**CITATION:** Loops L.L.C. v. Maxill Inc., 2024 ONSC 7194
**COURT FILE NO.:** CV-16-2447
**DATE:** 2024/12/30



**SUPERIOR COURT OF JUSTICE - ONTARIO**

**RE:** LOOPS L.L.C. and LOOPS FLEXBRUSH, L.L.C., Plaintiffs

**AND:**

MAXILL INC. and JOHN SHAW, Defendants

**BEFORE:** Tranquilli J.

**COUNSEL:** Kassandra Shortt, for the Plaintiffs/Moving Parties

Catherine Patterson, for the Defendants/Responding Parties

**HEARD:** September 16, 2024

## ENDORSEMENT

[1] The plaintiffs set this action down for trial. They now seek leave under rule 48.04(1) of the *Rules of Civil Procedure* for an order granting leave to bring a motion for partial summary judgment in this intellectual property dispute.

[2] The proposed motion for partial summary judgment seeks declarations that the defendants engaged in several acts that constituted breach of a confidential settlement agreement, a permanent injunction requiring the defendants to cease ongoing breaches of the agreement and either the delivery-up or destruction of property in the defendants' possession. If partial summary judgment is not granted, the plaintiffs seek trial management orders: identifying the material facts not in dispute; defining the issues to be tried; and requiring that the action proceed to trial expeditiously.

[3] At issue is whether this proposed interlocutory step is in the interests of justice.

## Background

[4] The action concerns the enforcement of a confidential settlement agreement between the plaintiffs and the defendants in respect of the plaintiffs' intellectual property rights in a toothbrush designed for use in correctional and mental health settings.

[5] The parties have been locked into this intellectual property dispute for over ten years.

[6] The plaintiffs previously brought a Federal Court of Canada action against the defendant Maxill alleging infringement of the plaintiffs' toothbrush design in December 2012. In April 2014, the parties resolved the federal court action with the confidential settlement agreement.

[7] The material elements of this agreement obligate Maxill Inc. from refraining from the import, export or selling of a certain toothbrush model anywhere in the world. The agreement also includes a "no-challenge" clause, whereby the defendants will not directly or indirectly assist any person in attacking the validity of the plaintiffs' toothbrush patent.

[8] However, shortly thereafter, questions arose as to Maxill Inc.'s compliance with the agreement and the plaintiffs commenced this action for enforcement of its terms. The plaintiffs allege the defendants breached the confidential settlement agreement through continuing to distribute Maxill Inc.'s offending inventory contrary to the agreement and in attacking the validity of the patent in litigation involving Maxill Inc. and its subsidiary in the United States of America.

[9] The defendants deny breach of the confidential settlement agreement on several grounds, including that the no-challenge clause is unenforceable as it impedes the administration of justice and is void on public policy grounds.

[10] There is collateral litigation in the United States of America between these same parties and/or their US subsidiaries/entities, and where the confidential settlement agreement is in issue. In one of those actions, the court denied these plaintiffs their request for an interim stay of the US action while this action was litigated in Canada. The court's reasons included a finding that the no-challenge clause in this confidential settlement agreement runs contrary to the strong US federal policy as summarized in *Lear v. Adkins*, 395 U.S. 653 (1969), favouring the full and free use of ideas in the public domain. The public interest in free competition prevents enforcement of the contractual clause.

[11] The plaintiffs were also unsuccessful at first instance in this action in obtaining an interim and interlocutory injunction restraining the defendants from either directly or indirectly challenging the validity of the patent. The motion judge found that Maxill Inc. was not a party to the confidential settlement agreement and that the breadth of the no-challenge clause was of concern. Consistent with the concerns highlighted in *Lear*, the motion judge found that a contractual no-challenge clause which had potential to affect the public at large was "too high" a price if public trust and confidence in the administration of justice are to be maintained. As such, the plaintiffs had not established a strong *prima facie* case for injunctive relief.

[12] By reasons released October 27, 2020, the Divisional Court set aside order of the motion judge. The appeal court found that Maxill Inc. was, in fact, a party to the confidential settlement agreement, that *Lear* was distinguishable on its facts and had not been universally followed in the US jurisdiction. While there may be limits to the power to contract where the general public is harmed, the Divisional Court doubted that this no-challenge clause was one such example. The terms of the confidential settlement

agreement were clear, unambiguous, and reflected the parties' intentions to resolve an outstanding dispute. In any event, from a public policy perspective, there was no evidence on the motion record that allowed the court to weigh the negative and positive implications for the public interest in enforcement of the no-challenge clause. Moreover, *Lear* was considered and rejected by both Ontario and Quebec courts: *Louiseville Spinners Ltd. v. Deering Milliken Research Corp*., 1972 CarswellQue 166 (Que. CA) and *Asturiana de Zinc v. Canadian Electrolytic Zinc Ltd*., 1979 CarswellOnt 1555. As such, there was a strong *prima facie* case demonstrating Maxill's breach of the no-challenge clause. The Divisional Court granted the plaintiffs an interim and interlocutory injunction prohibiting the defendant Maxill from indirectly or directly challenging the plaintiffs' patent, as provided in the no-challenge clause of the agreement.

[13] The matter has taken several years to progress, for which the plaintiffs claim the defendants are responsible. The defendants have undergone examinations for discovery. The court was required to address a motion for undertakings and refusals, as well as the plaintiffs' motion to add the defendant Shaw as a party following receipt of answers to undertakings and the refusals ordered to be answered. The defendants have also changed representation several times and to this point, have not required the plaintiffs to be examined. In February 2024, the defendants retained new counsel, who responded to this motion.

**Positions of the Parties**

[14] As recently observed by the Court of Appeal but left unresolved, the proper test for granting leave to bring a motion under Rule 48.04(1) is subject to some disagreement among Ontario courts: *Horani v. Manulife Financial Corporation*, 2023 ONCA 51, at para. 16. The parties agree the appropriate test for leave in these circumstances is whether the plaintiffs can demonstrate that the motion for partial summary judgment is necessary in the interests of justice, even in the absence of a substantial or unexpected change in circumstances: *Horani*, at para. 18.

[15] The plaintiffs submit that it is in the interests of justice for it to be permitted to seek partial summary judgment. The motion would offer an efficient and cost-effective resolution of the substantial issues in this protracted dispute where resolution has otherwise been delayed by the defendants' conduct. The plaintiffs have made every effort to prosecute their claims in a timely manner and would have proceeded with a partial summary judgment motion at this juncture, but for having set the matter down for trial. They only set the matter down for trial because of the court's resumption of administrative dismissals of actions on May 13, 2024. No trial or pre-trial dates have been set, so there are no concerns re inefficient use of resources. There is no risk of inconsistent findings because only the issue of damages would be left for trial.

[16] The defendants submit it is not in the interests of justice for the court to permit the plaintiffs to use the "rare procedure" of partial summary judgment. The enforceability of the no-challenge clause is a central issue in the litigation, and notwithstanding the findings of the Divisional Court in this matter, the law in this area is unsettled and warrants review.

Such a review is best done on a complete trial record and not based on decontextualized and incomplete affidavits. The defendants intend to lead evidence to address the public interest in the enforceability and scope of the no-challenge clause. Finally, partial summary judgment is unlikely to achieve the efficiencies and cost-savings suggested by the plaintiffs, as it will entail the expense of the preparation of affidavits and cross-examinations and the result will likely be subject to appeal and delay a final disposition of the matter.



**Analysis**

[17] Setting a matter down for trial is not a mere technicality. It is a matter of discretion in the particular circumstances of the case whether the court will grant leave to initiate or continue a motion. There must be a justification for permitting a further interlocutory step: *Fulop v. Corrigan*, 2020 ONSC 1648 at para. 76.

[18] I agree with the parties that within the context of a proposed summary judgment motion, the appropriate test is whether the interlocutory step is in the interests of justice. For example, if a summary judgment motion is less costly and time-consuming than trial and will not unduly delay the start of trial, the motion is in the interests of justice: *Fruitland Juices Inc. v. Custom Farm Service Inc.*, 2012 ONSC 4902. To that end, I have adopted the flexible approach outlined in *Fulop* and considered the various discretionary factors identified in that decision: *Fulop* at para. 77.

[19] I accept that there is not an obvious risk of inconsistent findings as the proposed partial summary judgment motion bifurcates liability from damages. I also acknowledge that the proposed motion will not disrupt an imminent pretrial or trial date. The plaintiffs have also been diligent in moving this case forward. I accept that they would have brought this motion but for the fact that they passed the trial record as a precaution with the reinstatement of administrative dismissals. However, notwithstanding their intended strategy to move for partial summary judgment, they would have known about the consequences of setting the action down and could have been taken other steps to avoid the dismissal without engaging Rule 48.04. Finally, I acknowledge that the Divisional Court's reasons suggest the plaintiffs' motion for partial summary judgment is strong at least as it relates to the no-challenge clause.

[20] However, the risk of inconsistent findings is only one of several matters that a motion judge must consider when asked to entertain a motion for partial summary judgment. The court must determine whether, in the circumstances, partial summary judgment will achieve the objectives of proportionate, timely and affordable justice or, instead, cause delay and increase expense: *Malik v. Attia*, 2020 ONSC 787 at paras. 61-63.

[21] To that end, I find that a motion for partial summary judgment is not advisable in the context of the litigation as a whole for the following reasons:

a. I am not persuaded that dividing this case into several parts will prove cheaper for the parties. The plaintiffs contend that partial summary judgment will be cheaper

than trial. For example, that anticipated experts from the United States will not need to travel for *viva voce* testimony. This overlooks the time and expense to the parties for the preparation of affidavits and then cross-examination on affidavits. The plaintiffs' position also does not account for the possibilities that witnesses, such foreign experts, can likely testify at trial remotely, as has now become a regular practice since 2020. Accordingly, a summary judgment motion seems to risk adding more expense rather than eliminating expense.

b. Partial summary judgment would also be more likely to contribute to further delay in the matter rather than to a more expeditious conclusion. If successful, a trial on damages would still need to be scheduled. If unsuccessful, the trial on liability and damages then needs to be scheduled. There would also be the real prospect of an interim appeal of the motion decision, delaying the damages trial. The plaintiffs advise that in their experience, patent litigation frequently resolves on the liability issues, such that a damages trial may well not be required. This optimism seems doubtful in the context of the age of this litigation, notwithstanding that the Divisional Court found in 2020 that the plaintiffs had a strong *prima facie* case. In all, I see it as more likely that this motion will increase the overall costs of litigating the case and delay its endpoint even further.

c. Delay can also reasonably be anticipated in addressing any motions that may arise from cross-examinations on the affidavits. For example, the defendants raise a limitation defence in respect of the addition of Mr. Shaw as a party. Evidence as to what the plaintiffs knew or ought to have known regarding a claim against Mr. Shaw may engage the knowledge of its counsel in Canada and the USA and involve determinations of the scope of privileged communications on a refusals motion. I agree with the defendants' submission that those hurdles would be more efficiently navigated in a trial. Moreover, the prospect of further interlocutory motions to be decided arising from cross-examinations would likely involve another judge, thereby raising a risk of inconsistent findings.

d. The Divisional Court found that Ontario law has not followed the public policy concerns regarding the enforcement of no-challenge clauses as was outlined in the USA in *Lear* and that *Lear* has not even been uniformly followed within the US jurisdiction: *Loops L.L.C. v. Maxill Inc*., 2020 ONSC 5438 at paras. 52-62. The court nevertheless acknowledged that Canadian decisions such as *Asturiana de Zinc* expressly invited appellate review and a fresh look at the enforceability of the no-challenge clause within the Canadian jurisdiction. The panel explained that one of its concerns with the motion judge's decision was that dismissal of the motion foreclosed on the possible evolution in the law that such a process would typically direct, with a consideration of whether there is evidence that such restrictive covenants are a threat to public trust and confidence in the administration of justice: *Loops*, at para. 64. The defendants have made it clear that they intend to lead evidence and make this argument at trial. This is evident in their pleadings and in their position taken on the injunction motion. They also note that recent Canadian appellate authority supports that contractual obligations may not be enforced when

they are found to run counter to public interests such as free expression, thereby signalling that similar competing interests may come to the fore for examination in this case: *1704604 Ontario Ltd. v. Pointes Protection Association*, 2020 SCC 22.

e. I therefore accept the defendants' position that the issue of the application of the no-challenge clause and the public interest should proceed on a full trial record and not the more limited record that arises within summary judgment: *Romano v. D'Onofrio et al*, 2005 CanLII 43288 (ON CA) at para. 9; *Cullaton v MDG Newmarket Inc*., 2019 ONSC 6432 at paras. 243-251. While credibility may not be a material issue in this dispute, the parties will rely on expert opinion. In my view, such opinion evidence should not be reduced to a written record. Great care must be taken by the motion judge to ensure that decontextualized affidavit and transcript evidence does not become the means by which substantive unfairness enters in a way that would not likely occur in a full trial where the trial judge sees and hears it all: *Baywood Homes Partnership v. Haditaghi*, 2014 ONCA 450 at para. 44.

f. The plaintiffs urged that a successful partial summary judgment motion would reduce what would otherwise be a seven-day trial to a one-day partial summary judgment motion and then a one-day damages trial. This highlights the significant responsibility put upon the court to review an expansive and voluminous evidentiary record compressed into a one-day argument and then write comprehensive reasons that possibly addresses an unsettled point of law yet does not dispose of the action. The notional reduction in actual courtroom time for the parties does not translate into efficiencies for the court. This is not an efficient use of court resources: *Butera v. Chown, Cairns LLP*, 2017 ONCA 783 at para. 32.

[22] The motion is therefore dismissed for the reasons reviewed herein.

[23] The court has the parties' cost outlines but requires submissions as to costs. If the parties are unable to resolve costs, the defendants shall deliver their written submissions by January 14, 2025 and the plaintiffs shall deliver their written submissions by January 21, 2025. Written submissions are limited to two-pages. There is no right of reply without leave.

[24] As the record is subject to a sealing order these reasons are provided to the parties only for their review and advice as to any redactions necessary to protect the confidentiality of the information in the sealed record. The parties are to agree on a redacted version of the reasons and provide it to the Superior Court office for my attention within three weeks of the release of this decision.

Justice K. Tranquilli

**Date:** December 30, 2024