

Federal Court



Cour fédérale

**Date: 20180709**

**Docket: T-40-18**

**Ottawa, Ontario, July 9, 2018**

**PRESENT: Case Management Judge Mandy Ayles**

**BETWEEN:**

**PAID SEARCH ENGINE TOOLS, LLC**

**Plaintiff**

**and**

**GOOGLE CANADA CORPORATION,  
GOOGLE LLC, and ALPHABET INC.**

**Defendants**

**ORDER**

[1] There are presently two motions before the Court brought by the Defendants: (i) a motion, pursuant to Rules 416 and 418 of the *Federal Courts Rules*, for an order requiring the Plaintiff to pay into Court \$1,500,000.00 as security for the Defendants' anticipated costs to be incurred through to the completion of the trial in this action, or such other sum as directed by the Court, pursuant to a schedule that requires \$500,000.00 to be paid within 30 days, \$500,000.00 to be paid at least 60 days prior to the deadline for delivery of the first expert report, and \$500,000.00 to be paid at least 60 days prior to the first day of trial, together with other related

relief; and (ii) an order granting the Defendants leave to file a supplemental affidavit on the motion for security for costs.

[2] The Plaintiff opposes both motions, arguing that: (i) while security for costs may be appropriate, the amount sought by the Defendants is excessive and should be no more than \$100,000.00 up to the end of discoveries; (ii) the Plaintiff should be permitted to post any amount of security ordered to be posted by way of payment into Court, an irrevocable letter of credit or bond; and (iii) the circumstances of the motion do not warrant leave being granted to the Defendants to file the supplemental affidavit.

**Motion for Leave to File a Supplemental Affidavit**

[3] The Defendants seek leave of the Court to file the supplemental affidavit of Susan Burkhardt sworn June 20, 2018. Appended to the supplemental affidavit are submissions made by the Plaintiff's US counsel in a proceeding in the United States District Court, Eastern District of Texas, Marshall Division.

[4] The Defendants seek leave to file the supplemental affidavit as a result of evidence filed by the Plaintiff in responding to the motion for security for costs. Specifically, the Plaintiff relies on prior statements made by the US counsel for the Defendant, Google Inc., in the context of a summary judgment motion in a proceeding addressing the validity of the Plaintiff's US Patent No. 7,043,450 – the same above-referenced proceeding in the United States District Court, Eastern District of Texas, Marshall Division. The Plaintiff asserts that to the extent that the complexity of the patent at issue in this proceeding is relevant to the determination of the quantum of security for costs and to the extent that the Defendants argue that the technology at

issue in this proceeding is particularly complex and warrants an elevated quantum of security, the representations made by Google Inc. in the US proceeding undermines this submission by the Defendants, as in the US proceeding, Google Inc. suggested that the technology was not so complex.

[5] The Defendants assert that the statements made by Google Inc.'s US counsel are irrelevant to the issues to be determined on this motion. However, in the event that the Court finds that such statements are relevant, the Defendants assert the Court should be made fully aware of the prior positions taken by the Plaintiff's counsel in the same US proceeding and accordingly, leave should be granted to the Defendants to file the supplemental affidavit.

[6] I find that the statements made by the parties' counsel in proceedings in the United States in relation to a patent issued in the United States are irrelevant to the issue of the complexity of the proceeding before this Court. As such, the statements made by Google Inc.'s US counsel in the existing motion record will be given no weight.

[7] The Defendants have acknowledged that, in the event that the Court determines that such statements are irrelevant and are to be given no weight, leave need not be granted to the Defendants to file the supplemental affidavit. Accordingly, the motion for leave is dismissed.

[8] Notwithstanding that leave was not granted to the Defendants to file the supplemental affidavit, I decline to exercise my discretion to make an order for costs payable to the Plaintiff as it has requested. The motion was necessitated as a result of the evidence filed, and submissions made, by the Plaintiff, which I have found to be irrelevant. Accordingly, costs of this motion shall be in the cause.

**Motion for Security for Costs**

[9] The Plaintiff acknowledges that the posting of security for costs may be appropriate and has not opposed the motion on this basis. Given that the Plaintiff is a corporation ordinarily resident outside of Canada, I find that it is appropriate for the Plaintiff to give security for the Defendants' costs. Therefore, the sole issues for determination are the appropriate quantum of security and the form of security.

[10] All parties agree that it is appropriate to order that security be paid in stages as the action progresses and costs are incurred by the Defendants. However, the Defendants ask that the Court fix the quantum of security for costs for all stages leading to trial on this motion. I decline to do so. It is premature at this stage of the proceeding, where the Defendants have not yet even filed a Statement of Defence, to fix the security for all stages of the action. Moreover, I am not satisfied that the Defendants have put forward sufficient evidence as to the costs to be incurred leading up to trial that would warrant such an order. Any order would be based almost entirely on speculation, which is improper. Accordingly, I shall fix security for costs up to the end of discoveries, without prejudice to the right of the Defendants to bring further motions for security for costs, on proper evidence, to address subsequent stages of this proceeding or in the event that the amount ordered herein proves insufficient.

[11] In determining the appropriate quantum of security for costs, the quantum must correspond to the probable costs to which the Defendants would be entitled should they be successful in defending the action brought against them. While security for costs is an indemnity and ought not to be illusory, it must also not be oppressive so as to prevent the Plaintiff from bringing this action. The amount of security for costs is in the discretion of the Court, bearing in

mind the draft bill of costs provided by the parties and taking into account any appropriate reductions that might be made thereto. In fixing the quantum of security for costs, I am also mindful that if the amount of security proves inadequate, the Defendants can always apply for additional security at a later date [*Bodum USA Inc v Trudeau Corp (1889) Inc*, 2012 FC 240 at para 19].

[12] The Defendants included in their motion record a draft bill of costs. The draft bill of costs seeks security for costs in the range of \$1,521,135.00 to \$1,774,395.00 up to and including trial, comprised of:

- A. Fees in the amount of \$250,285.00 using the midpoint of Column III or \$503,545.00 using the high-end of Column IV; and
- B. Disbursements in the amount of \$1,270,850.00, with the most significant disbursements being \$1,085,000.00 for to experts, \$50,000.00 for to copying, printing, binding, couriers and process servers, \$50,000.00 for e-discovery services and data storage, \$23,400.00 for court reporters and \$57,450.00 for travel.

[13] The Defendants did not provide the Court with an affidavit in support of the amounts claimed in the draft bill of costs. Rather, the draft bill of costs was simply appended to an affidavit from a law clerk.

[14] At the hearing of the motion, the Defendants provided the Court with a revised draft bill of costs. The revisions took into account certain information provided to the Defendants in the Plaintiff's responding motion record as to what procedural steps may not in fact be required and

other reductions made by the Defendants. Pursuant to the revised draft bill of costs, the Defendants now seek security for costs in the range of \$1,243,844.00 to \$1,434,209.00 up to and including trial, comprised of:

- A. Fees in the amount of \$197,414.00 using the midpoint of Column III or \$387,779.00 using the high-end of Column IV; and
- B. Disbursements in the amount of \$1,046,430.00, with the most significant disbursements being \$875,000.00 for to experts, \$50,000.00 for to copying, printing, binding, couriers and process servers, \$50,000.00 for e-discovery services and data storage, \$17,980.00 for court reporters and \$48,450.00 for travel.

[15] The revised draft bill of costs also breaks the costs down per phase. For the first phase of the litigation up to the end of discoveries, the Defendants seek security for costs in the amount of \$280,539.00 to \$375,984.00, comprised of \$73,059.00 to \$168,504.00 in fees and \$207,480.00 in disbursements. The disbursements are comprised of \$120,000.00 for experts, \$25,000.00 for copying, printing, binding, couriers and process servers, \$40,000.00 for e-discovery services and data storage, \$7,480.00 for court reporters and \$15,000.00 for travel.

[16] The Plaintiff has also provided a draft bill of costs estimating the costs of the Defendants recoverable under the Tariff up to the end of the discoveries. The Plaintiff's draft bill of costs estimates the amount of costs to be in the range of \$73,830.00 to \$144,180.00, comprised of:

- A. Fees in the amount of \$48,930.00 using the midpoint of Column III or \$119,280.00 using the high-end of Column IV; and

- B. Disbursements in the amount of \$24,900.00, comprised of \$5,000.00 for copying, printing, binding, couriers and process servers, \$7,900.00 for court reporters and \$12,000.00 for travel.

[17] The Plaintiff asserts that the appropriate quantum for security for costs is \$100,000.00 up to the end of discoveries.

[18] Having considered the various draft bills of costs and the submissions of the parties, I find that the amount of security sought by the Defendants is excessive. There are aspects of the Defendants' draft bill of costs that are guesswork or speculative, and simply not supported based on the evidence before the Court. Others are recoverable, but not in the amounts claimed. Specifically:

- A. I am not satisfied, based on the evidence before me, that there has been any vexatious behaviour by the Plaintiff. Accordingly, the Defendants' argument of vexatiousness has been given no weight in determining the appropriate quantum of costs.
- B. The US proceeding has been given no weight in assessing the complexity of this proceeding. Moreover, based on the Statement of Claim, the balance of the evidence on this motion and the submission of the parties, I am not satisfied that the level of complexity of this proceeding, in and of itself, warrants a heightened quantum of security beyond the usual range of costs based on the Tariff.
- C. The Defendants' draft bill of costs provides for fees under both the midpoint of Column III and the high end of Column IV. The default for costs is Column III. I

am not satisfied that there is any basis, at present, to depart from the default of using Column III for the purpose of calculating the appropriate quantum of security.

- D. All Defendants are represented by the same counsel. There is no evidence before me that the Defendants will be filing separate Statements of Defence, separate affidavits of documents or otherwise engaging in separate preparation of the proceeding. To the contrary, counsel for the Defendants confirmed at the hearing that the Defendants would be filing a joint Statement of Defence. Where there are multiple parties represented by the same counsel, security should not be duplicated [*Diversified Products Corp v Consumers Distributing Co*, [1991] FCJ No 968]. The Defendants' draft bill of costs is replete with duplicative tariff items in this regard, which is improper.
- E. It is not clear on the evidence before the Court that more than one counsel will be required at all of the various stages/steps of the litigation as set out in the revised draft bill of costs. Moreover, I am not satisfied that it is appropriate on a motion for security for costs to claim for more than one counsel in the preparation of pleadings.
- F. The Defendants have not provided the Court with any evidence in support of their claim for \$120,000.00 in expert fees up to the completion of discoveries. While an amount for expert fees for this stage of the proceeding is appropriate, given the absence of any evidence to justify the Defendants' quantum, I find the amount sought to be speculative and excessive.



G. I find that the amount for e-discovery and data storage is inappropriate. As was stated by Justice Snyder in *Sanofi-Aventis Canada Inc v Novopharm Limited*, 2009 FC 1139 at para 19, these costs form part of a law firm's overhead and are not recoverable in an action. In any event, the Defendants have provided no evidence in support of the quantum claimed and as such, I find that it is, in any event, speculative.

H. Given the number of Court filings contemplated for the first stage of this proceeding, copying, printing, binding courier and process server disbursements of \$25,000.00 are excessive.

[19] In light of the above, I agree with the Plaintiff that an appropriate quantum for security for costs up to the end of discoveries is \$100,000.00.

[20] At the motion, the Plaintiff clarified that it seeks leave of the Court to satisfy its obligation to post security for costs by way of payment into Court, by filing a bond in a form satisfactory to the Defendants or by filing an irrevocable letter of credit in a form satisfactory to the Defendants. Rule 418 permits a party, unless the Court ordered otherwise, to give security for costs by paying the required amount into Court or by filing a bond for the required amount that has been approved by an order of the Court. This Court has also recognized that an irrevocable letter of credit from a reputable financial institution is as secure as if cash were deposited with the Court and provides adequate protection for costs [*Highland Produce Ltd v Egg Farmers of Canada*, 2010 FC 401].

[21] Accordingly, the Plaintiff may give security for costs by paying \$100,000.00 into Court, by filing a bond for \$100,000.00 in a form satisfactory to the Defendants or by filing an irrevocable letter of credit in the amount of \$100,000.00 from a reputable financial institution and in a form satisfactory to the Defendants. If there are any disputes between the parties regarding the form of a bond or letter of credit, the parties shall forthwith advise the Case Management Judge and a case management conference shall be held to resolve the dispute.

[22] At the hearing of the motion, the parties agreed that cost submissions should follow the determination of the merits of the motion for security for costs. Accordingly, the parties shall attempt to reach an agreement on the costs of the motion. In the event that they are unable to do so, the Plaintiff shall, by no later than July 18, 2018, serve and file brief cost submissions in the form of a letter of no more than three pages. The Defendants shall, by no later than July 23, 2018, serve and file brief responding cost submissions in the form of a letter of no more than three pages. The Plaintiff may file a brief reply in the form of a letter of no more than 2 pages by no later than July 27, 2018.

**Extension of Time for Delivery of the Defendants' Pleading or Motion Materials**

[23] At the hearing of the motion, the Defendants advised that they had identified various deficiencies in the Statement of Claim that could warrant a motion to strike or for particulars. They advised that they are preparing a demand to be sent to the Plaintiff in relation to these deficiencies. Depending on the Plaintiff's response, a motion to strike or for particulars may need to be brought. The Defendants advised that they would be able to serve their demand on the Plaintiff within less than 10 days of the Plaintiff posting security for costs.

[24] It is imperative that this action move forward in light of the delay that has already transpired. Accordingly, the Defendants shall serve their demand related to the alleged deficiencies in the Statement of Claim within five days of the Plaintiff satisfying its obligation to post security for costs. The Plaintiff shall take all reasonable steps to respond thereto within seven days. The Defendants shall serve and file any motion to strike or for particulars within thirty days of the Plaintiff satisfying its obligation to post security for costs. If no such motion is filed, the Defendants shall serve and file their Statement of Defence and any Counterclaim within thirty days of the Plaintiff satisfying its obligation to post security for costs.

**THIS COURT ORDERS that:**

1. The Defendants' motion for leave to file the supplemental affidavit of Susan Burkhardt sworn June 20, 2018 in relation to the motion for security for costs is dismissed.
2. The Defendants' motion for an order compelling the Plaintiff to post security for costs, in tranches, in the amount of \$1,500,000.00 is dismissed.
3. The Plaintiff shall pay into Court security for the costs of the Defendants in the amount of \$100,000.00 on or before July 19, 2018, with leave for the Defendants to seek further security after discoveries or if the amount proves insufficient.
4. The Plaintiff may satisfy its obligation to give security for costs by paying \$100,000.00 into Court, by filing a bond for \$100,000.00 in a form satisfactory to the Defendants or by filing an irrevocable letter of credit in the amount of \$100,000.00 from a reputable financial institution and in a form satisfactory to the Defendants.

5. Rule 416(3) is dispensed with, without prejudice to the right of the Defendants to seek further recourse should the security not be furnished.
6. The Defendants shall serve their demand related to the alleged deficiencies in the Statement of Claim within five days of the Plaintiff satisfying its obligation to post security for costs. The Plaintiff shall take all reasonable steps to respond thereto within seven days.
7. The Defendants shall serve and file any motion to strike or for particulars within thirty days of the Plaintiff satisfying its obligation to post security for costs. If no such motion is filed, the Defendants shall serve and file their Statement of Defence and any Counterclaim within thirty days of the Plaintiff satisfying its obligation to post security for costs.
8. The parties shall, within five days of the filing of any motion to strike or for particulars or the filing of the Statement of Defence and any Counterclaim, provide the Court with their joint availability for a case management conference to address the timetable for next steps in this proceeding.
9. Costs of the motion for leave to file the supplemental affidavit on the motion for security for costs shall be in the cause.
10. The parties shall attempt to reach an agreement on the costs of the motion for security for costs. In the event that they are unable to do so, the Plaintiff shall, by no later than July 18, 2018, serve and file brief cost submissions in the form of a letter of no more than three pages. The Defendants shall, by no later than July 23, 2018, serve and file

brief responding cost submissions in the form of a letter of no more than three pages. The Plaintiff may file a brief reply in the form of a letter of no more than 2 pages by no later than July 27, 2018.

“Mandy Ayleen”

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Case Management Judge