

Federal Court



Cour fédérale

Date: 20221205

Docket: T-1645-16

Toronto, Ontario, December 5, 2022

PRESENT: Associate Judge Trent Horne

BETWEEN:

ARKIPELAGO ARCHITECTURE INC.

Plaintiff

and

**ENGHOUSE SYSTEMS LIMITED,
ENGHOUSE NETWORKS LIMITED,
STEPHEN J. SADLER AND DOUGLAS BRYSON**

Defendants



ORDER

UPON motion on behalf of the defendants, filed October 24, 2022, for an order:

1. pursuant to pursuant to Rule 416(1)(b), (e) and (g) of the *Federal Courts Rules*, requiring the plaintiff to pay \$100,000 into Court as security for the defendants' costs of defending the action to be incurred (and already incurred) up to the end of the Threshold Issues Phase, or such other sum as directed by the Court, within thirty (30) days of the Court's order and without prejudice to the defendants' right to apply at any time for increased security for costs should the circumstances justify an increase;

2. directing that, if the plaintiff fails to post security for the defendants' costs within thirty (30) days of the Court's Order, the plaintiff's claim shall be dismissed with costs payable to the defendants on the allowable highest scale and the defendants shall be permitted to seek an Order for such dismissal on an *ex parte* basis;
3. costs of this motion on the allowable highest scale; and
4. such further and other relief as this Honourable Court deems just;

AND UPON reading the submissions contained in the defendants' motion record, and the submissions contained in the plaintiff's responding motion record filed November 15, 2022;

AND UPON hearing the submissions of counsel at the hearing of the motion on November 30, 2022;

AND UPON considering:

[1] This is an action for copyright infringement. The plaintiff claims rights in a "ROME" computer program, and alleges that the defendants have infringed its copyright by the sale of computer programs known as Aktavara OSS and NetDesigner.

[2] The action has a long procedural history. It was commenced in 2016, and has been trifurcated. The first phase of the litigation is described as the Threshold Issues Phase in the trifurcation order dated October 19, 2017. This phase includes discovery and all other steps up to and including a trial or other determination of the Threshold Issues, including any appeal. Threshold Issues is defined in the October 19, 2017 order as whether the software defined in the statement of claim as the "Infringing Enghouse Computer Programs" reproduces all or a

substantial part of the ROME Computer Program, and whether the ROME Computer Program is the source from which the Infringing Enghouse Computer Programs were derived.

[3] I issued a scheduling direction on March 11, 2022; it set deadlines for the exchange of expert reports and scheduled a mediation. The plaintiff's deadline for service of expert reports was July 1, 2022.

[4] On July 8, 2022, the plaintiff wrote to the Court and requested a case management conference to discuss extending the deadlines in my March 11, 2022 direction. The plaintiff advised that the reason for the extension request is that the plaintiff has been in discussions with litigation funders. The defendants opposed the request.

[5] A case management conference was conducted on July 20, 2022. A revised timetable was established, which is set out in an order dated July 25, 2022. The order extended the deadlines in the March 11, 2022 direction. During the case management conference, the defendants advised that they would be moving for security for costs.

[6] Security for costs is addressed in Rule 416 of the *Federal Courts Rules*, SOR/98-106 ("Rules"). The defendants move under subrules 416(1)(b) (that there is reason to believe that the plaintiff has insufficient assets to pay a costs award); 416(1)(e) (the plaintiff has another proceeding for the same relief pending elsewhere); and 416(1)(g) (there is reason to believe the action is frivolous and vexatious). The defendants indicated at the hearing that the request for relief under subrule 416(1)(g) was withdrawn.

[7] The grounds in subrule 416(1) are disjunctive. A defendant need only establish that one of the enumerated grounds in subrule 416(1) applies. While an order for security for costs is

discretionary, a plaintiff will generally be required to pay security for costs if any of the criteria described in subrule 416(1) are met (*Early Recovered Resources Inc v Gulf Log Salvage Co-Operative Assn*, 2001 FCT 524 at para 7; *Pembina County Water Resource District v Manitoba*, 2005 FC 1226 at paras 13-14).

[8] The initial onus is on the defendants to satisfy the Court that one of the subrule 416(1) criteria applies. Under subrule 416(1)(b), the defendants must establish that there is reason to believe the plaintiff has insufficient assets in Canada to pay the defendants' costs, if ordered to do so. The defendants' burden in this regard is not a heavy one. It need only establish on a *prima facie* basis that the plaintiff may be unable to pay the defendants' costs. If the defendants meet their burden, the onus shifts to the plaintiff to demonstrate why the Court should exercise its discretion not to order security for costs. In this regard, the plaintiff must establish either: (a) that it does, in fact, have sufficient assets to pay the defendants' costs, if ordered to do so; or (b) that, pursuant to Rule 417, the plaintiff should be allowed to proceed without providing security because it is impecunious and its case has merit (*Double Diamond Distribution, Ltd v Crocs Canada, Inc*, 2019 FC 1373 at paras 12 and 14).

[9] Mr Timothy O'Hara is the President of the plaintiff. He was examined for discovery on March 10, 2021. During that examination, he stated that the ROME computer program was under development from 1995 to roughly 2000, and that the main product release was roughly in 1999. Mr O'Hara also swore an affidavit in this proceeding on June 30, 2017. In that affidavit, he stated that the ROME computer program is the principal asset of the plaintiff. There is no evidence in the materials filed on the motion that the ROME computer program has generated revenue for the plaintiff since 2017.

[10] In July 2022, the plaintiff indicated that it was seeking litigation funding. Whether it obtained such funding is unknown. It was the disclosure of the plaintiff's interest in litigation funding that precipitated this motion.

[11] I do not view the pursuit of litigation funding, on its own, as establishing a *prima facie* basis that a plaintiff may be unable to pay a defendant's costs. There are many reasons why a party may seek litigation funding. I am, however, satisfied that the plaintiff's pursuit of litigation funding, combined with the evidence that: i) the plaintiff's principal asset is a computer program that is over 20 years old; and ii) that no revenue has been generated from that program in about 5 years establishes a *prima facie* basis that the plaintiff may be unable to pay the defendants' costs.

[12] The plaintiff did not file financial information on the motion. I do not have evidence showing that the plaintiff has sufficient assets in Canada to pay an adverse cost award. I do not have evidence or argument that the plaintiff is impecunious. I am therefore satisfied that the defendants have established a *prima facie* basis that the plaintiff may be unable to pay the defendants' costs.

[13] The plaintiff submits that, even if the defendants have met their burden, that the Court should nevertheless exercise its discretion and dismiss the motion because there is a serious issue to be tried. While the Court always has discretion to allow or dismiss a motion for security (*CO2 Solution Technologies Inc v Canada*, 2020 FCA 153 at para 17), the exercise of discretion must be made on a principled basis. It was open to the plaintiff to show that it has sufficient assets in Canada to satisfy an adverse cost award, or to demonstrate impecuniosity and a meritorious case. It did neither (the plaintiff's motion addressed the merits, but I give that little

weight since both impecuniosity and merit must be shown to defeat a request for security). I have no basis to refuse the payment of security for costs.

[14] Having determined that the defendants are entitled to security for costs under subrule 416(1)(b), I need not determine if the defendants are also entitled to security for costs under subrule 416(1)(e).

[15] The defendants submitted a bill of costs up to the conclusion of the trial of the Threshold Issues Phase. Fees at the middle of Column III of the Tariff are estimated to be \$35,640.00; disbursements are estimated to be \$65,733.20. The bulk of the disbursements is \$50,000.00 in expert's fees.

[16] The plaintiff does not dispute the fee estimate based on Column III, but contests the reasonableness of the expert fees. The plaintiff argues that security should be fixed at \$60,000.00, and payable in stages.

[17] Most motions for security for costs are brought early in the proceedings. Here, the motion was brought after discovery, and shortly before the exchange of expert reports. While it is reasonable to assume that the defendants will be retaining an expert, it is not reasonable for the Court to assume what expert fees may be, particularly when the defendants likely know what rates its expert(s) will charge. In the absence of evidence as to the fees that are likely to be charged to the defendants, I will not award security for costs in the amount requested by the defendants. I agree with the plaintiff that \$60,000.00 is reasonable in the circumstances.

[18] As for timing, fees and disbursements associated with the trial of the Threshold Issues Phase have yet to be incurred. Payment of security in stages is therefore appropriate.

[19] I do not have evidence that requiring the plaintiff to post security for costs in the amount of \$30,000.00 in the near term would preclude it from pursuing this action. I will therefore order that \$30,000.00 in security for costs be posted within 60 days of the date of this order. The remaining \$30,000.00 shall be posted no later than 90 days before the commencement of the trial of the Threshold Issues Phase.

[20] The plaintiff's notice of motion also asks for an order directing that if the plaintiff fails to post security for the defendants' costs within 30 days of the Court's order, the plaintiff's claim shall be dismissed with costs payable to the defendants on the allowable highest scale, and the defendants shall be permitted to seek an order for such dismissal on an *ex parte* basis. The defendants did not pursue this request at the hearing. It would not have been granted in any event.

THIS COURT ORDERS that:

1. The plaintiff shall post \$30,000.00 as security for the defendants' costs within 60 days of the date of this order.
2. The plaintiff shall post a further \$30,000.00 as security for the defendants' costs by no later than 90 days before the commencement of the trial of the Threshold Issues Phase.
3. The deadlines and terms in the July 25, 2022 order are unaffected by this order, notwithstanding subrule 416(3). If the plaintiff fails to post security for costs as required by this order, the parties shall request a case management conference to address next steps.

4. The defendants' motion is otherwise dismissed.

5. Costs are in the cause.

"Trent Horne"
Associate Judge