

Federal Court



Cour fédérale

Date: 20220121

Docket: T-129-20

Citation: 2022 FC 72

Vancouver, British Columbia, January 21, 2022

PRESENT: Mr. Justice McHaffie

BETWEEN:

**ARK INNOVATION TECHNOLOGY INC.
AND ARK PLATFORMS INC.**

Plaintiffs

and

**MATIDOR TECHNOLOGIES INC. AND
WING CHUEN LAM A.K.A. VINCENT LAM**

Defendants

ORDER AS TO COSTS AND REASONS

I. Overview

[1] On December 1, 2021, I granted the plaintiffs' motion for summary trial in part, awarding damages and an injunction in connection with the plaintiffs' claim for copyright infringement and passing off: *Ark Innovation Technology Inc v Matidor Technologies Inc*, 2021 FC 1336. The parties were unable to agree on costs and made submissions in accordance with the schedule set out in those reasons. The plaintiffs ask for costs in their favour, and ask that they be fixed in the

inclusive amount of \$96,745, representing 35% of their actual fees plus their disbursements. The defendants argue that they were largely successful in their defence and ask that they be awarded costs in the inclusive amount of \$24,745 based on Column III of Tariff B plus their disbursements.

[2] These are my reasons for awarding the plaintiffs \$70,863 in costs, representing 25% of their fees incurred, less a small adjustment to account for unnecessary increased costs attributable to the plaintiffs' over-inclusion of documents in the record, plus disbursements.

II. General Principles

[3] The starting point is that the Court has full discretion to determine costs, including the amount and who is to pay costs: *Federal Courts Rules*, SOR/98-106, Rule 400(1); *Consorzio del Prosciutto di Parma v Maple Leaf Meats Inc*, 2002 FCA 417 at para 9. In exercising that discretion, the Court may consider the factors set out in Rule 400(3), which include (a) the result of the proceeding; (b) the amounts claimed and recovered; (c) the importance and complexity of the issues; (e) any written offers to settle; (g) the amount of work; (i) the impact of the parties' conduct on the proceeding; (j) the failure to admit anything that should have been admitted; (n) whether the successful party exaggerated their claim; and (o) any other matter considered relevant.

[4] The result may be the fixing of costs by reference to Tariff B, a lump sum award in lieu, or a combination thereof: Rule 400(4). A lump sum may reflect "increased costs," particularly in complex cases involving sophisticated parties: *Consorzio del Prosciutto* at paras 6–9, 12. This Court and the Federal Court of Appeal have recognized that a lump sum award may in

appropriate cases be based on a percentage of a party's actual fees, typically but not invariably in the range of 25%–50% of fees incurred: *Nova Chemicals Corporation v Dow Chemical Company*, 2017 FCA 25 at paras 12–13, 16–17; *Seedlings Life Science Ventures, LLC v Pfizer Canada ULC*, 2020 FC 505 at paras 4–6, 22; *Bauer Hockey Ltd v Sport Maska Inc (CCM Hockey)*, 2020 FC 862 at paras 10–14.

[5] An award of costs may be affected by settlement offers made at least 14 days prior to trial: Rule 420(3). At the conclusion of the summary trial hearing, the parties asked for the opportunity to address costs after judgment in light of offers that had been made: *Ark Innovations* at para 169. However, the conditions for application of Rule 420 were apparently not met, presumably since neither party obtained a result better than their offers. Neither party relied on Rule 420 or Rule 400(3)(e) as affecting the issue of costs.

III. Analysis

A. *Who, if anyone, should pay costs?*

[6] The general rule is that costs should follow the event, meaning that costs are awarded to the successful party: *Cowessess First Nation No 73 v Pelletier*, 2017 FC 859 at para 21, citing *MacFarlane v Day & Ross Inc*, 2014 FCA 199 at para 6; Rule 400(3)(a). In granting summary trial in part, I awarded the plaintiffs damages in the total amount of \$277,400 and enjoined the defendants from further copyright infringement: *Ark Innovation* at paras 3, 148, 155–156. The parties differ in their views of who was successful in this judgment.

[7] The plaintiffs argue that they were successful in the action. The defendants (i) denied passing off, and (ii) denied there were any damages and/or profits, the two main contested issues at summary trial: *Ark Innovation* at paras 4–6. The plaintiffs claim they were successful on each of these issues. The plaintiffs also note that the defendants initially denied ownership of copyright, and that while they ultimately conceded infringement of copyright, they only did so in their responding materials on the summary trial motion, having denied infringement to that date.

[8] The defendants claim that they were the successful parties. They argue that on the two main contested issues at summary trial, the plaintiffs (i) only won on one of their passing off allegations, and (ii) were awarded less than 30% of the amount they claimed and were not awarded punitive damages. The defendants also argue that they consented to an injunction and that the plaintiffs were unsuccessful in obtaining an injunction on terms going beyond that consent: *Ark Innovation* at paras 87, 156–166.

[9] In my view, the plaintiffs were the successful parties in the litigation. In the context of a summary trial, the Court is assessing the costs of and success in the action, and not just on the summary trial motion, although evidently the parties' admissions and positions at trial remain important. The plaintiffs' claim was for monetary and other relief for copyright infringement and passing off. This is what they obtained. The defendants denied copyright infringement throughout the action, to the extent of serving expert evidence on the issue, until they admitted infringement in their responding motion record on the summary trial motion. Even then, that admission was limited in scope, and the defendants were unsuccessful in arguing that copyright infringement had not been proven in respect of software versions after June 2020: *Ark Innovation*

at paras 5, 37–40, 43–52. The defendants also denied there was passing off. While the plaintiffs had alleged a broader passing off claim than was found, they were successful in establishing passing off.

[10] With respect to the quantum of damages, although Rule 420 does not apply in this case, it is worth noting that it reflects an approach in which a plaintiff who “obtains a judgment” is entitled to costs, with the amount of those costs dependent on whether the judgment obtained is greater or lesser than offers made: Rules 420(1)–(2). I accept that a plaintiff who “obtains a judgment” may still be considered the unsuccessful party in some cases. However, in the present case, the plaintiffs obtained a judgment reflecting success on the principal aspects of their claim even if the damages awarded were not as high as those claimed.

[11] The defendants argue in the alternative that even if the Court accepts the plaintiffs were the successful parties it should order the parties to bear their own costs, in light of the extent of recovery, the plaintiffs’ partial success, and the plaintiffs’ conduct both during and after trial. They cite Justice Hughes’ observation that the Court “has to be mindful that a party, while successful, may not have been entirely successful or, that the matter was a close call” and that in such cases “an unsuccessful party should not be unduly punished” by having to pay its own costs and a large proportion of the other party’s: *Air Canada v Toronto Port Authority*, 2010 FC 1335 at para 15.

[12] I conclude that in the present circumstances, the degree of success and parties’ conduct are relevant to quantum, as discussed below. However, these factors are not sufficient in my

view to deprive the plaintiffs of a costs award to compensate in part for the costs of obtaining a judgment against the defendants. The plaintiffs are therefore entitled to an award of costs. The question is then the size of that award.

B. *Quantum of the costs award*

[13] The plaintiffs seek costs in a total amount of \$96,745, representing a lump sum award of 35% of their legal fees (\$73,915, plus \$8,870 in taxes) plus their disbursements (\$13,970, inclusive of taxes). They also filed a draft bill of costs based on the middle of Column III of the Tariff that results in \$24,310 in fees. The plaintiffs highlight the 25-50% range discussed in *Bauer and Nova Chemicals*. They justify both their claim for a lump sum award and their selection of the 35% rate primarily based on the defendants' refusal to admit, including in response to a request to admit served under Rule 255, that (i) their software was a substantial reproduction of the plaintiffs' software, or (ii) that it was developed and derived from the plaintiffs' software. They argue this refusal necessitated technical preparation for the examination for discovery of Mr. Lam, and the expenditure of legal fees in connection with the two expert affidavits filed by the plaintiffs.

[14] The defendants do not specifically address the plaintiffs' quantum of requested fees. However, in support of their primary submissions that the defendants should be awarded costs or, alternatively, that each party should bear their own costs, the defendants point to the divided success on various issues. They also suggest that the defendants tried to simplify and shorten the proceeding, including through their admissions and by not conducting examinations, while the plaintiffs complicated and lengthened it by filing voluminous materials on the summary trial

motion, making an inflated damages claim, and taking every examination they were entitled to: *Ark Innovation* at paras 13, 98, 112. The defendants also argue that it is inappropriate to request an admission of “substantial reproduction” in a request to admit, as this is not a “fact or the authenticity of a document” that may be the subject of a request to admit under Rule 255, and that the request about whether the defendants’ software was “developed and derived from” the plaintiffs’ software was too vague to understand and therefore rightfully denied. Finally, the defendants point to the plaintiffs’ conduct in taking enforcement steps, including by filing an *ex parte* motion for garnishment, immediately after judgment without making any demand for the judgment amount or ascertaining the defendants’ intent to pay.

[15] In my view, this is an appropriate case for a lump sum award that represents an increased award over the Tariff. Costs even at the high end of Column V would bear little relationship to the objective of making a reasonable contribution to the costs of the litigation. While the issues became less complex by virtue of the defendants’ admission, for much of the life of the action, there was a live issue about whether the defendants’ software infringed the plaintiffs’ software. This is inherently a fairly complex issue requiring expert analysis of source code. Given the objectives of costs awards, the nature of the issues, and the comparative sophistication of the parties, I consider a lump sum based on a percentage of fees justified: *Nova Chemicals* at para 13; *Bauer Hockey* at paras 10–13.

[16] I conclude, however, that this is not an appropriate case for an award at the 35% rate proposed by the plaintiffs. In this regard, I agree with the defendants that there was some degree of mixed success in the matter on issues such as punitive damages and the scope of the requested

injunction. The “amounts claimed and the amounts recovered,” a factor expressly contemplated in Rule 400(3)(b), also speak for a costs award in the lower end of the range. As observed in my reasons for judgment, the plaintiffs’ claim for \$900,000 in damages greatly overstated the damages suffered in a number of respects, and included claims for costs that were unsubstantiated: *Ark Innovation* at paras 98, 104, 112. While the defendants contend that this inflated damage quantum decreased the likelihood of settlement, the same could presumably be said of the defendants’ position that there were no damages at all. Nonetheless, I consider that the plaintiffs’ reduced recovery and overstated damages claim is a factor suggesting a lower costs recovery.

[17] Some credit should certainly be given to the defendants’ admission of infringement and consent to an injunction. This reduced the issues that needed determination by the Court at the summary trial. However, this admission was made late in the day, after expert evidence was prepared and the summary trial motion was brought. The admission was also limited in scope. The facts were that the defendants were initially using a copy of the plaintiffs’ software and marketing materials with only the name and branding changed, engaging in knowing and deliberate infringement: *Ark Innovation* at paras 31–33, 42, 152. In such circumstances, admitting there was infringement in response to the plaintiffs’ summary trial motion can be equally viewed as refusing to admit a clear infringement for well over a year. This is so regardless of whether specific admissions ought to have been made in response to a request to admit. Rule 400(3)(j) refers to a party’s failure to “admit anything that should have been admitted” [emphasis added], not solely facts in response to requests to admit.

[18] I accept the defendants' argument that the size of the plaintiffs' summary trial record, on which I commented at paragraph 13 of my reasons for judgment, likely increased the parties' costs to some degree. While the defendants have not provided specific support for their assertion that costs were increased by the plaintiffs' inclusion in their summary trial record of all of the documents produced in the action, I believe a fair inference can be drawn that there was at least some unnecessary increase in the plaintiffs' costs from preparing a record that included all such documents, and in the defendants' costs in reviewing the record in consequence. That said, I note that the defendants would already have reviewed those documents during the pendency of litigation, and that they were the source of many of them. I believe only a minor reduction in the plaintiffs' awardable costs is appropriate to address this. I note that there was no increase in disbursements as a result, given that the record was electronic.

[19] As for the plaintiffs' post-judgment steps, no claim is currently being made for enforcement costs, and the plaintiffs' counsel is clear that their calculation is based on fees from the date of commencement of the action to the issuance of judgment. I conclude the plaintiffs' post-judgment enforcement steps, the propriety of which I need not address, do not affect the assessment of costs in this case.

[20] Considering the foregoing factors, I conclude that a lump sum award based on 25% of actual fees incurred is appropriate, less an adjustment in respect of the over-inclusive record. Based on the plaintiffs' asserted fees, with which the defendants have not taken issue, 25% amounts to \$52,797. To this, I apply a modest reduction of \$2,000 to account for unnecessary

increased costs attributable to the size of the record. This yields \$50,797, plus taxes of \$6,096, for a total of \$56,893.

[21] Other than arguing that the plaintiffs should not recover their costs, the defendants took no particular issue with the plaintiffs' claim for disbursements of \$13,970. The majority of the disbursements are attributable to expert fees, private investigators' fees, and transcripts. Having reviewed the disbursements itemized, I am satisfied that they are recoverable and should form part of the costs award.

IV. Conclusion

[22] The plaintiffs shall therefore have their costs of the action in the total amount of \$70,863, inclusive of fees, disbursements, and taxes.

ORDER IN T-129-20

THIS COURT ORDERS that

1. The defendants and each of them shall pay to the plaintiffs or as they may direct costs in the amount of \$70,863, inclusive of fees, disbursements, and taxes.

“Nicholas McHaffie”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-129-20

STYLE OF CAUSE: ARK INNOVATION TECHNOLOGY INC AND ARK
PLATFORMS INC v MATIDOR TECHNOLOGIES
INC AND WING CHUEN LAM AKA VINCENT LAM

**COSTS SUBMISSIONS MADE IN WRITING CONSIDERED AT VANCOUVER,
BRITISH COLUMBIA**

ORDER AS TO COSTS AND REASONS: MCHAFFIE J.

DATED: JANUARY 21, 2022

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