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IN THE HIGH COURT OF NEW ZEALAND
WHANGAREI REGISTRY

NO. A. 8/84

N2UR

948

BETWEEN A.H.I. WHIMPWAY LIMITED

First Plaintiff

A N D RAYMOND GARRY WHIMP

Second Plaintiff

A N D KAWAKAWA ENGINEERING LIMITED

Defendant

Hearing: July 23, 24, 1984

Counsel: Mr. Finnigan for Defendant in support
Mr. Hardie for Plaintiffs to oppose

Judgment: July 24, 1984.

(ORAL) JUDGMENT OF WALLACE, J.

This is an application in terms of Rule 236 for an order to set aside a judgment entered by default and to rescind an injunction restraining the Defendant from infringing certain Letters Patent.

The history of the matter is that the Plaintiffs' Writ of Summons and Statement of Claim were served on the Defendant on 21st December, 1983. The Statement of Claim alleged infringements by the Defendant of a patent for a gang mower. The patent had been sealed on 25th July 1983, having been applied for in the name of the Second Plaintiff, but

subsequently assigned to the First Plaintiff. The Statement of Claim was served along with a letter from the Plaintiff's Patent Attorney and solicitor, Mr. Hardie, which stated, inter alia, "Please ensure that your Statement of Defence is filed within the normal time even if this may only be a general defence requiring subsequent amendment".

The Defendant's solicitors received the Statement of Claim and Writ, together with Mr. Hardie's letter, on 22nd December, 1983. In terms of the Code of Civil Procedure, the 30 days for filing the Statement of Defence did not commence to run until after 20th January, 1984 and expired on 20th February, 1984.

The Defendant's solicitor, Mr. Whiting, deposed that he could not give attention to the matter before 20th January, 1984. On that day he wrote to Mr. McCabe, a Patent Attorney of Wellington, instructing him to conduct the defence. The letter placed Mr. McCabe directly in touch with the Defendant and also suggested a possible inspection of one of the gang mowers in mid February. On the same day, Mr. Whiting wrote to Mr. Hardie advising that Mr. Whiting had referred the matter to Mr. McCabe and seeking an extension of time until the end of March for filing the Statement of Defence. Thereafter, the Defendant and Mr. McCabe arranged a meeting in Wellington on 23rd February, 1984 for the inspection of one of the mowers.

On 22nd February, 1984 Mr. Hardie replied to Mr. Whiting advising that the Plaintiff refused any extension of time for the filing of the Statement of Defence. Mr. Whiting replied to that letter on 24th February, 1984 suggesting that as the

action involved the specialised topic of patent law, Mr. Hardie should communicate directly with Mr. McCabe. On the same day, Mr. Whiting wrote to Mr. McCabe enclosing the letter from Mr. Hardie and suggesting that a "pro forma" Statement of Defence should be filed.

The next development was that on 28th February, 1984 Mr. Whiting was served with an inter partes Notice of Motion for Judgment by Default. Mr. Whiting understood that the date of 9th April, 1984 stated in the motion was only a provisional date (which it apparently was, since the motion was not in fact heard until 30th April, 1984) because the motion had stamped on it by the Court "This is not a definite date of hearing. If you wish to be heard a Ready List application will be required before a firm fixture is given". Mr. Whiting deposed that he believed the motion would not be given a firm fixture until the Plaintiff's solicitor had at the least invited the Defendant's solicitor to sign a Ready List application. No Ready List application was, however, sent to the Defendant or its solicitor. It also appears that Mr. McCabe did not take up Mr. Whiting's suggestion that a pro forma Statement of Defence should be filed and it was not until 20th June, 1984 that Mr. Whiting received from Mr. McCabe a Statement of Defence, Counter-claim and Particulars of Objection which he arranged to have presented for filing on 27th June, 1984 (the document was served on the same date).

On 4th July, 1984, however, a copy of a default judgment dated 30th April, 1984 was served at the Defendant's registered office. The default judgment was promptly given to

Mr. Whiting who, on 12th July, 1984, filed the present motion to set aside the judgment.

There are at least two relatively recent reported decisions where the relevant principles have been discussed. The first is the decision of Greig, J. in O'Shannessy v. Dasun Hair Designers Ltd. (1980) 2 N.Z.L.R., 652. The second is the decision of the Court of Appeal in Russell v. Cox (1983) N.Z.L.R., 654. Counsel for both parties accepted that the principles enunciated in the latter decision, which related to an application under Rule 265, are equally applicable to an application under Rule 236. For present purposes, it is sufficient to refer to the headnote of the decision which summarises the law as follows:-

> "The discretion given to the Court of a Judge by R.265 of the Code of Civil Procedure to set aside a judgment that has been obtained by default is unrestricted, apart from the time limit stated in the Rule within which the application must be brought. The test against which an application should be considered is whether it is just in all the circumstances to set aside the judgment. Considerations such as whether the defendant's failure to appear was excusable, whether the defendant had a substantial ground of defence, whether the plaintiff would suffer irreparable injury if the judgment was set aside, should not be treated as rules of law."

The Defendant filed a number of affidavits in support of the motion to set aside judgment and in response, the Plaintiff filed a lengthy affidavit from Mr. Whimp, who is the Second Plaintiff and a director of the First Plaintiff.

In his submissions on behalf of the Defendant, Mr. Finnigan, who was instructed purely for the purposes of this motion, submitted that the delay is explicable and excusable,

that the Defendant's pleadings and affidavits disclose a substantive ground of defence (including a Counter-claim for revocation of the patent) and that there is no real prejudice or irreparable injury to the Plaintiffs if the judgment is set aside in as much as the Plaintiffs areable to be compensated in damages and costs if the defence is unsuccessful.

All those grounds were strongly disputed by Mr. Hardie for the Plaintiffs who made lengthy submissions on each aspect of the argument put forward by Mr. Finnigan. In several respects it is unnecessary to refer to the detailed submissions made by Mr. Hardie because they were not disputed by Mr. Finnigan. Moreover, an urgent decision is required because the injunction has, according to the affidavits, virtually brought the Defendant's business to a standstill. I will therefore endeavour to deal only with those issues which are seriously in dispute.

1. Whether the delay was explicable and excusable.

On this aspect of the argument Mr. Finnigan did not suggest that the judgment was irregularly obtained and I accept the submission made by Mr. Hardie that the relevant Rules of the Code were complied with. Indeed, it may well be that the Motion should not have been stamped with the notice stating that a Ready List application would be required before a firm fixture was given.

Mr. Hardie strongly criticised Mr. Whiting and Mr. McCabe for ignoring the requests for a defence and the warning that the Defendant was required to act timeously. He also submitted that it was very doubtful that Mr. McCabe required

the length of time that was taken to prepare the Statement of Defence or needed to conduct the research specified in his affidavit. Mr. Hardie suggested that there was a real lack of candour in Mr. McCabe's affidavit. For my part, I think Mr. McCabe was unwise to ignore the suggestion made by Mr. Whiting that he should file a defence. Moreover, the safe course was clearly to move for an extension of time if a defence was not to be filed. I consider, however, that I should take into account in the Defendant's favour that the effect of the notice stamped on the motion for default judgment was to lull both Mr. Whiting and Mr. McCabe into a false sense of security that there was still time to complete any research necessary for a full Statement of Defence and file it. I also consider it to be relevant that the Defendant, although obliged in these proceedings to accept responsibility for the actions of its advisers, acted promptly at all stages. This is not a case of a Defendant ignoring, or going to sleep on, or wilfully disregarding its obligations. On balance, and taking account of all the relevant facts, I have reached the conclusion that the Defendant's delay should be accepted as explicable and excusable in all the circumstances.

2. Whether there is a substantial ground of defence.

Mr. Hardie devoted particular attention to this aspect of the case and exhaustively considered each particular of objection specified in the Defendant's Counter-claim. In essence, his submission was that all the alleged particulars of objection to the Plaintiff's patent had been ruled upon and rejected either by the Assistant Commissioner of Patents (in two applications for letters patent) or by Chilwell, J. (in proceedings for breach of confidence between Mr. Whimp, the

Defendant and others). On that basis Mr. Hardie submitted there was no realistic chance of the defence succeeding. Mr. Hardie further contended that any of the grounds of objection not already ruled upon had been inadequately particularised in terms both of the Patents Rules, 1956 and the Code of Civil Procedure, and that there was also insufficient evidence in the affidavits to establish those grounds.

Although I am satisfied that the Statement of Defence and Counter-claim provided inadequate particulars of many of the objections to the patent, and although I also accept that in some respects the affidavits supporting the Motion are deficient, I am at the end of the day of the view the Defendant has put forward sufficient to establish that it has a ground of defence. Without much fuller evidence and cross-examination it is impossible to say how substantial the defence may prove to be, but I am not prepared to say that decisions of the Assistant Commissioner of Patents reached on affidavit evidence in proceedings in which the Defendant was not a party (although declarations were filed on behalf of the Defendant) and without submissions from Counsel, should be accepted as definitively excluding any defence. It appears that what happened was that the original objector to the patent decided to enter into a license agreement and did not ultimately pursue the objection with vigor. In those circumstances, the Assistant Commissioner of Patents still had to determine the issues, but on evidence which may not have been complete and without the benefit of argument. It is no disrespect to the view which he reached to say that it may be possible for the Defendant to obtain a different

outcome in the present proceedings once full evidence and argument is heard, particularly bearing in mind that on the crucial issue of prior use or working, the Assistant Commissioner of Patents relied on the provisions of Section 60(3) of the Patents Act, 1953 (whereas the Defendant alleges that the mower was being trialled for purposes of sale). Similarly, I do not consider the conclusions reached by Chilwell, J. in the breach of confidence action can be regarded as definitive against the Defendant when the learned Judge was not required to determine the validity of the patent. Although I am not convinced the Defendant has a strong case, I consider on the evidence before me that there are arguable grounds of defence which the Defendant is able to put forward.

3. Prejudice or irreparable injury to the Plaintiff.

In this respect Mr. Hardie's principal contentions were that the Defendant was virtually insolvent and unable to satisfy any judgment and further, that if the injunction is rescinded the Defendant will continue to manufacture and sell mowers without having the ability to meet any damages in relation thereto. The extent to which those considerations are relevant on a motion under Rule 236 may, to some extent, be debatable. The Defendant, however, filed an affidavit by its Secretary, Mr. Byers, who is a chartered accountant. That affidavit, if correct, establishes that the Defendant's assets exceed its liabilities by something over $300,000. The contents of the affidavit were disputed by Mr. Whimp in his affidavit largely, however, on the basis of hearsay evidence, it being impracticable to obtain better evidence in the time available. Mr. Finnigan also, at the conclusion of the hearing,

tendered a memorandum which I thought it preferable not to read. It does nevertheless appear that in at least one respect Mr. Byers incorrectly stated the liabilities, because there is a sum of $8,000, plus costs and interest at 11% for some 6½ years, owing in respect of the breach of confidence judgment. Apparently the costs have not yet been agreed (they having been reserved) and there is also a claim for a set-off. Apart, however, from that omission, I do not think I can place any weight on the hearsay evidence in the light of Mr. Byers' sworn evidence.

On the available evidence, it seems that the Defendant has adequate assets from which to meet any damages and costs in this action, the Plaintiff's without prejudice estimate of the likely damages being $60,000. I, therefore, do not consider that any serious ground of prejudice has been made out. I also note that this presumably was the Plaintiffs' original view otherwise they would, at the outset, have applied for an interim injunction. In addition to the likelihood that damages will be able to be paid by the Defendant, account should perhaps also be taken of the effect on the Defendant of the injunction, since it is alleged that the injunction has virtually stopped the Defendant's remaining business (a good part of the business having already fallen away because of the closure of the Kawakawa Dairy Factory).

Applying the principles enunciated by the Court of Appeal in Russell v. Cox (supra), to the above findings and bearing in mind that the Court's discretion requires a determination of what is just in all the circumstances, I

consider this is a proper case in which to set aside the judgment by default and to rescind the interim injunction.

It remains to consider the terms upon which this should be done. Mr. Hardie suggested a number of possible terms, some of which I consider to be outside any jurisdiction which I can appropriately exercise. I consider, however, that the following conditions should be imposed:

1. The Defendant to file its Statement of Defence and Counter-claim giving full particulars as required by the Patents Rules and the Code of Civil Procedure, within 21 days of the date hereof. I note that Mr. Hardie in his submissions specified the particulars the Plaintiffs properly require.
2. The Defendant to file its affidavit of documents within 28 days hereof.
3. The Defendant thereafter to comply with all Rules of Court and to co-operate fully in dealing promptly with any further interlocutory matters, including interrogatories or any application for a priority fixture.
4. The Defendant to pay to the Plaintiff's solicitors within 28 days, the costs of obtaining the default judgment and the costs of this application which I fix at the total sum of $1,500 plus disbursements as fixed by the Registrar. Those costs are substantially less than the Plaintiff's Counsel states have been incurred by the Plaintiff, but in my view, represent a maximum figure bearing in mind all the circumstances.

I also contemplated making an order that the Defendant pay to the Plaintiff, Mr. Whimp, or at least pay

into Court, the damages of $8,000 plus the outstanding interest awarded in the breach of confidence actions No. A.105/75 and No. A.107/75. Although the extent of the Court's discretion is undefined in an application of this nature, I had some concern that I should not make an order which exceeded the Court's proper powers. In the event, I inquired from Mr. Finnigan whether his client was prepared to undertake to pay the damages of $8,000 plus the outstanding interest into Court. Mr. Finnigan informed me that the Defendant was prepared to give an undertaking to do so within 28 days. The undertaking was given by the Defendant on the basis that the moneys paid into Court may, with the agreement of the parties, be deposited by the Registrar in an interest bearing account pending payment out, and on the further basis that liberty is reserved to either party to apply to the Court on notice for the moneys to be paid out. In view of the undertaking given by the Defendant, I do not need to consider whether a condition concerning payment of the breach of confidence judgment should be included as a term of this decision.

There will accordingly be an order setting aside the judgment and all related orders and rescinding the interim injunction upon the abovementioned four conditions. The order must come into force forthwith because of the need to terminate the injunction. The Defendant should, however, appreciate that any default in observing the terms of the order will be viewed seriously by the Court.

J. H. Williams J

Solicitors:
Chapman Tripp, Whangarei, for Plaintiffs.
Connell Lamb Gerard & Co., Whangarei, for Defendant.