



SECURITY FOR COSTS ORDERS IN INTELLECTUAL PROPERTY LITIGATION

Presented to the Intellectual Property Institute of Canada

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INTRODUCTION



- Security for costs is directed when the court is satisfied that a successful defendant will be unable to recover its litigation costs from the plaintiff at the conclusion of litigation.
- Security for costs is available in both the Federal Court of Canada and the Court of Queen's Bench of Alberta.
- Similar principles found at the federal and provincial levels.
- It is something a party should consider when being sued on intellectual property matters.
- Such litigation is complex and costly.

RELEVANT FEDERAL COURT RULES



[Federal Court Rules, SOR/98-106:](#)

- **Rule 415 – Application:** Applies to counterclaims, third party claims, respondents to applications, and to appeals.

- **Rule 416(1) – Where security is available:**
 - a) Ordinarily resident outside Canada;
 - b) Corporation or nominal plaintiff with insufficient assets within Canada to pay costs;
 - c) No address or incorrect address for plaintiff;
 - d) Plaintiff changes address to avoid consequences of litigation;
 - e) Same relief sought elsewhere in another proceeding;
 - f) Outstanding order of unpaid costs in any proceeding;
 - g) Frivolous and vexatious action AND insufficient assets to pay costs;
 - h) Act of Parliament entitles defendant to security.

RELEVANT FEDERAL COURT RULES, *CONTINUED*



- **Rule 416(2)-(6)** – Costs may be payable in stages; may be increased; action is stayed once costs ordered.
- **Rule 417 – Grounds for refusing security:** If the plaintiff demonstrates impecuniosity AND the court finds the claim has merit.
- **Rule 418 – How security to be given:**
 - a) Payment into court; or
 - b) Filing a bond in the approved form.

FEDERAL COURT OF CANADA CASES



- [*Fraser v. Janes Family Foods Ltd.*, 2011 FC 569 \(CanLII\)](#). (Appeal from Prothonotary)
- [*Fraser v. Janes Family Foods Ltd.*, 2012 FCA 99 \(CanLII\)](#).
- [*Fortyn v. Canada*, \[2000\] 4 FCR 184, 2000 CanLII 17133 \(FC\)](#).

OVERVIEW OF FEDERAL COURT APPROACH



- *Fraser v. Janes Family Foods Ltd.* – Focused largely on need to prove impecuniosity, since triggering criteria under Rule 416 were met.
- [*Fraser v. Janes Family Foods Ltd.*, 2011 FC 569 \(CanLII\)](#). (Appeal from Prothonotary)
 - Patent and trade-mark infringement claim.
 - Plaintiff failed to demonstrate impecuniosity.
 - Contradiction in that plaintiff claimed impecuniosity but offered to provide undertaking to pay defendant's costs.
- [*Fraser v. Janes Family Foods Ltd.*, 2012 FCA 99 \(CanLII\)](#).
 - NAFTA/TRIPS issue regarding Rule 416(1)(a) being unfair to US nationals.
 - Rejected by FCA.

OVERVIEW, CONTINUED



- [Fortyn v. Canada, \[2000\] 4 FCR 184, 2000 CanLII 17133 \(FC\).](#)
 - Shell company.
 - Need to prove impecuniosity.
 - Rule 416(1)(f) – Includes costs order in any Canadian jurisdiction.
 - Rule 416(1)(g) – Defendant must meet the onus of showing case is clearly frivolous or vexatious.
 - Rule 417 - Bald assertion of impecuniosity will not suffice:
 - Plaintiff must show it does not have assets; and
 - If plaintiff is a corporation, that it cannot raise assets from shareholders.

RELEVANT ALBERTA RULES



[Alberta Rules of Court, Alta Reg 124/2010:](#)

- **Rule 4.22 – Considerations for security for costs order:**
 - a) Likely that the applicant can enforce the order against assets in Alberta;
 - b) Ability of the respondent to pay the costs award;
 - c) Merits of the action;
 - d) Would the order prejudice the plaintiff's ability to continue the action;
 - e) Catch-all – any other matter the court considers appropriate.

- **Rule 4.23(1)-(5) – Contents of security for costs order:** Nature of security to be posted; to be paid within two months at most; case stayed after security ordered; case can be struck without further order.

AMEX CRITERIA



[Amex Electrical Ltd. v. 726934 Alberta Ltd., 2014 ABQB 66 \(CanLII\).](#)

Paragraph 74(a)-(h) “The likelihood a court will exercise its discretion in favour of an applicant for security for costs and grant a security-for-costs order goes up if one or more of the following conditions exist . . .”

- (a)-(h) Repeated *ad nauseum* in cases that cite it.
- Note in particular (c) and *Attila Dogon* case regarding not enquiring in detail into merits.
- Effectively neuters Rule 4.22(c).

AMEX CRITERIA, CONTINUED



Paragraph 75(a)-(h) “Conversely, if one or more of the following conditions exist, the likelihood a court will dismiss a security-for-costs application escalates”

- Again, (a)-(h) cited repeatedly.
- Note in particular (d) and *Attila Dogon* reference; court again suggests that unless merits are a “slam-dunk,” it will not engage in an overly detailed weighing of the evidence.
- Overall thrust is to apply early, for steps not yet taken, especially if company is a shell and shareholders cannot or will not pay costs.
- Do not counterclaim for the same relief as sought in the main claim – can be a bar to security for costs being ordered.

INTELLECTUAL PROPERTY CONTEXT - ALBERTA



- Geophysical Service Incorporated suits: [*Geophysical Service Incorporated v Encana Corporation*, 2016 ABQB 49 \(CanLII\)](#). – Strekaf J. upholds (for the most part) Master Laycock.
- [*Janus Capital Mediterraneo SRL et al. v. Petro Motion Inc. et al. Proceedings*](#). (Unreported; transcript attached.)

SIMILARITIES AND DIFFERENCES



Federal Court of Canada and Court of Queen's Bench of Alberta

Similarities

- Same underlying policy rationale.
- Successful defendant should not be left to bear the cost of defence if plaintiff is without assets.
- Foreign plaintiffs and/or shell companies are perfect examples of when an application for security for costs becomes appropriate.

SIMILARITIES AND DIFFERENCES, *CONTINUED*



Differences

- Federal Court cases cited comment with respect to a plaintiff outside the jurisdiction of Canada, but non-Canadian plaintiffs can attract security in Alberta (*Janus v. Petro Motion*).
- Federal Court comments explicitly about outstanding costs awards against a plaintiff in any jurisdiction.
- Federal Court requires a plaintiff to demonstrate impecuniosity to escape security for costs.

SUMMARY



- So . . . if your clients are sued by a broke deadbeat, shell company, or offshore company from some non-extradition jurisdiction, consider a security for costs application.
- Same whether suit is in Federal Court or the Court of Queen's Bench of Alberta.
- Questions?

FOR MORE INFORMATION

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