

Federal Court



Cour fédérale

Date: 20161026

Docket: T-407-14

Citation: 2016 FC 1193

Montréal, Quebec, October 26, 2016

PRESENT: The Honourable Mr. Justice Locke

BETWEEN:

POLLARD BANKNOTE LIMITED

**Plaintiff
(Defendant by Counterclaim)**

and

**BABN TECHNOLOGIES CORP. and
SCIENTIFIC GAMES PRODUCTS
(CANADA) ULC**

**Defendants
(Plaintiffs by Counterclaim)**

ORDER AND REASONS

[1] This decision concerns costs following trial in a patent impeachment action by Pollard Banknote Limited (Pollard) against Scientific Games Products (Canada) ULC (SG). In a decision dated July 28, 2016, I found in favour of Pollard, ruling that the claims of the patent in suit (Canadian Patent No. 2,752,551, hereinafter the 551 Patent) were invalid. In that decision, I ruled that costs would follow the event and invited the parties (Pollard first and then SG) to make

submissions on costs of no more than 15 pages. Pollard then had an opportunity to make submissions in reply of no more than five pages.

I. Pollard's Submissions

[2] In its submissions in chief, Pollard seeks a lump sum award of costs that reflects its actual expenses in the impeachment proceeding, instead of an award according to Tariff B of the *Federal Courts Rules*, SOR/98-106 [the Rules]. Pollard asserts that its actual expenses included \$1,348,315.00 in legal fees and \$208,001.72 in disbursements. Pollard seeks an award in the amount of \$882,159.22 which reflects 50% of its legal fees and 100% of its disbursements.

[3] Pollard argues that costs calculated on the basis of Tariff B would amount to only 17% of its legal fees (if the top of Column IV is applied) or 22% (if the top of Column V is applied). Pollard also cites a “trend in recent caselaw favouring the award of a lump sum based on a percentage of the actual costs to the party when dealing with sophisticated commercial litigants that clearly have the means to pay for the legal choices they make” (*Eli Lilly and Company v Apotex Inc*, 2011 FC 1143 at para 36). Pollard also cites the following decisions as examples of this trend: *Air Canada v Toronto Port Authority*, 2010 FC 1335; *Philip Morris Products SA v Marlboro Canada Ltd*, 2014 FC 2, [2014] FCJ No 1370 (QL); *The Dow Chemical Company v Nova Chemical Corporation*, 2016 FC 91.

[4] Pollard notes Rule 400(3) setting out a number of factors that may be applied in awarding costs, and asserts a number of reasons why costs in this case should be elevated.

II. SG's Submissions

[5] SG argues that this is not a case that warrants a departure from the default costs award under Column III of Tariff B as contemplated in Rule 407. SG also argues that nothing in the “trend” asserted by Pollard suggests that the Court should ignore Tariff B. SG argues that, though Pollard was entitled to pay its counsel any amount, it should not be entitled to pass on the cost of that choice to SG. Citing *Wihksne v Canada (Attorney General)*, 2002 FCA 356 at para 11, SG also argues that if the recovery of costs pursuant to Tariff B is considered inadequate, the remedy is not to ignore it, but for the Governor-in-Council to amend the Rules.

[6] SG discusses the various factors mentioned in Rule 400(3) and argues that (i) elevated costs are not warranted, and (ii) costs should actually be discounted from Tariff B for several reasons. SG then provides a detailed response to Pollard’s bill of costs based on Tariff B.

[7] Before continuing, I must note that SG’s submissions do not appear to comply with the Rules. They appear to use a 10-point font (rather than the 12-point font required by Rule 65) and to be single-spaced (thus exceeding the limit of 30 lines per page exclusive of headings). The result of SG’s failure to comply with the Rules is that its 15-page submissions total 116 paragraphs versus 47 paragraphs for Pollard’s submissions in chief. SG has effectively exceeded the page limit for costs submissions more than two-fold without seeking leave to do so. I have reviewed and considered SG’s costs submissions in their entirety, and I will reflect SG’s disrespect for the Rules in awarding costs related to this assessment.

III. Pollard's Reply Submissions

[8] In reply, Pollard reiterates its position that a lump sum costs award would be appropriate and responds to some of SG's comments concerning (i) the various factors mentioned in Rule 400(3), and (ii) Pollard's bill of costs based on Tariff B.

IV. Analysis

[9] In seeking an award of costs that is appropriate, the Court must be prudent in exercising its discretion, if only to prevent parties whose conduct is not reprehensible from being ordered to pay costs of an unforeseeable quantum: *Mugesera v Canada (Citizenship and Immigration)*, 2004 FCA 157 at para 14.

[10] Though there are grounds (discussed below) on which I conclude that an award of elevated costs is justified in this case, I am not convinced that SG's conduct has been so reprehensible as to justify a lump sum award of costs at the level sought by Pollard.

A. *Factors in Awarding Costs*

[11] I have considered the factors listed under Rule 400(3) that may be considered in awarding costs. In the paragraphs below, I discuss some of the issues raised by the parties in relation to those factors.

(1) The result of the proceeding

[12] Pollard had unmitigated success in this matter. This factor clearly favours Pollard.

(2) The importance and complexity of the issues

[13] This matter was clearly of considerable importance to the parties. They devoted the significant resources necessary to prepare for and conduct a trial lasting 11 days during which seven witnesses testified. Though the subject matter was not as technically complex as in some pharmaceutical patent cases, patent matters are inherently complex, and expert witnesses were called by both sides. Though Pollard had four counsel in attendance during much of the trial, SG made do with one senior counsel and one junior counsel.

(3) Details of Pollard's invalidity allegations

[14] SG argues that Pollard should be criticized for pleading with insufficient particularity near the beginning of this proceeding, and providing details only when pressured to do so by the case management judge. SG characterizes this as an abuse of process because Pollard commenced the proceeding without a proper understanding of the allegations supporting it. SG also criticizes Pollard for late changes in its invalidity allegations.

[15] I am not prepared to draw any conclusion that Pollard's pleadings constituted an abuse of process. That would have been a finding for the case management judge on a motion to strike. I have no information concerning any such motion. Also, I note that it is not uncommon for parties

to plead broadly at the beginning of a patent proceeding, and then to narrow those pleadings as information is obtained through the discovery process and from experts. Parties should be encouraged to focus the issues in dispute as a case progresses toward trial. I would not want, in a costs award, to dissuade parties from doing so.

(4) SG's alleged conduct tending to lengthen and complicate proceedings before trial

[16] For its part, Pollard argues that SG unnecessarily complicated matters, first by refusing to cooperate with Pollard's efforts to obtain early case management and an early trial date, and then by failing to complete its examination for discovery within a reasonable time and by pursuing motions to compel discovery answers that had limited success.

[17] I am not convinced that anything SG did or failed to do delayed the trial. Moreover, I am not prepared to sanction SG, over and above what is contemplated in Tariff B, for requiring an additional day of examination for discovery. Finally, any sanctions related to SG's motions to compel discovery answers were for consideration by the case management judge who heard these motions. I understand that no costs were awarded on any of the motions to compel.

(5) SG's arguments concerning claim 2

[18] Pollard argues that it was "absolutely unnecessary and unforgivable" for SG to continue, throughout the trial, to assert infringement of, and to defend the validity of, claim 2 of the 551 Patent, which was found to be invalid for ambiguity. In my view, this did not add significantly to the length or complexity of the trial. I am also mindful that allegations of ambiguity of patent

claims are rarely successful. Therefore, it was not unreasonable for SG to maintain these allegations. SG lost on claim 2 and should pay costs related thereto. However, it is my view that maintaining its arguments concerning claim 2 is insufficient, without more, to justify an elevated award of costs.

(6) SG's evidence relating to retailer fraud rather than consumer fraud

[19] Pollard criticizes SG for presenting significant amounts of evidence concerning issues that concern retailer fraud in the lottery industry, whereas I found that the 551 Patent was concerned instead with the distinct issue of consumer fraud. Though my decision did not favour SG's reading of the 551 Patent, it was not unreasonable for SG to make this argument, and I am not prepared to sanction SG disproportionately for doing so.

(7) Pollard's standing

[20] SG argues that the award of costs should be reduced to reflect the following allegations that Pollard failed to prove, or even present evidence in support of, at trial: (i) that the 551 Patent might negatively impact its business, and (ii) that SG's predecessor had threatened litigation or sought licenses from several of Pollard's clients. It is apparent that Pollard made these allegations in order to establish that it had standing to challenge the validity of the 551 Patent. Pollard answers SG's argument completely by noting that SG counterclaimed against Pollard for infringement and alleged that Pollard had induced infringement by its customers. Once SG had counterclaimed, there could no longer be any issue as to whether Pollard had standing. The inducement allegation implies that SG also saw infringement by Pollard's clients. In light of the

counterclaim, it was no longer necessary for Pollard to present any evidence in support of these allegations. Costs should not be reduced on this basis.

(8) Admissibility of James Trask's expert evidence

[21] SG argues that, to the extent that SG's unsuccessful arguments are sanctioned with increased costs, Pollard's unsuccessful challenge to James Trask's expert testimony should be sanctioned with reduced costs. I disagree on the basis that it was not unreasonable for Pollard to have sought to exclude the opinions of an expert who had close connections with a party. Moreover, the time spent on the question of Mr. Trask's evidence was not significant.

(9) Read-Ins

[22] During the trial, SG sought to have certain passages from the examination for discovery of its representative read in as part of Pollard's evidence as qualifying answers to the passages Pollard elected to read in. The Court heard a motion by SG under Rule 289 seeking an Order to that effect. SG was entirely unsuccessful in its motion. Pollard argues that this motion had no chance of success and was a waste of time.

[23] I am inclined to agree with Pollard that SG's Rule 289 motion was a waste of time. However, the amount of time and resources wasted was not as great as with regard to the other issues discussed below.

(10) Standard of review of Patent Office decision to issue the 551 Patent

[24] In its defence against Pollard's attack on the validity of the 551 Patent, SG argued that, in view of the extensive prosecution of the patent application over a 17-year period, some deference should be shown to the decision of the Patent Office to allow the patent to issue. The parties have referred to this as the standard of review argument.

[25] Pollard submits that an action to impeach a patent is not a judicial review, and the jurisprudence indicates clearly that no deference is owed to the Patent Office on its decision to allow a patent to issue. Pollard argues that SG's standard of review argument had no little or chance of succeeding. For its part, SG argues that the unusual circumstances surrounding the 551 Patent (Pollard filed 12 protests) effectively turned the prosecution of the application into a third party opposition.

[26] I am not persuaded by SG's argument. It did not, at trial or in the present argument on costs, offer any compelling reason not to apply the established jurisprudence concerning the presumption of validity of an issued patent and the applicable legal tests for invalidating a patent. I agree with Pollard's argument that SG's standard of review argument had little to no chance of succeeding, and that this should be taken into account in awarding costs. Moreover, in my view, there was nothing remotely improper in Pollard's repeated protests. Generally speaking, they had merit and met with success. Essentially, Pollard's repeated protests were necessitated by SG's repeated submission of impermissible claims to the Patent Office.

(11) Fred Finnerty

[27] Fred Finnerty testified at trial as an expert on behalf of SG. His testimony was notable because, in cross-examination, he acknowledged that he had “grossly mischaracterized” the principal prior art reference in the case (the Camarato Application) because he had misunderstood it. He stated that he wished to retract the entire portion of his report that concerned that reference. At paragraph 53 of my decision following the trial, I expressed some concerns as follows:

Mr. Finnerty’s admission in cross-examination that he had completely misunderstood what was clearly the most important prior art reference in this case was surprising enough. But I do not understand why Mr. Finnerty’s retraction was not addressed during his examination-in-chief. Based on Mr. Finnerty’s testimony, it appears that he recognized his error well in advance of trial, after reading documents prepared by Pollard’s experts, and that he brought this to the attention of SG’s counsel at the time; he testified that he was told that there was no further opportunity to amend or clarify his report. The failure to address this error during examination-in-chief, leaving Mr. Finnerty’s report unaltered, constitutes not just a strategic misstep by SG, but it also suggests that there may have been a hope that Mr. Finnerty’s confusion would go unnoticed and that the report would be considered without amendment. Proceeding in such a manner would be improper as it would mislead the Court as to the expert’s actual opinion. Pollard’s counsel noted (correctly) that it might have chosen not to cross-examine at all on the Camarato Application, in which case Mr. Finnerty’s confusion would indeed have gone unnoticed. There may have been a reasonable explanation for not correcting Mr. Finnerty’s report at the outset of his testimony, but none was offered.

[28] Pollard argues that substantial costs should be awarded as a result of this incident. SG responds as follows:

Unfortunately, Mr. Finnerty became unnerved in the courtroom setting and made statements during cross-examination that were

not anticipated by Scientific Games or its counsel. Counsel could not intervene, speak to or direct a witness who was under cross-examination. Until receipt of the Court's judgment, counsel was unaware that the Court may have perceived the situation differently. Viewed in the overall context of the case, this factor should not weigh heavily, if at all, with respect to costs, especially since Pollard ended up relying upon aspects of Mr. Finnerty's testimony.

[Emphasis added]

[29] With reference to the underlined sentence above, it is inconceivable to me that SG's counsel could have failed to perceive that the Court would have serious concerns about Mr. Finnerty's testimony. I do not understand how the Court could "have perceived the situation differently." SG failed to address the situation in any way during trial, either in re-direct or in argument. Though SG asserts that neither it nor its counsel anticipated Mr. Finnerty's statements during cross-examination, this does not amount to a denial that they had been made aware of Mr. Finnerty's reservations prior to trial. His suggestion to that effect during his testimony remains uncontradicted. Based on the evidence, it appears that SG and/or its counsel was aware before trial that it had no reliable expert evidence to defend against Pollard's obviousness challenge in view of the Camarato Application.

[30] Because of my serious concerns about this situation, and the fact that it relates to the central issue in the case, I am of the view that costs should be elevated substantially to dissuade this sort of behaviour.

(12) SG's altered position on claim construction

[31] I observed in my decision on the merits of the trial that SG's position on the construction of claim 1 of the 551 Patent was contrary to the position it took during prosecution of the patent application. Based on jurisprudence that is clearly binding on me, I ignored the position that SG took during prosecution. Instead, I adopted the claim construction position that SG argued at trial. But I observed that it was "breathtaking" to see SG take this position on claim construction without addressing the fact that it reintroduced the problem of obviousness that it had overcome during prosecution by asserting the contrary claim construction position.

[32] My concerns surrounding both Mr. Finnerty's testimony and SG's standard of review argument are compounded by the fact that SG seems to have had no reasonable argument as to how the 551 Patent, construed as SG argued at trial, could survive the obviousness attack. SG sought to have the Court show deference to the decision of the Patent Office to allow the 551 Patent to issue, while ignoring the circumstances that led to that decision.

(13) Public interest

[33] Pollard argues that it acted in the public interest, and without hope of monetary remedies, by challenging a patent that was being asserted against various lotteries and which was eventually determined to be invalid. Pollard argues that the costs award should be elevated to reflect Pollard's efforts in the public interest.

[34] I would be more inclined to agree with Pollard if it had embarked on this expensive process without expectation of financial reward. But I am not convinced this is the case. My impression is that Pollard won customers by virtue of its undertaking to them to address the 551 Patent. I assume that Pollard, a for-profit company, would not have given such an undertaking if it did not believe that doing so was in its long-term best financial interest. In my view, this is not the sort of case that calls for increased costs because Pollard was acting in the public interest.

V. Conclusions

[35] Based on the result of the proceeding and the importance and complexity of this case, and before taking into account the other issues discussed above, I would award costs to Pollard calculated at the top of column IV of Tariff B. I would also permit the addition of fees for preparation and attendance by one junior counsel (at half the amount contemplated for senior counsel) for any of the following steps in which two counsel were involved: examinations for discovery, trial and any pre-trial hearings in respect of which costs were awarded. I would not award any costs for more than one senior counsel and one junior counsel. Furthermore, I agree with SG that no costs should be awarded in relation to mediation or any motion in respect of which costs were not awarded. I would also permit Pollard to claim any disbursements that it can establish were reasonable.

[36] I have considered Pollard's argument that costs should be awarded as a lump sum based on its actual legal expenses, but I am not convinced that an award of costs based on Tariff B will be inadequate. However, because of my concerns with SG's conduct during this case, I conclude that the fees portion of costs should be elevated by 50% above what is contemplated in the

previous paragraph. As discussed above, I am particularly concerned about (i) SG's standard of review argument, (ii) the manner in which SG dealt with Mr. Finnerty's testimony, and (iii) SG's argument for a claim construction that defers to the Patent Office's decision to allow the 551 Patent to issue, and simultaneously ignores its submission during prosecution that led to that decision.

[37] Because of SG's disrespect for the Rules with regard to font size and line spacing in its submissions on costs, I award Pollard \$2,500.00 for the costs associated with the present submissions.

[38] I have not calculated the amount of costs to be awarded for this proceeding as a whole. That amount may be determined by an assessment officer pursuant to Rule 405 and in accordance with my instructions herein, assuming that the parties are not able to agree on an amount. The assessment officer may address any of the arguments raised by the parties that I have not discussed in these Reasons. The parties may rely on their submissions before me, and may submit additional evidence and/or submissions to support their respective arguments, though they may not add new arguments or claims. The costs of the assessment before the assessment officer may be determined and awarded by the assessment officer, separately from the costs of the present submissions, as he or she sees fit.

ORDER

THIS COURT ORDERS that:

1. The costs to which Pollard is entitled in this proceeding shall be calculated at an elevated level of 50% above the top of column IV of Tariff B.
2. Pollard shall also be entitled to claim for preparation and attendance by one junior counsel (at half the amount contemplated for senior counsel) for any of the following steps in which two counsel were involved: examinations for discovery, trial, and any pre-trial hearings in respect of which costs were awarded.
3. Pollard shall be entitled to any reasonable disbursements.
4. SG shall pay Pollard's costs of the present submissions in the amount of \$2,500.00.
5. If the parties are not able to agree on the amount of costs, that amount may be determined by an assessment officer pursuant to Rule 405 and in accordance with my instructions herein.

“George R. Locke”

Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET: T-407-14

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TECHNOLOGIES CORP. AND SCIENTIFIC GAMES
PRODUCTS (CANADA) ULC

COST SUBMISSIONS MADE IN WRITING CONSIDERED AT OTTAWA, ONTARIO.

ORDER AND REASONS: LOCKE J.

DATED: OCTOBER 26, 2016

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