordingly, the burden of proof rests entirely on Snapchat to establish that Investel is ordinarily resident outside Canada within the meaning of Rule 416(1)(a).

In *Alfred T. Fraser et al. v Janes Family Foods Ltd. et al*, 2012 FCA 99, the Federal Court of Appeal acknowledged that while the term ordinarily resident as it is used in Rule 416(1)(a) is not defined, its meaning is well understood and “essentially calls for a determination of the country where a person’s general mode of life unfolds”. In support of this description, the Federal Court of Appeal relied upon various tax decisions, which I also find to be of assistance in considering this issue. In that regard, the Supreme Court of Canada has held, when considering the issue of residency of a corporation for the purpose of imposing income tax obligations, that the residency of a corporation is where its central management and control actually abides. The Court held that, in general, the central management and control of a corporation will be exercised where its board of directors exercises its responsibilities (see *Fundy Settlement v Canada*, [2012] 1 SCR 520).

Accordingly, adopting the approach detailed by the Federal Court of Appeal, the question to ask is where does Investel's general mode of life unfold? The affidavit of Mr. Trevor-Deutch, Managing Partner of Investel provided that, while the company is registered as a British Virgin Islands corporation:

- (a) Investel's offices, personnel and the majority of its business are in Canada.
- (b) Investel has at all times since its inception been resident in Canada, with a head office in Vancouver, British Columbia and its only other branch office in Toronto, Ontario.
- (c) Investel's corporate records are maintained in Canada.
- (d) Investel is wholly-owned by a trust, of which all the trustees and beneficiaries are Canadian citizens and residents.
- (e) All of Investel's directors, officers and senior management are resident in Canada and are Canadian citizens.
- (f) Investel is the owner of 24 Canadian and foreign patents, although many of the patents are still pending.
- (g) Investel is the sole shareholder of two other Canadian companies carrying on business in Canada, with significant assets located in Canada.

Mr. Trevor-Deutch also provided evidence that Investel has, on two occasions, been recognized as ordinarily resident in Canada for purposes other than Rule 416(1)(a). Specifically:

- (a) In order for one of Investel's wholly-owned subsidiaries to receive preferential tax treatment under the Scientific Research and Experimental Development Tax incentive

program, the subsidiary was required to demonstrate to the Canada Revenue Agency [CRA]’s satisfaction that Investel met the definition of a Canadian Privately Controlled Corporation [CPCC]. Upon submitting evidence of Investel’s residency in Canada, Investel was deemed by the CRA to be a CPCC.

(b) In 2015, the Canadian Radio Telecommunications Commission granted Investel a broadcasting distribution undertaking, the application for which established the residency of Investel in Canada.

I note that Mr. Trevor-Deutch was not cross-examined on his affidavit and Snapchat has filed no evidence to establish or even suggest that Investel’s general mode of life unfolds in a manner other than as described by Mr. Trevor-Deutch. I find that the evidence is overwhelming that Investel’s general mode of life unfolds in Canada and as such, Investel is not ordinarily resident outside of Canada for the purpose of Rule 416(1)(a).

As Snapchat does not rely on any of the other circumstances detailed in Rule 416(1) to support its requests for security for costs, I find that Snapchat has not established a basis for an award of security for costs and that portion of the motion is accordingly dismissed.

I now turn to Snapchat’s request for an order that Investel serve and file an Amended Statement of Claim which provides particulars of the material facts which support the allegations of infringement asserted against Snapchat in paragraphs 15 to 21 of the Statement of Claim.

As a preliminary point, during the course of the hearing, Snapchat abandoned its request for particulars in relation to the allegations contained in paragraphs 19 and 21 of the Statement of Claim.

Pursuant to Rules 174 and 181 of the *Rules*, a pleading must contain a concise statement of the material facts on which the party relies and where particulars of every allegation contained therein are not provided, the Court may order a party to serve and file further and better particulars of any allegation in its pleading.

In patent infringement claims, the case law is clear that a pleading must contain (a) facts by virtue of which the law recognizes a defined right as belonging to the plaintiff; and (b) facts that constitute an encroachment by the defendant on that defined right of the plaintiff (see *Bertelsen v Automated Tank Manufacturing Inc.*, 2011 FC 1219 at para 14).

To be successful on its motion for particulars, Snapchat must establish that (a) the information sought is necessary, or material, particulars; (b) the particulars are not within Snapchat's knowledge or Investel has no cause to assume that they are within the knowledge of Snapchat; and (c) the particulars are necessary to enable Snapchat to plead in response to the impugned pleadings (see *Tyhy v Schulte Industries Ltd.*, 2004 FC 1421 at para 9).

Snapchat asserts that paragraphs 15, 16, 17, 18 and 20 of the Statement of Claim contain bald allegations of patent infringement that merely recite the language of the claims detailed in the patent and provide no material facts detailing Snapchat's alleged infringement of Investel's patent. On this basis alone, Snapchat asserts that the Court should order Investel to provide particulars, relying upon decisions of this Court that provide that allegations in a Statement of Claim that contain no material facts but rather only a recital of the language detailed in the patent claim are improper (see, for example, *Bertelsen v Automated Tank Manufacturing Inc.*, *supra* at para 17).

However, this Court has held that there is no hard and fast rule prohibiting a plaintiff from using the language contained in the patent claim to describe the acts of a defendant. Rather, each case must be assessed on its own facts, the evidence presented and the exact wording of the patent and the Statement of Claim. There are instances where the wording of the patent claim is such that it can properly be used as a model to describe exactly what the defendant has done that the plaintiff alleges constitutes an encroachment of the plaintiff's right (see *General Electric Co. v Wind Power Inc.*, [2003] FCJ No 692 at paras 18-19).

I now turn to consider the specific information sought by Snapchat and the evidence and submissions presented by Snapchat in support of its request for particulars. In that regard, to establish that the requested particulars are necessary for pleading and not within its knowledge, a party's affidavit in support of a motion for particulars must, in general, contain details as to what information is needed for pleading and why the party, without such information, would be unable to instruct counsel for the purposes of replying to the Statement of Claim (see *Stryker Corp. v Umamo Medical Inc.*, 2016 FC 378 at para. 27; *Abercrombie & Fitch Co. v Giant Tiger Stores Limited*, 2009 FC 492 at para. 11). Snapchat asserts that where the need for particulars is clear on the face of the pleading, affidavit evidence to establish the need for particulars is not required, (see *Chen v Canada (Minister of Citizenship & Immigration)*, 2006 FC 389).

I am not satisfied that, in this case, the need for particulars is "clear" on the face of the pleading. While Snapchat asserts that the relevant paragraphs of the Statement of Claim contain merely a bald recital of the patent claim language and no material facts, that is simply not the case. Material facts are pleaded in many of the paragraphs at issue or are otherwise pleaded in the balance of the Statement of Claim. By way of examples:

- (a) Paragraph 16 of the Statement of Claim provides that the alleged infringement of claim 44 of the patent relates to that element of Snapchat's social media system applications that request and require specific permissions for users' cameras.

- (b) Paragraph 17 of the Statement of Claim provides that the alleged infringement of claim 45 of the patent relates to that element of Snapchat's social media system applications that automatically launches the camera feature of application users on launch of the application.

In the circumstances, I find that Snapchat should have provided affidavit evidence in support of its request for particulars that detailed what information it needed for pleading and why, without such information, Snapchat would be unable to instruct counsel for the purposes of responding to the Statement of Claim. Snapchat has filed no such evidence and no submissions were made by counsel for Snapchat during the hearing to clearly detail how Snapchat could not plead without the requested particulars.

My concerns regarding the absence of this evidence are significantly compounded by the fact it was not until the actual hearing of the motion that Snapchat finally identified the particulars that it is seeking from Investel in relation to paragraphs 15, 16, 17, 18 and 20 of the Statement of Claim. Investel had made requests from Snapchat in three letters between September 20, 2016 and October 7, 2016 to identify the information which Snapchat believed it required in order to plead. Snapchat failed to do so. In the materials filed by Snapchat in support of this motion, Snapchat also failed to identify the information which it asserts it needs in order to plead. It was only upon being questioned by the Court that Snapchat provided some, albeit minimal, details of the information that it seeks from Investel.

In the circumstances, I find that the absence of evidence in support of the motion and the complete failure by Snapchat to particularize the information it is seeking in advance of the hearing provide a sufficient basis to dismiss the request for particulars.

However, having been given details of the information sought by Snapchat during the hearing, I have considered whether those particulars are necessary or material to enable Snapchat to instruct counsel and prepare a Statement of Defence. In a nutshell, Snapchat asserts that it does not have sufficient information to understand which components of Snapchat's system allegedly infringe Investel's patent and how the information transferred by those components allegedly infringes Investel's patent.

In relation to paragraph 15 of the Statement of Claim, counsel for Snapchat stated that it is not necessarily a situation where Snapchat cannot discern whether its system contains the components detailed in that paragraph. Rather, Snapchat wants to know which specific components of the Snapchat system Investel believes are described by the language used in paragraph 15. In addition, counsel for Snapchat stated that, in relation to all 5 paragraphs at issue, many of the terms used by Investel to describe Snapchat's alleged infringement were overly broad such that Snapchat could not be certain what Investel is referring to. For example, counsel for Snapchat stated that it is unclear what Investel is referring to when it uses the term "user-selected content" in paragraph 17 of the Statement of Claim.

Having reviewed the Statement of Claim in its entirety, including the appendices thereto which provide various figures related to Investel's patent and various Investel product examples, I am satisfied that the Statement of Claim contains sufficient particulars of the material facts of Snapchat's alleged infringement of Investel's patent so as to enable Snapchat to respond

intelligently to the Statement of Claim. Snapchat has only one social media system and one application running on that social media system. The Statement of Claim provides specific examples of a product utilizing the claimed technology and sets out readily recognizable features of Snapchat's social media application which Investel alleges infringe the patent. I find that the use of the patent claim language, coupled with the material facts pleaded by Investel, is sufficient to satisfy the requirements of Rule 174. Accordingly, Snapchat has not established that the information sought is necessary or material particulars and its motion for particulars should also be dismissed on this basis as well.

On the final issue – Snapchat's request for an extension of time to serve and file its Statement of Defence – I find that an extension of time is appropriate in the circumstances, particularly given that this motion was filed prior to the deadline for delivery of Snapchat's Statement of Defence. However, I am not prepared to entertain an extension of an additional 40 days from the date of this Order as requested by Snapchat, as Snapchat has already been in possession of the Statement of Claim for over 50 days. Accordingly, Snapchat shall have until November 30, 2016 to serve and file its Statement of Defence.

With respect to the costs of this motion, during the course of the hearing, each party provided me with a lump sum cost amount that it was seeking in the event that it was successful. Snapchat seeks a lump sum of \$2,300.00, comprised of \$1,820.00 in fees and \$480.00 in disbursements. Investel seeks a lump sum of \$4,200.00, comprised of \$3,000.00 in fees and \$1,200.00 in disbursements (which includes the travel costs of one counsel). Investel submits that the Court should award fees calculated as if this motion were two motions given the distinct relief sought by Snapchat.

As Investel was entirely successful on the motion, I find that Investel is entitled to its costs. However, the amount sought by Investel for fees is excessive as there is no basis to allocate units as if this motion was in fact two motions. Given that Snapchat sought fees of \$1,820.00, I find that \$1,820.00 is an appropriate amount for an award to Investel. Accordingly, I find that Investel is entitled to a lump sum cost award in the amount of \$3,020.00, comprised of \$1,820.00 in fees and \$1,200.00 in disbursements, payable in any event of the cause.

THIS COURT ORDERS THAT:

1. The motion for security for costs is dismissed.
2. The motion for particulars is dismissed.
3. The Defendant is hereby granted an extension of time to serve and file its Statement of Defence to November 30, 2016.
4. The Defendant shall pay to the Plaintiff its costs of the motion fixed in the amount of \$3,020.00 in any event of the cause.

"Mandy Ayles"
Prothonotary