Federal Court Cour fédérale

**Date: 20241205**

**Docket: T-126-19**

**Citation: 2024 FC 1954**

**Ottawa, Ontario, December 5, 2024**

**PRESENT: Mr. Justice McHaffie**

**BETWEEN:**

**TEKNA PLASMA SYSTEMS INC.**

**Plaintiff / Defendant by Counterclaim**

**and**

**AP&C ADVANCED POWDERS & COATINGS INC.**

**Defendant / Plaintiff by Counterclaim**

# ORDER AND REASONS

## I. Overview

[1] These reasons address the costs of this action, in which I granted the claim of Tekna Plasma Systems Inc and dismissed the counterclaim of AP&C Advanced Powders & Coatings Inc: *Tekna Plasma Systems Inc v AP&C Advanced Powders & Coatings Inc*, 2024 FC 871. The parties agree that Tekna is entitled to its costs of this action as the successful party, and that it is

appropriate for the Court to award lump sum costs. However, they were unable to agree on the appropriate amount of those costs.

[2] Tekna seeks a lump sum award of $2,667,000, plus taxes. This reflects (a) fees of $2,211,675, which it calculates based on 33% of the fees incurred in relation to the patents that were at issue at trial, doubled to 66% after the date of a written offer to settle; and (b) disbursements of $455,325. With taxes, Tekna seeks a total award of $3,066,383.

[3] AP&C submits that a 25% rate should be applied rather than the 33% proposed by Tekna; that the rate should not be doubled because the offer Tekna relies on had no element of compromise; that the fees to which the percentage applies should be reduced further; that Tekna's disbursements should be reduced to remove expenses associated with unsuccessful testing and patents no longer at issue; and that the award should not include taxes. It submits a total award of $1,089,212 would be appropriate.

[4] For the reasons below, I award Tekna costs in the total amount of $2,926,000, consisting of (i) a lump sum amount of $2,102,082 on account of fees, calculated on the basis of 33% of its adjusted recoverable fees to December 2021 and 66% thereafter pursuant to Rule 420 of the *Federal Courts Rules*, SOR/98-106; (ii) disbursements in the amount of $442,825; and (iii) taxes on the foregoing in the amount of $381,100, rounded slightly. As requested by Tekna and unopposed, post-judgment interest will run in accordance with article 1619 of the *Civil Code of Quebec* and amounts paid by Tekna as security for costs will be ordered released.

## II. Fees

### A. *Lump sum approach*

[5] The Federal Court has a broad discretion over the award of costs: *Federal Courts Rules*, Rule 400(1); *Nova Chemicals Corporation v Dow Chemical Company*, 2017 FCA 25 at para 10. In exercising this discretion, the Court seeks to achieve, as best as possible, the various purposes of costs awards, which include indemnifying the successful party for the costs they incurred, encouraging settlement and efficient litigation, and facilitating access to justice: *British Columbia (Minister of Forests) v Okanagan Indian Band*, 2003 SCC 71 at paras 22–27; *Allergan Inc v Sandoz Canada Inc*, 2021 FC 186 at para 19; *Betser-Zilevitch v Petrochina Canada Ltd*, 2021 FC 151 at para 10.

[6] The *Federal Courts Rules* include a tariff of counsel fees and disbursements allowable on assessment, namely Tariff B. Rule 400(4) provides that the Court may "fix all or part of any costs by reference to Tariff B and may award a lump sum in lieu of, or in addition to, any assessed costs." Lump sum awards have found increasing favour in the Federal Courts, owing to their relative simplicity, which can avoid some or all of the granularity of a costs assessment and save the parties time and money: *Nova Chemicals* at paras 11–12; *Allergan* at paras 22–23. Elevated lump sum costs may also be appropriate in some cases, as even the high end of Tariff B may not meet the objective of making a reasonable contribution to the costs of litigation. However, an increased costs award cannot be justified solely on the basis that a successful party's actual fees are significantly higher than the Tariff amounts: *Nova Chemicals* at para 13; *Apotex Inc v Shire LLC*, 2021 FCA 54 [*Shire (FCA)*] at para 18.

[7] I agree with the parties that an elevated lump sum award is appropriate in this case. The nature of the proceeding, its complexity, the sophistication of the parties, the work involved in preparing and presenting the case, and the relative simplicity of a lump sum award all point in favour of granting lump sum costs that better reflect the actual costs of the litigation than assessed costs under Tariff B.

B. *Calculation of the lump sum award*

[8] In determining an appropriate lump sum costs award, the Court is not limited to a particular calculation methodology, but it is common for the Court to base such an award on a percentage of reasonably incurred and recoverable fees. Both parties have used this approach in their submissions. Noting the importance of simplicity, I agree that a percentage calculation of fees is an appropriate basis on which to assess costs in this case.

(1) Percentage to apply

[9] While the Court is not restricted to any particular range of percentages for a lump sum costs calculation, its approach must be principled and guided by precedent. In recent intellectual property cases, this Court has generally considered a range between 25% and 50% of actual fees as the basis for a lump sum party-and-party costs award, recognizing there may be cases where a higher or lower percentage is warranted: *Nova Chemicals* at para 17; *Teva Canada Limited v Janssen Inc*, 2018 FC 1175 [*Teva*] at paras 4–6; *Allergan* at para 27. The parties' submissions fall within this range, Tekna proposing a 33% rate, subject to the impact of Rule 420, and AP&C

proposing 25%. I agree that the circumstances of this case do not warrant applying a percentage outside the 25–50% range, before consideration of Rule 420.

[10] As Tekna notes, within this range, different cases have adopted different approaches to assessing the appropriate percentage. Some have proposed starting at the bottom of the range (25%), then assessing whether the circumstances warrant a higher or lower number: *Seedlings Life Science Ventures, LLC v Pfizer Canada ULC*, 2020 FC 505 at para 22; *Bauer Hockey Ltd v Sport Maska Inc (CCM Hockey)*, 2020 FC 862 at paras 10–14; *Abbvie Corporation v Canada (Health)*, 2022 FC 1538 at para 19. Others have set the starting point at the middle of the range (37.5%): *Allergan* at paras 32–35; *NCS Multistage Inc v Kobold Corporation*, 2023 FC 1486 at paras 1662–1667; *Takeda Canada Inc v Apotex Inc*, 2024 FC 106 at para 290. Still others have simply considered the range, sometimes referring to the Court of Appeal's observation in *Shire (FCA)* that awards between one-quarter and one-third of fees "are the norm," with amounts above that being exceptional: *Voltage Pictures, LLC v Salna*, 2023 FC 893 at paras 109–111; *Bell Media Inc v Marshall Macciacchera*, 2024 FC 1292 at paras 183–188; *Valley Blades Ltd v Usinage Pro-24 Inc (Nordik Blades)*, 2024 FC 1657 at paras 3, 14–18, 21; *Teva* at paras 35–36.

[11] AP&C suggests that recovery in the range of 33% is primarily applied to pharmaceutical cases, where the nature of the parties and the amounts at issue warrant a higher range. I disagree. While this Court has certainly recognized both the stakes and the complexity involved in pharmaceutical patent litigation, I cannot see that pharmaceutical cases have a privileged status that merits a different approach to costs compared to other patent litigation. A patent case involving a molecular formula, a method of synthesis, a pharmaceutical formulation, or a course

of treatment is not inherently more or less complex or important than one dealing with the formation and characterization of the outer nanometers of a reactive metal powder. In every case, the Court exercises its discretion considering the relevant factors, which include the complexity of the issues and the amounts at stake. The Court has recently applied the approach espoused in *Allergan* of starting at the mid-point of the range in the non-pharmaceutical context, with the observation that *Allergan* itself relied on cases from other areas of intellectual property: *NCS Multistage* at paras 1665–1667, 1674.

[12] That said, I note that shortly after *Allergan*, the Court of Appeal expressed its view (in a pharmaceutical case) that the usual range for a lump sum costs approach is one-quarter to one-third of fees, with amounts above this being "exceptional": *Shire (FCA)* at para 22. In doing so, it found no error in Justice Fothergill's observation that the "usual partial indemnity rate" was one-third, and underscored the importance of predictability in the Court's approach to costs: *Shire (FCA)* at paras 9, 22, 24, aff'g *Apotex Inc v Shire LLC*, 2018 FC 1106 [*Shire (FC)*] at para 30. Justice Rennie also noted that this rate, and a departure from a 25% rate seen in some earlier cases, was justified in part because the action involved a trial rather than an application: *Shire (FCA)* at para 23.

[13] While not the only reasonable approach to costs, I see value in adopting a "starting point" approach, which assists in the important goals of predictability and consistency discussed by Justice Rennie: *Shire (FCA)* at para 24. At the same time, using a starting point of 37.5%, which would be outside the range described by the Court of Appeal as the "norm," may not give adequate weight to the Court of Appeal's guidance on the issue: *Shire (FCA)* at para 22. Given

these considerations, I conclude that one-third, rounded for simplicity to 33%, is a reasonable and appropriate starting point for the assessment of costs. In any event, Tekna does not seek a higher basis for the calculation.

[14] This does not end the inquiry, however, as any starting point that is used to guide the Court is subject to adjustment upward or downward based on the circumstances of the case and the Court's assessment of the appropriate level of costs in the exercise of its discretion. Ultimately, the objective is to determine a reasonable basis for a calculation of lump sum costs within the range described in the jurisprudence, based on the relevant factors in the case, recognizing that (i) the determination of a lump sum is not an exact science, and (ii) a balance must be struck between compensating the successful party and not unduly burdening the unsuccessful party: *Nova Chemicals* at para 21; *Apotex Inc v Wellcome Foundation Ltd*, 1998 CanLII 8792 (FC) at para 7, aff'd 2001 CanLII 22141 (FCA); *Federal Courts Rules*, Rule 3.

[15] Rule 400(3) sets out a non-exhaustive list of factors the Court may consider in exercising its discretion. I consider the following factors particularly relevant in assessing the appropriate percentage for the calculation:

[16] <u>Result – Rule 400(3)(a)</u>: Tekna was the successful party, obtaining declarations that it had not infringed either Canadian Patent 3,003,502 [the '502 Patent] or Canadian Patent 3,051,236 [the '236 Patent], that the '502 Patent was invalid, and that all but 14 of the 147 claims of the '236 Patent were invalid.

[17] Amounts claimed and recovered and importance – Rule 400(3)(b), (c): As this action was bifurcated, the monetary size of AP&C's counterclaim was never detailed, although AP&C contended that about 40 to 80% of Tekna's powder production infringed its patents.

[18] AP&C now argues, based on the disclosure of negative cash flow in Tekna's public financial statements, that Tekna's financial exposure from the proceeding was substantially lower than its costs, and that "[t]he expenditure of millions of dollars in legal fees and close to $500,000 in expert disbursements for two experts is not reasonable in light of these returns." This assertion carries little weight in the absence of information regarding AP&C's own costs. Tekna's financial exposure was, of course, equal to AP&C's potential financial gain. AP&C appeared equally willing to engage a team of leading patent litigators and multiple experts to present its case. Having lost, it is unpersuasive for AP&C to now suggest that the amounts at stake did not justify this expenditure.

[19] There is no evidence that AP&C's fees and disbursements were materially less than Tekna's, which might support its argument that Tekna overspent on the case. To the contrary, the only evidence AP&C presented regarding its own fees was high-level summary information of its fees and disbursements in a single month (July 2021, related to the Purdue testing issue discussed below). This evidence indicates that AP&C's costs during this month were, if anything, greater than Tekna's costs in the same month: Tekna Costs Submissions, Vol 1, p 351; AP&C Costs Submissions, p 2, para 3.

[20] The same is true of AP&C's criticisms of Tekna's file-staffing approach, the number of hours dedicated to particular issues, and high hour counts during the course of trial. It does not surprise the Court that some members of Tekna's trial team spent long days and nights during the course of trial, particularly as final written and oral submissions were being prepared. Without any visibility on AP&C's equivalent docketing to be able to assess whether Tekna's pre-trial and trial fees were comparatively excessive, I find AP&C's criticisms unconvincing.

[21] Conversely, Tekna appears to overstate the case in claiming that if AP&C had been successful and obtained an injunction, Tekna would have been forced to entirely cease plasma atomization powder production in Canada. While the scope of any such injunctive relief would of course have depended on the Court's findings in such a case, Tekna did not argue at trial that the only way in which to produce marketable titanium powders by plasma atomization was through a process that AP&C claimed infringed its patents. Nonetheless, AP&C and Tekna are direct competitors in a growing market, in which they had both made apparently substantial investments. I am satisfied that the issues were commercially important to both parties, even though the amounts at stake are difficult to assess given the bifurcation.

[22] Complexity and amount of work – Rule 400(3)(c), (g): As Tekna notes, this was a case of above-average complexity. There were two patents at issue, albeit with identical disclosures; numerous claims; a number of important construction issues; and a number of contested scientific issues requiring extensive expert evidence from multiple experts on the manufacture, characterization, and testing of metal powders. AP&C does not dispute this, conceding there was

complexity to the trial. This complexity, and the importance of the litigation to the parties, is seen in the significant amount of work undertaken by Tekna's counsel and experts.

[23] At the same time, the complexity of the case, like its importance, is already reflected in the Court's adoption of a lump sum approach and in using a starting point of 33% fees. As noted, it is also reflected in the parties' fees themselves, which will have the result of increasing any costs award derived from multiplying those fees by a percentage. Caution must therefore be exercised to avoid disproportionate compensation: *Seedlings* at para 23; *Bauer* at para 28.

[24] <u>Written offer to settle – Rule 400(3)(e)</u>: Tekna asserts that it initiated settlement discussions early in the proceedings, and made two written offers in early 2020. While these offers did not meet the requirements of Rule 420, Tekna notes that they pre-date more than 95% of Tekna's legal fees, and that they would have given AP&C a more favourable practical outcome than the ultimate judgment. I agree with Tekna that although these are not Rule 420 offers, they deserve some positive consideration under Rule 400(3)(e): *Pharmascience Inc v Teva Canada Innovation*, 2022 FCA 207 at paras 18, 20; *Sanofi-Aventis Canada Inc v Novopharm Limited*, 2009 FC 1139 at para 20, aff'd 2012 FCA 265; *Allergan* at para 58.

[25] <u>Parties' conduct – Rule 400(3)(i)</u>: As noted in my reasons for judgment in this matter, the parties co-operated admirably in bringing this matter to trial on a reasonably streamlined basis, focused on the merits. This tended to shorten the proceeding, and no doubt had the effect of reducing each side's costs. In the circumstances of this case, both parties should reasonably get credit for this conduct, such that it does not materially affect the costs award. Conversely, neither

party accuses the other of conduct that unnecessarily lengthened the action or trial, beyond Tekna's reference to AP&C's testing difficulties, which required an adjournment of the trial. As Tekna refers to these issues in the context of its inclusion of fees, rather than as supporting a higher percentage, I will address it further below.

[26] Having considered the foregoing factors and the Court's jurisprudence in the area, I conclude that Tekna's requested percentage rate of 33% is a reasonable and fair one to apply for party-and-party costs, which reflects the nature, complexity, and importance of the proceeding. The factors of complexity, importance, and settlement conduct might be taken, if anything, to increase the rate above the starting point. Had I used a lower starting point, such as 25%, they may have done so. However, in the present case I both start and end at the 33% point, since (i) that point already reflects the complexity and importance of the proceeding; (ii) there are no material grounds to reduce that percentage; (iii) I do not believe this matter warrants a fee percentage in the "exceptional" range; and (iv) Tekna does not seek a percentage higher than 33%, before consideration of Rule 420.

(2) Rule 420

(a) *Tekna's offer meets the requirements of Rule 420*

[27] As a particular incentive to encourage parties to resolve litigation, Rule 420 provides for cost consequences if a party does not accept a written offer to settle that would have yielded terms more favourable than those they obtain at trial. To trigger the rule, the offer to settle must be made at least 14 days before the commencement of trial, and must not be withdrawn or expire

before the commencement of trial: *Federal Courts Rules*, Rule 420(3). In addition to these requirements in the rule, the jurisprudence requires the offer to be clear and unequivocal, to contain an element of compromise or "incentive to accept," and to bring the litigation to an end: *Venngo Inc v Concierge Connection Inc (Perkopolis)*, 2017 FCA 96 at para 87, citing *H-D USA, LLC v Berrada*, 2015 FC 189 [*Berrada*] at para 32 and *Syntex Pharmaceuticals International Ltd v Apotex Inc*, 2001 FCA 137 at para 10.

[28] Where a plaintiff makes such an offer, and obtains a judgment as or more favourable than its terms, it is entitled to party-and-party costs to the date of the offer, and to costs calculated at double that rate, but not double disbursements, from that date to the date of judgment, unless the Court orders otherwise: *Federal Courts Rules*, Rule 420(1). Similarly, if a defendant makes such an offer, and the plaintiff fails to obtain judgment, the defendant is entitled to party-and-party costs to the date of the offer, and double those costs after the offer: *Federal Courts Rules*, Rule 420(2)(b). I cite both of these aspects of Rule 420 since Tekna was the plaintiff in these proceedings, having commenced them as an impeachment action in respect of the '502 Patent, but was also a defendant by counterclaim, AP&C having counterclaimed for infringement of the '502 Patent and, later, the '236 Patent. The distinction between the two sub-rules is immaterial in this context.

[29] On December 14, 2021, Tekna presented a written offer to settle this action on the basis of each party discontinuing all of its claims and counterclaims, without costs. There is no dispute that the offer met the express requirements of Rule 420, as it was made in writing, was made at least 14 days before the commencement of trial, and remained open until the commencement of

trial. Nor does AP&C dispute that the offer was clear and unequivocal, and would have brought the litigation to an end.

[30] However, AP&C asserts that the offer did not contain a meaningful compromise or incentive to accept. It describes the offer as a "demand for complete surrender" with respect to AP&C's enforcement of its patents against Tekna, that should not entitle Tekna to double costs: *Canwell Enviro-Industries Ltd v Baker Petrolite Corporation*, 2002 FCA 482 [*Baker Petrolite*] at para 4(b). AP&C notes that Tekna's offer did not contain "any element of compensation or even any reference to the prejudice caused by the infringement" to encourage AP&C to accept it, citing *Apotex v Sanofi-Aventis Canada Inc*, 2012 FC 318 at para 32, appeal dismissed as moot 2013 FCA 187.

[31] Tekna argues that its offer did include an element of compromise, both because it abandoned claims of invalidity that were ultimately successful and would have left the '502 and '236 Patents valid, and because it waived Tekna's right to seek costs. I accept Tekna's argument, which is consistent with the jurisprudence of this Court: *Visx Inc v Nidek Co Ltd*, 2001 FCT 1183 at paras 1(3), (5), (10); *Bodum USA, Inc v Trudeau Corporation (1889) Inc*, 2012 FC 240 at paras 7, 21–23; *Berrada* at para 33, citing *Culhane v ATP Aero Training Products Inc*, 2004 FC 1667 at para 6 and *Kirgan Holding SA v Panamax Leader (The)*, 2003 FCT 80 at para 12; *Camso Inc v Soucy International Inc*, 2019 FC 816 at paras 15, 26, 38; see also *Valley Blades* at paras 33(c), 36–38.

[32] Given this case law, I cannot accept AP&C's general contention that an offer to abandon a proceeding without costs is not sufficient to trigger Rule 420. For this proposition, AP&C cites *Kirkbi AG v Ritvik Holdings Inc*, 2002 FCT 1109; *Azouz v Canada (Public Safety and Emergency Preparedness)*, 2009 FC 1222 at para 29; and *Red Label Vacations Inc (Redtag.ca) v 411 Travel Buys Limited (411travelbuys.ca)*, 2015 FC 743 at paras 60–63.

[33] In *Kirkbi*, the Court declined to apply *Visx* to award double costs in light of an offer to settle based on discontinuance without costs. Justice Gibson found that the admission that triggered the defendant's offer—that the studs on the upper surface of a LEGO brick were functional—was not sufficiently important to render the offer to forego costs a legitimate compromise: *Kirkbi* at para (c). In *Azouz*, the Court made brief reference to the Minister having offered to settle an appeal of a penalty for failing to declare a currency export on the basis of the plaintiff abandoning his appeal without costs, finding that it did not include the necessary element of compromise: *Azouz* at para 29. In *Red Label*, the Assessment Officer simply concluded that "it appears that although the 'slackening of costs' is an 'ingredient of compromise', it may not, in all circumstances, be determinative of the 'triggering' of a doubling of costs": *Red Label* at para 63.

[34] I need not decide whether the waiver or reduction of costs in a settlement offer will always reflect a sufficient element of compromise to trigger Rule 420. In the present case, to the parties' knowledge, the costs of the proceeding were significant, as was the potential costs award to the successful party. Agreement not to pursue such an award, by settling the proceeding without costs, represents a compromise. In any event, the offer to settle also included the

withdrawal of Tekna's invalidity claims. I do not accept AP&C's argument that this does not constitute an element of compromise. The validity of a patent can clearly have value independent of the patentee's ability to pursue a particular defendant for infringement.

[35] I note in this regard that in *Camso*, the Court expressly accepted the defendant's argument that an offer that included withdrawing a counterclaim for patent invalidity and waiving costs "included two compromises": *Camso* at paras 26, 38. In doing so, Justice Locke rejected the plaintiff's argument—equivalent to that made now by AP&C—that such an offer simply sought capitulation, noting that "[t]he mere fact that a party should have known that its opponent would refuse an offer to settle does not negate the consequences of Rule 420": *Camso* at paras 15, 38.

[36] As for AP&C's reliance on *Apotex* and the fact that Tekna's offer did not contain an element of compensation or reference to the prejudice caused by infringement, the offer at issue in *Apotex* included an acknowledgement of infringement, such that the question of compensation or prejudice caused by infringement was central to the determination of whether there was a compromise: *Apotex* at para 32. I cannot read *Apotex* as invariably requiring an offer to include financial compensation in order to trigger Rule 420.

[37] I also note that in *Baker Petrolite*, although the Court of Appeal found the offer in that case to be effectively "a demand for complete surrender with regard to the enforcement of the plaintiffs' alleged patent rights *vis à vis* these defendants," it did not conclude that this meant that Rule 420 did not apply, or that it disentitled the defendants to any increase in costs at all. Rather,

the Court exercised its discretion under Rule 420, applying a 50% increase instead of doubling costs after the date of the offer: *Baker Petrolite* at para 4(b).

[38] I therefore conclude that Tekna's offer meets the requirements of Rule 420.

(b) *Costs should be doubled after the offer*

[39] As noted above, Rules 420(1) and (2)(b) provide that the successful party who obtains a judgment more favourable than a qualifying Rule 420 offer is entitled to "party-and-party costs to the date of service of the offer and costs calculated at double that rate […] after that date." AP&C argues that Rule 420 should not be applied so as to double costs that are determined on a lump sum percentage rate, rather than under Tariff B. It argues that Rule 420(1) and (2) do not specifically contemplate doubling a lump sum award made in lieu of an assessment of costs, and that fixed costs are awarded "in lieu of" party-and-party costs pursuant to Rule 400(4).

[40] I begin by rejecting AP&C's interpretation of Rule 400(4). That Rule does not say that fixed costs are in lieu of party-and-party costs. It says that the Court "may fix all or part of any costs by reference to Tariff B and may award a lump sum in lieu of, or in addition to, any assessed costs." A lump sum award is thus in lieu of assessed costs, but it is not in lieu of party-and-party costs. To the contrary, in granting a lump sum award, the Court will typically do so on a party-and-party (or "partial indemnity") basis, even where the lump sum exceeds the Tariff: *Shire (FCA)* at para 9; *Canada v Bowker*, 2023 FCA 133 at para 19; *Canada (Attorney General) v Chrétien*, 2011 FCA 53 at paras 3(a)–(d); *Demirören TV Radyo Yayincilik Yapimcilik AŞ v General Entertainment and Music Inc*, 2024 FC 1127 at para 94.

[41] Further, the Chief Justice addressed this issue directly in *Allergan*, concluding that the doubling of "party-and-party" costs under Rule 420 can either be costs under Tariff B or such other costs as the Court may in its discretion allow: *Allergan* at para 57. I agree. I see nothing in the Rules that limits the application of Rule 420 to party-and-party costs under the Tariff. While the Court in *Allergan* applied Rule 420 by doubling the amount of costs to which the successful party would be entitled under the Tariff, this appears to be what the party requested: *Allergan* at paras 57, 64. This Court has applied Rule 420 to double lump sum awards based on a percentage in a number of cases: *Bauer* at para 43; *Iamgold Corporation v Hapag-Lloyd AG*, 2020 FC 610 at para 36. Justice St-Louis also appeared prepared to double the one-third rate she applied in *Berrada*, had she concluded that the offer met the requirements of Rule 420: *Berrada* at paras 26, 29–38.

[42] I note in this regard that one of the reasons this Court has accepted the value in making lump sum awards is a recognition that in complex intellectual property proceedings, amounts under the Tariff can bear little relationship to the true costs of litigation, or even a reasonable contribution to those costs: *Nova Chemicals* at para 13; *Allergan* at para 28. This being so, limiting the impacts of Rule 420 to Tariff amounts would significantly limit the non-accepting party's potential exposure to costs compared to actual costs, and thereby significantly diminish its persuasive value in encouraging settlement.

[43] At the same time, the Court retains a discretion, both under Rule 420 and generally, to consider whether a full doubling is appropriate in the circumstances. Relevant circumstances may include the nature of the offer (as in *Baker Petrolite*), the nature or amount of the underlying

award, and/or the impact of the doubling. However, the incentive value of Rule 420 relies in significant part in the predictability of its application, such that departure from the Rule should not occur lightly: *Bauer* at para 36; *Michaels v Unitop Spolka Z Organiczona Odpowiedzialnoscia*, 2020 FC 1031 at para 5.

[44] AP&C notes that doubling a lump sum percentage of 37.5% (the mid-point adopted in *Allergan*) or 50% (the upper end of the range), would yield recovery of 75 to 100% of costs. It argues that this would result in a costs award that is not compensatory but punitive. It further argues that potential recovery at this level, particularly based on a settlement offer that provides little to no compromise, would circumvent the purpose of Rule 420 and dissuade parties from litigating even reasonable claims for fear of the adverse cost consequences.

[45] These are certainly concerns to which the Court must be attuned. However, Rule 420 is designed to deliberately impose potentially material costs sanctions on a party who has not accepted an offer to settle. In other words, the very risk of significant adverse cost consequences is the point of Rule 420 and its value in encouraging settlement, even by parties who might prefer to otherwise bring their claims to trial. The balance between these ideas—encouraging settlement while not punishing unsuccessful parties or allowing litigation costs to unduly preclude meritorious claims—can be considered in the Court's exercise of discretion under both Rule 400 and Rule 420.

[46] In the present case, I need not decide whether a costs award of 75% or even 100% of actual costs, arising from the application of Rule 420, would be unduly or inappropriately

punitive. Applying Rule 420 in this matter to double the lump sum percentage award based on the usual partial indemnity rate of 33% would result in a rate of 66% of recoverable costs after the date of the offer. While this represents significant recovery, I do not find that it "frustrates the spirit of Rule 420" or is unreasonable or punitive in the context of the proceeding as a whole or the offer to settle in question. I therefore consider that Rule 420 should apply to double the recoverable costs after the date of the offer. Although the offer was dated December 14, 2021, for simplicity Tekna applied its doubling calculations beginning in January 2022, and I will therefore apply this approach.

(3) Fees to which the percentage is applied

(a) *Other patents at issue in the litigation*

[47] While the ’502 and ’236 Patents were at issue at trial, two other patents were raised during the course of the proceeding, namely Canadian Patent No 2,992,303 [the ’303 Patent] and Canadian Patent No 3,024,473 [the ’473 Patent]. The parties resolved their disputes with respect to the ’303 and ’473 Patents and agreed to discontinue claims with respect to them without costs. As the four patents were all raised in the same proceeding, Tekna did not invoice or record its fees separately with respect to each patent.

[48] To reflect these realities, Tekna asks that a lump sum award be calculated by applying a percentage to an "adjusted legal fee," derived by reducing its actual fees for months in which the ’303 and ’473 Patents were at issue. However, the reduction is weighted in favour of the ’502 and ’236 Patents, which Tekna describes as always having been its "primary concern."

Thus, in months where the ’502 and ’303 Patents were at issue, it reduced its fees by one-third; where the ’502, ’303, and ’473 Patents were at issue, by one-half; where all four patents were at issue, by one-third; and where the ’502, ’303, and ’236 Patents were at issue (after the parties settled their disputes about the ’473 Patent), by one-quarter. Applying this approach, Tekna presents adjusted legal fees of $1,020,849 for the period prior to its Rule 420 offer and $2,793,879 thereafter.

[49] AP&C asserts that Tekna has presented no basis other than its say-so to weight its fees in favour of the ’502 and ’236 Patents. It argues that an equal proportion of Tekna’s fees should be apportioned to each of the patents in dispute in any given month. Applying this approach reduces Tekna’s adjusted fees for the period prior to its Rule 420 offer by $166,813, to $854,036.

[50] I agree with AP&C that the record presented by Tekna does not justify taking a differential approach to costs associated with the different patents. It may be that Tekna dedicated more legal time to the ’502 and ’236 Patents during the months when the other patents were also in dispute, but the Court is unable to determine this either from Tekna’s brief submissions on the issue or from its invoices. AP&C’s approach of equal weighting, and associated discounting of fees to account for the discontinuance without costs of the claims regarding the ’303 and ’473 Patents, is reasonable and fair in the circumstances.

(b) *Testing at Purdue University*

[51] Tekna notes that each side had false starts in its testing. Tekna first undertook TEM-EDS testing through Purdue University in July 2021, but difficulties led it to move that testing to

Polytechnique Montréal. AP&C initiated its ToF-SIMS testing at the University of Toronto in January and February 2022, but had to abandon that testing and engage Tascon USA Inc. AP&C's testing difficulties required the adjournment of the trial, then scheduled to begin in March 2022, to which Tekna consented. The trial ultimately began about seven months later, in mid-October 2022.

[52] Tekna recognizes that its own testing difficulties at Purdue led it to incur legal and expert fees that were ultimately wasted. However, it argues that adjournment of the trial due to AP&C's testing difficulties necessarily resulted in wasted duplication of work, given the proximity of the adjournment to the trial date. Rather than attempt to quantify this, it proposes for the sake of simplicity that one concern offset the other by keeping its legal and expert fees related to the Purdue testing in its fee calculation, but not claiming any higher or additional fees on account of the adjournment.

[53] AP&C resists this approach. It submits that Tekna's legal and expert fees should be removed from the calculation, noting that it too had fees thrown away as a result of the Purdue testing. It notes that Tekna's fee base includes its fees associated with AP&C's testing at U of T, and argues that Tekna is effectively seeking to recover costs associated with both parties' testing difficulties. It claims Tekna's fees for the month in which the testing occurred were over $170,000, and that its dockets do not allow for separation of fees associated with the planning and conduct of the Purdue testing from other testing. It therefore proposes that Tekna's fees used to apply the lump sum methodology be reduced by $200,000.

[54] While I see some merit in AP&C's submissions, I share Tekna's confusion with AP&C's calculations. The Purdue testing took place in late July 2021. However, AP&C then notes that "Tekna's fees from June 2021 [*sic*], the month with the weeklong testing, were over $170,000," citing Tekna's invoice covering the month of August 2021. It then suggests reducing Tekna's fees by $200,000, as noted. Tekna's fees for the month of July 2021 were in fact (after a courtesy discount), about $80,000, which included matters beyond the Purdue testing. Its fees in the month of August 2021 included some modest amounts associated with the Purdue testing as well, but there is no indication that Tekna's total legal fees associated with the Purdue testing were anywhere near $200,000. (By comparison, in the month of July 2021, when Tekna's fees were about $80,000, AP&C's fees were about $175,000.)

[55] I agree with AP&C that there should be some reduction in Tekna's fees associated with the Purdue testing, particularly since Tekna is claiming its fees associated with the U of T testing. However, I also accept Tekna's proposition that the difficulties with the U of T testing not only wasted the time associated with the testing, but also caused wasted effort because of the adjournment of the trial. In attempting to balance these issues, I consider (i) Tekna's dockets for the months of July and (early) August 2021; (ii) allowing some of the Purdue fees to remain in the calculation will act as a partial setoff for Tekna's wasted costs arising from the adjournment; (iii) the fact that the U of T testing and the adjournment occurred in 2022, after Tekna's Rule 420 offer, such that it is already receiving significant recovery of those fees. On this basis, I consider a $60,000 deduction from Tekna's fees appropriate to reflect the Purdue testing issue.

[56] This results in Tekna's adjusted fees for the period prior to the Rule 420 offer being $794,036.

(c) *Other deductions*

[57] For the period after January 2022, AP&C complains about the hours spent by Tekna's trial team during the trial, which I have addressed above at paragraph [20]. As I reject AP&C's argument that Tekna overstaffed and overworked the file in the absence of evidence of AP&C's own invoices, I similarly reject its submission that Tekna's recovered fees be reduced by 10% to account for these issues.

[58] AP&C also argues that Tekna's claim for fees subsequent to the end of trial should be excluded. I agree. Absent any explanation or support for these fees, which appear to include matters such as general discussions and responding to audit inquiry letters, I do not consider it justified to include them in the assessment of costs.

[59] Based on the foregoing, I will award Tekna the following amounts in fees:

| | Recoverable Fees | Lump sum percentage | Total |
|---|---|---|---|
| To December 2021 | $ 794,036 | 33% | $ 262,032 |
| From January 2022 | $ 2,787,954 | 66% | $ 1,840,050 |
| | | | **$ 2,102,082** |

[60] As AP&C notes, this results in a significant portion of the fees award (about $920,000, or 44% of the total award) being the result of the doubling of fees after the date of the offer. Contrary to AP&C's submissions, however, I do not view this as contrary to the language or

principles of the *Federal Courts Rules*. To the contrary, it results from the application of the principles of Rule 420 and the fact that Tekna made an offer before about three-quarters of the costs of the proceeding, including trial costs, were incurred. It goes without saying that the earlier a Rule 420 offer is made, the more costs—and the greater percentage of a costs award—will be associated with the effect of the doubling provision in the rule. This is, to use a common expression, a feature not a bug, as it emphasizes the risks of not settling a proceeding and thereby underscores the value of early settlement of litigation. If such an offer includes, as here, a provision that the settlement is without costs, it also allows the opposing party to avoid those risks by accepting the offer and resolving the litigation even closer to trial.

## III. Disbursements

[61] In its initial submissions, Tekna sought its disbursements in the amount of $488,325, primarily for expert fees ($375,715), with the remainder related to the cost of testing at Polytechnique Montréal ($42,000), and various other costs such as prior art search fees, reporters, travel, and process servers ($70,610).

[62] AP&C argues that Tekna's disbursements should be reduced by a total of $170,000, raising two main arguments.

[63] First, AP&C submits the disbursements should be reduced by $70,000 to reflect expert time and other disbursements related to the wasted Purdue testing discussed above. Again, it is difficult to understand AP&C's calculations. It asserts that Tekna's expert disbursements related to the testing were between US$36,000 and US$80,000, apparently based on Mr. Barnes'

invoices for the months of July and August, 2021. However, in addition to these months capturing both the work at Purdue and that at Polytechnique Montréal, AP&C appears to neglect Tekna's evidence—borne out by its invoices and claimed disbursements—that only half of Mr. Barnes' time during these months was billed to this litigation, while the other half was billed to other litigation that was resolved between the parties and for which Tekna makes no claim (T-1769-19). Mr. Barnes' total fees claimed in this action for July and August 2021 combined were C$51,429, over half of which appears to be associated with the Polytechnique Montréal testing given its timing.

[64] While not every dead-end or wrong turn in an expert's work requires adjustment of their overall fees, I agree that some reduction to reflect the wasted effort associated with the unusable Purdue testing is appropriate. Based on my review of the evidence and the parties' submissions, I would apply a $25,000 reduction to Tekna's disbursements associated with the Purdue testing.

[65] Second, AP&C submits that Mr. Barnes' fees should be further reduced by $100,000 to reflect the fact that his invoices included work on the '303 and '473 Patents. Tekna accepts this criticism generally, but notes that only about $66,000 of Mr. Barnes' invoices were billed to this file prior to October 2021, when proceedings regarding the '303 Patent were discontinued without costs (claims regarding the '473 Patent had been resolved earlier). Tekna suggests that a 50% reduction of these fees, or $33,000, be applied to reflect work on the other patents.

[66] I agree that Tekna's approach is sound, but note that this time period also includes the Purdue testing, for which I have already applied a reduction. Applying this reduction means that

Mr. Barnes' claimable fees billed to this litigation during the period prior to October 2021 is about $41,000. I agree that 50% of this amount, or $20,500, should be deducted.

[67] I will therefore allow Tekna's disbursements in the amount of $442,825, being its total claimed disbursements of $488,325 less $45,500 for the foregoing issues.

[68] Combined with fees and applying some small rounding, this brings the total lump sum award of costs to $2,544,900.

IV. Taxes

[69] Tekna paid Quebec sales tax [QST] and goods and services tax [GST] on its counsel's fees and its disbursements, at the cumulative rate of 14.975%. It asks that this be reflected by adding taxes to the awarded costs, which would add $381,100 (rounded) to the amounts above.

[70] AP&C objects to the addition of taxes, stating that there is no evidence that Tekna actually bore the costs of these taxes. It argues the taxes initially paid by Tekna would have been subject to input tax credits and that Tekna's evidence does not show that it received no such credit for those taxes as a business expense. It cites *Iamgold*, in which this Court declined to award HST on this basis after reviewing applicable case law, including a decision of the Newfoundland Supreme Court, Trial Division, that considered the issue of input tax credits under the *Excise Tax Act*, RSC 1985, c E-15, in some depth: *Iamgold* at paras 46–55 citing, among others, *Perry v Heywood*, 1997 CanLII 15998 (NL SC) at paras 89–99.

[71] Tekna responds that it was incumbent on AP&C to rebut the evidence that Tekna had paid sales taxes, and not its own onus to show it did not receive a credit. It further notes that there are mechanisms to remit the credit back in the event of a refund, while AP&C may be entitled to claim a credit of its own if it is required to reimburse Tekna's paid taxes. Tekna also cites other cases in which this Court has ordered the payment of taxes: *Allergan* at paras 86 and Order (para 1); *Bauer* at Order (para 1); *Sandpiper Distributing Inc v Ringas,* 2020 FC 366 at paras 76–77, 80. I note that in these cases, there is no indication that the question of input tax credits was raised with the Court as part of the recoverability of taxes in a costs award. Certainly in *Sandpiper* I can confirm it was not, and the circumstances were such that the parties may not have been HST registrants.

[72] That said, I am persuaded by the reasoning of the British Columbia Court of Appeal in *Moon Development Corporation v Pirooz,* 2016 BCCA 22. There, the Court allowed a claim for taxes in an assessment of special costs notwithstanding the question of input tax credits and despite the decision in *Perry*, giving the following reasons:

> The more important point, however, is that a party that receives a costs award may, in turn, receive any number of tax benefits, depending on how they structure their affairs. If a registrar were to entertain evidence and argument about tax benefits and liabilities on every assessment, <u>it would complicate the assessment process, for example, by potentially requiring additional expert evidence and awards contingent on future tax filings</u>. No such evidence was before me on this assessment. There was <u>only a short statement in the respondents' submission that some tax benefit would accrue</u>, depending on whether corporate or individual respondents remitted fees on certain, as yet, unpaid bills.
>
> [Emphasis added; *Moon* at para 38.]

[73] This passage describes the current situation, both in terms of the potential complexity of the assessment process and the absence of anything but a “short statement in the respondents’ submission that some tax benefit would accrue.” The BC Court of Appeal also cited a Federal Court of Appeal case concluding that input tax credits are not available for taxes on legal fees that are not “for the purpose of making taxable supplies,” raising questions about AP&C’s bald assertion that Tekna’s payment of taxes was “undoubtedly” subject to input tax credits: *Moon* at para 40, citing *Haggart v Canada*, 2003 FCA 446, aff’g 2003 TCC 185 at paras 21–23. The situation is further complicated, and the persuasive force of the BC Court of Appeal’s words regarding complication further strengthened, by the fact that the taxes at issue in this case include QST, which is not imposed under the *Excise Tax Act* but under provincial legislation, on which the Court has neither submissions nor authorities.

[74] The evidence before me is clear that Tekna paid QST and GST on its fees and disbursements. However, the parties’ evidence and argument does not demonstrate to my satisfaction that (i) Tekna necessarily obtained input tax credits in respect of those taxes that would offset them, as AP&C contends; (ii) if Tekna is awarded taxes on costs, they would be entitled to keep both the credit and the award, rather than having to remit a credit; or (iii) conversely, AP&C would be entitled to tax credits of amounts paid on account of taxes, as Tekna contends. While Tekna bears the burden of demonstrating that the costs have been incurred, I am satisfied that it has met that burden through the evidence that the taxes charged on the invoices have been paid, and AP&C’s arguments do not displace that finding. I will therefore order these taxes recoverable in the costs award.

## V. Other terms

### A. *Interest*

[75] With reference to subsection 37(1) of the *Federal Courts Act*, RSC 1985, c F-7, Tekna asks that post-judgment interest be payable in accordance with article 1619 of the *Civil Code of Quebec*. AP&C does not oppose this request.

### B. *Timing*

[76] AP&C asks that the award of costs be payable at least 30 business days after the release of the Court's decision, so that AP&C can seek a stay of the award pending disposition of the appeal of the underlying judgment in the action that it has filed with the Federal Court of Appeal. AP&C refers to Tekna's financial statements showing negative revenues and negative cash flows, and raises a concern that it may be unable to recover any costs paid if the costs award is disturbed on appeal. Tekna responds that the same statements show the extent of its assets, that the costs award should be payable forthwith, and that if AP&C wishes to bring a motion to stay execution of the costs award, it should be in a position to do so shortly after the decision.

[77] I see no reason to include a specific time for payment and note, as Justice Grammond did in *Bauer*, that granting a time period for payment would effectively amount to granting an interim stay of the costs award before AP&C has filed its motion: *Bauer* at paras 62–63. If AP&C acts promptly in bringing its motion for a stay pending appeal, which Tekna says it intends to oppose, the parties should be reasonably able to reach agreement on the treatment of

the order until that motion can be heard. If not, they will be able to turn to the Court hearing the motion to obtain interim relief as necessary.

### C. *Security for costs*

[78] Tekna seeks return of the security for costs paid into Court pursuant to subsection 60(3) of the *Patent Act*, RSC 1985, c P-4, and the order of Associate Judge Molgat dated February 14, 2019. It is entitled to the return of that security plus accrued interest.

## VI. Conclusion

[79] For the foregoing reasons, AP&C shall pay to Tekna the total amount of $2,926,000, representing a lump sum award of costs of this action and counterclaim in the amount of $2,544,900 for fees and disbursements, plus taxes in the amount of $381,100. The sum of $10,000, plus any accrued interest, posted by Tekna as security for costs shall be paid out to Tekna.

**ORDER IN T-126-19**

**THIS COURT ORDERS that**

1. The defendant/plaintiff by counterclaim, AP&C Advanced Powders & Coatings Inc, shall pay to the plaintiff/defendant by counterclaim, Tekna Plasma Systems Inc, costs of this action in the total amount of $2,926,000, which sum includes recoverable taxes in the amount of $381,100.

2. Interest on the above amounts shall be payable in accordance with article 1619 of the *Civil Code of Quebec*.

3. The security for costs posted by Tekna Plasma Systems Inc in the amount of $10,000 plus any accrued interest shall be paid out to Tekna Plasma Systems Inc forthwith.

"Nicholas McHaffie"
Judge

**FEDERAL COURT**

**SOLICITORS OF RECORD**

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|---|---|
| **DOCKET:** | T-126-19 |
| **STYLE OF CAUSE:** | TEKNA PLASMA SYSTEMS INC v AP&C ADVANCED POWDERS & COATINGS INC |
| **PLACE OF HEARING:** | HEARD IN WRITING |
| **ORDER AND REASONS:** | MCHAFFIE J. |
| **DATED:** | DECEMBER 5, 2024 |

**WRITTEN REPRESENTATIONS BY:**

| | |
|---|---|
| François Guay<br>Jean-Sébastien Dupont<br>Audrey Berteau | FOR THE PLAINTIFF/DEFENDANT BY COUNTERCLAIM |
| Andrew Brodkin<br>Ben Hackett | FOR THE DEFENDANT/PLAINTIFF BY COUNTERCLAIM |

**SOLICITORS OF RECORD:**

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| GOODMANS LLP<br>Toronto, Ontario | FOR THE DEFENDANT/PLAINTIFF BY COUNTERCLAIM |