

# Technology Law: Assessment of Damages or Other Remedies



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## 1. Assessment of Damages or Other Remedies

A realistic assessment of likely damages, or other remedies, is a critical aspect of evaluating, planning and conducting litigation and other dispute resolution. This section provides a number of factors, lenses and frameworks for assessing damages and remedies. First, we provide an outline of an overall approach for analysing damages and remedies. Then, we provide more detail on selected aspects of the analysis. Throughout this section, when we speak about infringement of intellectual property rights, this will include traditional intellectual property rights, such as trade mark, copyright and patent rights, as well as rights in confidential information or trade secrets. We will also consider some questions and issues relating to the assessment of damages in breach of contract disputes.

## 2. Putting it all Together: An Overall Approach to Assessing Damages and Remedies

### a. Consider the Upper Limit or Boundaries of the Claim

This may also require considering:

- i. Are injunctions or other non-monetary remedies available?
- ii. Can claims be made against individuals?
- iii. Can claims be made for future losses?
- iv. Do Limitation Periods Affect the Claim?
- v. What is the amount and profitability of the infringing activity or lost business?
- vi. Is an account of defendant's profits an available remedy?
- vii. Are there conveyed sales that could add to the amount of the claim?

- viii. Could contractual obligations limit the claim available?
- ix. Are punitive damages likely to be awarded?
- x. Are there any enhanced, e.g. treble, damages possible?
- xi. Are statutory damages a possible remedy?

### **3. Evaluate Apportionment**

To what extent was the infringement necessary to create the revenue stream in question?

### **4. Evaluate the Existence of Non-Infringing Alternatives.**

- a. What was their profitability or cost?
- b. Were they a realistic alternative?
- c. Consider that the law in relation to non-infringing alternatives is in flux.

### **5. Carry out a reasonable royalty analysis**

This possibly forms a lower boundary on the claim.

### **6. Consider the effect of legal costs**

### **7. Evaluate the strength of your position.**

Discount the parties' expected outcomes accordingly.

### **8. Upper Limits on Amount of Remedies Available**

An important consideration on assessing the potential liability for damages or other compensatory remedies is determining what an upper limit or ceiling on the damages or compensation might be. One way to comment on this question is to determine the total amount of the Defendant's activity that relates to the infringement, or what is the total amount of the Plaintiff's lost sales or markets arising from the infringing activity. Although this forms a key component of the upper limit, whether or not this represents an amount that a Plaintiff can

realistically seek significantly depends on other factors, such as the results of the apportionment analysis, which is discussed below, and also whether there were non-infringing alternatives available, which is also discussed below. With this information in hand, a Plaintiff or a Defendant will have a ballpark estimate size of the claim and this may help them determine what priorities should be put on the case and how much time and money should be invested in pursuing or defending it.

## **9. Small Monetary Claims**

Even when the upper limit on recovery is quite low, there may be other reasons for a Plaintiff to consider pursuing litigation. For example, they may want to create or reinforce a reputation that they take their rights seriously and are willing to take steps to enforce them. A Plaintiff may also be willing to pursue a relatively small case to help ensure that a potential competitor does not get a foothold in a market at the present time. A Plaintiff may also pursue a relatively small case so that the marketplace's perception of the value of its products, services or rights are not diminished. These are just some of the possible scenarios that may motivate a Plaintiff to pursue or continue to pursue a relatively small claim.

## **10. Convoyed Sales**

When the dollar value associated with the infringing activities has been determined, there are other things that must be considered to determine if this is the true ceiling of potential recovery by a Plaintiff. For example, are there “convoyed sales” by the Defendant, in other words, sales of non-infringing products and services that are only sold because the customers of the Defendant first, or concurrently, bought the infringing devices?

## 11. Punitive Damages

Another set of circumstances that may increase the ceiling or upper limit is the availability of punitive or exemplary damages. Could it be shown that the Defendant's infringing activities was intended to infringe? In other words, is there evidence or likely evidence that would show that the Defendant was aware there was a high or material risk of infringement but nevertheless intentionally (or indifferently or recklessly) chose a course of action that was likely to infringe? This set of circumstances may lead to an award of punitive damages. Similarly, if it can be shown that the Defendant's infringing activity was malicious in that they had as a primary goal or objective to damage or harm the Plaintiff, outside of any legitimate business goals they might have had, then this may also form a basis for a claim for punitive or exemplary damages.

## 12. Defendants may Delay Disclosing the Upper Limit

Because the upper ceiling on damages is such an important factor for Plaintiffs to determine sometimes Defendants go to great efforts to avoid disclosing this information. This means that a Plaintiff may have to wait a number of years as pre-trial processes, such as Examinations for Discoveries, produce the information. Similarly, when the liability and remedies portions of litigation are bifurcated, this may make it very difficult for Plaintiffs to obtain information that is required to know the upper boundary or limit of the claim they might have. This can make it difficult for Plaintiffs to prioritize and strategize around the dispute and may also impede settlement of the dispute.

### 13. Enhanced Damages

In some jurisdictions, enhanced damages are available for wilful infringement. For example, in some situations, the wilful infringement of patent in the US may make the Defendant liable for treble damages.

### 14. Availability of Injunctions and Other Non-Monetary Remedies

A key factor that has to be considered in assessing damages or other remedies is whether interlocutory or permanent injunctions may be available against the Defendant in relation to the allegedly infringing activities. In other words, could the Plaintiff get a Court order that prohibits the Defendant from carrying out the infringing activities? Where an injunction is available and the infringing activity is central to the operations or business of the Defendant, then an injunction may be a very powerful tool for the Plaintiff.

An interlocutory injunction is one that is available before trial. Generally, in order to receive an interlocutory injunction a Plaintiff must show:

- a. A *prima facie* case or a strong case of infringement;
- b. That there is irreparable harm or that monetary damages or compensation could not be calculated; and
- c. That the balance of convenience or the balance of equities favours the Plaintiff. In other words, are there facts that would make it unfair or inequitable to either grant, or refuse to grant, the interlocutory injunction.

From a practical point of view, two factors often weigh heavily in determining whether an interlocutory injunction is available. First, once a Plaintiff becomes aware of the infringement, they must move quickly to make a motion for an injunction. Delay in pursuing the interlocutory injunction can be fatal to success. Second, the Court is often reluctant to change the status quo. So if a Defendant's allegedly infringing product is already on the market, then it is much more difficult to obtain an interlocutory injunction.

It should be noted that in some areas of intellectual property infringement in Canada, it is currently very difficult, if not impossible, to obtain an interlocutory injunction for alleged infringement. So, for example, for infringement of trade mark, patent and copyright rights, it is generally considered impossible to obtain interlocutory injunctions, although there are some exceptions to this.

In contrast, for the infringement of trade secrets or confidential information, a time-limited interlocutory injunction is frequently granted. In other words, the Plaintiff, in a case alleging the misappropriation of trade secrets or confidential information, can argue that they will be irreparably harmed by the Defendant's use of the confidential information. It can be impossible to calculate the damage arising from theft of confidential information. It is quite common for the Courts to prohibit the Defendant from using the confidential information for a period of time, often one or two years. The Defendant is often barred from carrying out activities directly dependent upon use of the confidential information.

For an infringement of trade marks, patents or copyright, a successful Plaintiff at trial will often be able to obtain a permanent injunction prohibiting the Defendant from using the infringed



rights. However, permanent injunctions are often not granted for the infringement of trade secrets and confidential information. Instead, in Canada the Courts often ask how long it would have taken the Defendant to recreate the confidential information using non-infringing means and they take this as a measure of the amount of time that the injunction might be granted. In other words, it is possible in a trade secret and confidential information case to receive an order for a time limited injunction granted at the end of trial.

Other non-monetary remedies may be available and should be considered in assessing a potential claim. These include:

- delivery-up and/or destruction of infringing goods;
- specific performance;
- a declaration of the validity and infringement/breach of rights and contracts; and,
- Anton Piller orders.

## **15. Personal Liability**

Under Canadian law, the officers and directors of an infringer may be personally liable for the infringement when they knew the activity was infringing or ought to have known it was infringing or were reckless or indifferent as to whether infringement occurred; and when they personally made decisions that resulted in the infringing activity. Where the infringer is a small

company, for example, an owner-operated company, the risk of personal liability for officers and directors may be an important factor in determining the incentives or motivations for the

Defendant to settle. In other words, in this situation, the officers and directors will not be able to shield themselves behind the corporate veil but their personal assets may be exposed to potential liability and judgment.

Generally speaking, in a contractual-based case, the risk of personal liability is reduced if the contracting Defendant is a corporation but is not necessarily going to be eliminated. For example, quite often individuals associated with a corporate defendant will have made statements and communications and it may be possible for a Plaintiff to argue or plead that such statements are representations and warranties made in a personal capacity. This may allow a claim to be made against individuals for misrepresentation. Again, and similar to the situation with infringement, such personal claims may create strong incentives for the officers and directors to settle a case favourably where their personal assets are exposed to judgment.

## **16. Claims for Future Harm**

Another factor affecting the possible remedies that a Plaintiff might claim is the availability of a claim for loss of future sales by the Plaintiff or for compensation in relation to future sales by the Defendant arising from the infringing activities. A challenge in assessing this aspect of a claim is that it is more speculative than claims in relation to past activities or activities that have already occurred and it requires a different type of evidence. Economic evidence from an expert would likely be required to establish:

- a. The likelihood that future sales would occur;

- b. The chance that over time the market may diminish in size, the extent of this reduction and the timeframe in which it occurs;
- c. The chance that competitive activities that are not infringing may take over market share;
- d. The profitability of future sales for either a Plaintiff or Defendant; and,
- e. The extent to which future sales can be tied to past infringing activities.

Under Canadian law, a claim for future activity can occur even when the rights in question would have expired by that future time period. In other words, it is open to a Plaintiff to argue that even after a Defendant's infringing activity stopped, it took a period of time for the Plaintiff to recover the sales from the persons that the Defendant had been making infringing sales to, or alternatively, that it was impossible to ever recover those sales in the future. Similarly, where a claim is made for a Defendant's profits, it is possible to make a claim for future profits, including future profits occurring after the rights expire on the basis that the infringing activity that occurred while the rights were still effective served as a springboard or a beachhead from which the future sales could be made after the rights had expired.

## **17. Limitation Periods**

A further consideration in assessing damages is whether applicable limitation periods will affect the Plaintiff's entitlement to damages or other compensatory remedies. In an extreme situation, a limitation period could entirely prevent a Plaintiff from making a claim. More commonly, if a

Plaintiff has delayed asserting its rights and bringing a legal action for a long period of time, the relevant limitation period may reduce the amount of damages or profits to which they are entitled.

### **18. Availability of an Account of Profits**

In Canada, for most infringement of intellectual property rights, one possible measure of damages is the defendant's profits. In other words, what profit did the Defendant make from infringing the Plaintiff's rights? Traditionally in Canada, such a profits calculation is very favourable to the Plaintiff as Canada has used a differential approach to calculating profits where there was no deduction of overhead or general sales and administrative costs unless these could be shown to have increased incrementally with the infringing sales and activity. As such, it was not at all uncommon to see profits that measured 30-60% of the Defendant's selling price. However, this favourable approach to profits has been at least somewhat undermined by recent changes in Canadian case law, such as the *Monsanto* decision that suggests that the courts should look at not at a differential profit but at the profits made compared to a non-infringing alternative. However, the *Monsanto* decision has not always been followed by subsequent Courts.

In some cases, for example the case of patent infringement, the availability of an account of the Defendant's profits is generally regarded as a remedy that is awarded in the discretion of the Trial Judge. However, there is conflicting case law on this point and some would suggest that electing the Defendant's profits is a remedy to be chosen in the discretion of the Plaintiff.

Otherwise, the standard measure of damages is what the Plaintiff can prove as their lost profit or the compensation that they would require to be put in the same position as if a contract had been performed.

## **19. Contractual Versus Non-Contractual Claims?**

A key question for parties to consider is whether the claims and remedies that are available are limited by a contract between the parties. For example, where there has been a license of intellectual property, if the Defendant is the licensee, then claims may be limited to licence fees that ought to have been paid under the contract. However, if the licensee has breached the contract in certain ways, then the licensee may in fact be liable for infringement, which will also make them liable for other claims; for example, a claim of an account of profits.

Similarly, where a licensee has involved a third party in the breach, then this third party may also be liable for infringement and the licensee may be liable for inducing the infringement by the third party.

## **20. Statutory Damages**

For some types of copyright infringement, statutory damages may be available. Typically, such damages are awarded as a range of damages for each work infringed. There is often also a distinction between infringements made for commercial purposes versus infringement made for non-commercial purposes with the statutory damages available for commercial infringement at a significantly higher level. It should be however noted that it is in the discretion of the Trial

Judge as to where in the range statutory damages are awarded. Plaintiff's sometimes make the mistake that they assume that the Judge will award at the top or highest level of statutory damages that is available and this is often not a correct assumption.

## **21. Apportionment**

For claims that are based on an infringement of intellectual property rights, the concept of apportionment will be central in assessing the damages or compensatory remedies that are available. The key question in considering apportionment is to determine how central the allegedly infringed rights are to the success, revenues or overall ability of the Defendant to have carried out its activities. In other words, was the infringement of rights necessary to carry out the business activity (i.e. to make and sell some product or service), or did the infringement merely enhance or improve the effectiveness or efficiency of activities that would already have been carried out or were already being carried out? In the context of the infringement of trade secret rights, this question may be asked as a "but/for" analysis. In other words, but/for the infringing activity, would it have been possible for the infringer to carry out their main (revenue-generating) activity?

Conversely, another way to come at this question is to ask what other factors, beside the infringing activity, contribute to the success of the parties. For example, success in a business activity could arise from:

- a. Pre-existing customer relationships;
- b. Pre-existing production or manufacturing facilities;
- c. Distribution channels;
- d. A specialized sales force;
- e. A specialized work force;
- f. Access to capital;
- g. Access to complementary assets; and/or,
- h. Access to other intellectual property rights (not alleged to be infringed, but necessary to practice the allegedly infringing activities).

In one way or another, the apportionment question is asked and considered in virtually all types of infringement. For example:

## **22. Apportionment of Patent Rights**

Is the infringed subject matter a key or essential feature of the product or service that is bought or the service that is performed? Would the customers buy the item or services in question if the infringing feature was not included? Can one meaningfully speak about having a product or

service to buy in the absence of the infringing feature? In the absence of the infringing feature, would there be any customer demand or how much would customer demand be reduced?

### **23. Apportionment of Copyright**

An important question to ask when considering apportionment in relation to copyright is whether the business of the infringer is selling or providing copies, or whether it has some quite unrelated business that the copyright infringement simply contributes to or enhances. Where the business of the infringer is selling the allegedly infringing copies, then the overall or top line revenues of the business may be a measure of the remedies that can be claimed. On the other hand, if the copyright infringement only marginally or peripherally contributes to carrying on the Defendant's business, then it seems as if the overall revenues of the business are much less susceptible to being claimed. Apportionment of Trade Mark Rights.

When considering the apportionment question for trade-mark rights, a starting point is to ask whether or not the infringer is counterfeiting the trade mark owner's goods. Where the infringer is counterfeiting the goods, then it would seem that the entirety of the selling price of the counterfeit goods should be factored into the damages assessment. On the other hand, sometimes goods or services are sold and although the trade mark identifies the seller, the buyer of the goods and services is not buying solely or primarily because of that trade mark. In other words, the trade mark rights are quite secondary to the overall revenues or business of the infringer.



## **24. Apportionment of Trade Secret Rights or Rights in Confidential Information**

When considering the apportionment question to trade secrets or confidential information, the Courts have often considered this question by asking themselves but/for the use of the confidential information, would the infringer have been able to carry-on its activities? Another way this question is considered in the context of misappropriation of confidential information is to ask how special the confidential information is. As well, Courts will sometimes consider how difficult it would be to independently re-create the confidential information.

## **25. Availability of Non-Infringing Alternatives**

In Canada, Courts are increasingly considering whether or not the Defendant could have used a non-infringing alternative to achieve the same outcome as they achieved by infringing the rights under litigation. The Court then considers the costs or profits that would have arisen, had the non-infringing alternative been used by the Defendant and a measure of damages is the difference between the profits made from infringement minus the profits that would have occurred had the non-infringing alternative been used. Where the infringing activity is not profit or revenue generating, but instead is simply a cost item of the infringer, then it seems that one could consider the cost of the cost of the non-infringing alternative minus the cost of the infringing activity as a measure of damages.

The consideration of non-infringing alternatives represents a significant change in the approach to the calculation or assessment of damages. Generally speaking, the Courts concern themselves

with what the infringer or defendant actually did or does and not what they could have done. Deducting the profits available from non-infringing alternatives from a calculation of damages appears to possibly grant a Defendant a license to infringe with the license fee capped at a difference in profits between the infringing and non-infringing alternatives.

In many areas of law, the relevance of a non-infringing or non-breaching alternative is explicitly rejected. For example, if one receives a parking ticket, one can't go to Court and claim that the correct sanction is the amount required to pay the parking fee in the first place.

In assessing the availability of non-infringing alternatives, a further approach to the assessment is to consider whether the Defendant could have designed-around the Plaintiff's rights or subject matter. Were design-arounds already available during the time period that infringement occurred? (This seems to be another alternative way of asking whether there is non-infringing alternatives.)

In considering whether or not non-infringing alternatives were available and the extent to which they should impact a damages assessment, the following questions could be asked:

- a. Did the Defendant have knowledge of the non-infringing alternative?
- b. Was the non-infringing alternative readily available?
- c. Would the provider of the non-infringing alternative have sold it or provided it to the Defendant?
- d. Would any modifications of the Defendant's products or activities been required to accommodate or make use of the non-infringing activity?

- e. Were the performance characteristics of the non-infringing alternative the same as the infringed subject matter?
- f. Was the non-infringing alternative known or thought to be as reliable as the infringed subject matter?
- g. Would customers of the Defendant have accepted the products or services that included or were made with the non-infringing alternative?

## 26. Reasonable Royalties

In assessing likely damages or other remedies in relation to intellectual property or licensing disputes, a significant consideration will be the question as to whether or not a proper measure of damages is a reasonable royalty on the sales made by the Defendant. Even where other approaches, such as an account of profits can be used to assess a claim, where there is a good basis to make a claim for reasonable royalties, this may form, at the least, a lower boundary on the Plaintiff's potential claim. There are a number of factors to be considered or questions to be asked when determining or assessing the possibility and relevance of a reasonable royalty approach:

- a. **Does the Plaintiff Grant Licenses?** Has the Plaintiff ever licensed the rights which have been infringed and established a royalty rate? Where a Plaintiff has been in the business of licensing the rights and collecting a royalty rate or some other form of license fees, then a Defendant will be in a position to argue that this is a potential measure of damages.

- b. **Plaintiff has granted few Licenses.** Where the Plaintiff has extended relatively few licenses, Plaintiffs may want to consider whether other factors should be used to contextualize that royalty rate. For example, a licensor will often grant very favourable terms to initial customers and particularly initial reference customers. Similarly, licensing transactions sometimes alongside other transactions where compensation or consideration flows as part of the other transaction. Sometimes the parties may have reduced the royalty rate because they were receiving extra compensation in other areas, or conversely, increased the royalty rate because other aspects of the transaction were priced below a fair market value.
- c. **Industry Standards.** In some industries and situations, there will be industry standard royalty rates and these should also be considered. However, comparable transactions should be viewed with some scepticism to ensure that the technology product or area of business is sufficiently similar. Also, one may want to look, if the information is available, at contractual clauses such as indemnity and limitation of liability and warranty clauses to ensure that the comparable royalty rate is actually an apples-to-apples comparison. Sometimes, inclusion of intellectual property in an industry technology standard requires the licensor to agree to grant licenses on a fair, reasonable and non-discriminatory (FRAND) basis. This would be a significant factor in any calculation of a reasonable royalty.

- d. **Convoyed Sales.** In assessing the relevance to comparable royalty rates, one should also look at whether there are any convoyed sales. These are sales of products and services, that although not covered by the licensed rights, are typically sold alongside the licensed products. Where there is a large volume of convoyed sales, and depending on the profitability of such sales, this would suggest that the royalty rate should be adjusted upwards. As well, one could look at downstream maintenance and service that might follow from the original license or sale as another source of revenue that arises from the infringement.
- e. **Profitability.** In looking at a reasonable royalty approach, one should also consider how profitable the infringing product or service is. How profitable was it for the Plaintiff to sell this product or service? How profitable is it for the Defendant to sell this product or service? Generally, the more profitable the product or service, the higher a reasonable royalty would be.
- f. **Apportionment.** In assessing a reasonable royalty rate, one can also consider whether or not the product or service that is covered by the rights is central to the Defendant's activities or sales or whether it is simply a modest improvement to previous technology which is not covered by the Plaintiff's intellectual property rights. In this regard, this analysis is similar to the apportionment analysis discussed above.

- g. **Non-Infringing Alternatives.** One should also consider whether there were non-infringing alternatives available. Where there are non-infringing alternatives available, or design-arounds are readily at hand, this would suggest that a reasonable royalty rate should be reduced. Again, this aspect of a reasonable royalty assessment takes into account some aspects of non-infringing alternatives, which was discussed above.
- h. **No Previous Licenses Granted.** In considering a reasonable royalty approach, it is worthwhile to consider whether the rights owner ever licensed the rights in question. Where the Plaintiff or the owner of the intellectual property rights can credibly assert that they would never have licensed the rights or entered into some other transaction or structure whereby they permitted third parties, or this type of defendant, to use the rights for some form of compensation (e.g. a license fee or royalty), then the Plaintiff is in a good position to suggest that it would never be appropriate to use a reasonable royalty as a measure of damages.
- i. **Customer Demand.** A further factor to consider is whether or not the Defendant's customers insisted on receiving the infringing subject matter. At the very least, where it was necessary to use the infringing subject matter in order for the Defendant to obtain a sale, then this suggests that an enhanced royalty should

be available and possibly all of the profits from the Defendant's sale would be appropriate. In contrast, where the Defendant's customers were indifferent as to the functionality provided by the intellectual property rights and did not specify that subject matter, then this suggests a lower royalty rate might be appropriate.

- j. **Offer to License Defendant.** Did the rights owner offer to license the intellectual property to the Defendant? In other words, was this exact Defendant offered a license and on what terms? Was this offer an ordinary commercial transaction, or was it a settlement offer? Having said that, it would seem that even if a non-settlement license was offered and the Defendant chose instead to infringe the offered subject matter, then the Plaintiff should be awarded something more than what was requested as a licence fee. Otherwise, the Defendant is motivated and rewarded to infringe the rights and the Plaintiff, in order to be able to receive the license fee, must go to the risk and expense of litigation. As such, although a previous offering of a license to the Defendant could certainly fix a ballpark by which a reasonable royalty could be calculated at the very least, the Court should add a premium to this for reflecting the risk and cost of litigation and the Defendant's bad behaviour. A license offer made to settle the litigation should not be relevant to the discussion, i.e. it should be privileged.
- k. **Royalty Stacking.** Another consideration in determining a reasonable royalty is whether there is third-party intellectual property rights which must be licensed

(and third-party license fees paid) in order to bring the product or service to market. In these situations, it is arguable that the reasonable royalty should be reduced by an amount related to amounts which must be paid to the third parties. However, it is less clear if this factor should be paid where such third party payments are theoretical, and not actually being paid.

- l. **Does Plaintiff Offer Exclusive Licenses?** In calculating a reasonable royalty, it should also be considered whether or not the Plaintiff offers exclusive or non-exclusive licenses. Where a Plaintiff offers exclusive licenses and has already done so, then it is possible that a reasonable royalty is not a legitimate basis to assess a remedy.
  
- m. **Other License Terms and Conditions.** In considering a reasonable royalty, it is important to consider other terms and conditions which may affect the rates of a hypothetical licenses. For example, would performance warranties have been required? Would the license have provided indemnification in relation to various third-party claims?

## 27. Legal Costs

An important consideration in assessing damages and other remedies is the effect to which legal costs may reduce the amount of damages effectively available or, from a defendants' perspective,



effectively increase the size of the claim. Litigation can be very expensive with patent litigation in Canada typically having legal fees and disbursements, for matters that proceed through a trial and receive a trial judgment, in excess of \$1.5 million dollars per party. Copyright and trademark cases often take \$250,000 - \$500,000 per party to take through trial. Trade secret cases would rarely go to and through trial for less than \$250,000 - \$500,000 per party.

The large costs associated with litigation may mean that a potential recovery may be largely consumed by legal fees. In many cases, this would be a severe disincentive to proceed with legal action, or to proceed much past the pleadings stage. However, the alternative is not palatable because this many mean that an infringing party is not brought to account.

There are other factors that will affect the impact of legal costs:

- a. Is the losing party liable for a portion of the winning party's legal expenses? If so, what is the proportion that they may be liable for? Does this proportion depend on the stage of litigation or other factors?
- b. Do formal offers of settlement potentially shift costs if a trial judge awards less or more than what was offered to settle?

The impact of legal costs should not be overstated. Outside of pharmaceutical litigation, 95% of matters settle before formal litigation occurs. In the author's estimation:

**28. 25% of litigation settles before pleadings are even completed**

In other words, a significant amount of litigation settles after a potential Plaintiff sends a potential Defendant a cease and desist letter and the Defendant changes or amends their behaviour to a degree, such that the Plaintiff decides it is no longer necessary to bring a lawsuit. Alternatively, sometimes potential Defendants will bring information or potential defences to the attention of a potential Plaintiff, and the Plaintiff determines it is not in their or its best interest to pursue the matter any further. Similarly, even when a cease and desist letter does not resolve the matter, quite frequently, once a Defendant has been served with a Statement of Claim, they often take the matter seriously enough to make serious efforts at settlement. Further, many matters settle if the Plaintiff has a strong case, in which case the Defendant will sometimes determine that they are better off attempting to resolve the matter quickly. Small claims tend to settle more quickly.

## **29. 25% of matters settle between the Start of pleadings and examinations for discovery**

It is during this time that parties will often be engaged in motions in relation to such matters as:

- Security for costs
- Production of documents
- Electronic discovery
- Partial summary judgment

It is also during this time that parties may start to take a serious look at the quality of their documentary evidence and that of their opponents. Legal costs start to rise and businesses start to wonder whether they might be better off to resolve the matter, rather than to incur further legal costs.

### **30. About 25% of matters settle after Examinations for Discovery**

Examinations for Discovery and Documentary Productions force a party to assemble and produce documents that are relevant to the case - both those documents that are favourable and those documents that are less favourable. The discovery process typically also allows parties to better understand the key issues and clarify matters of uncertainty in the case. For example, the parties may get a much better idea of the size of their potential claim during the discovery process. Discoveries may also allow parties to assess the quality of a key witness. With this information in hand, parties are often better positioned to determine what a reasonable settlement would be.

### **31. The rest of cases tend to settle in the lead up to trial, sometimes on the eve of trial**

It is during this time that parties may receive expert reports or the opposing expert reports and this may help parties further understand strengths and weaknesses in their respective cases. Finally, as parties very seriously prepare for trial, it may be more possible to understand that there are areas of risk and uncertainty that will only be resolved at trial. For many parties, this is a strong incentive to settle the litigation.

It is important to consider the extent to which courts might compensate legal expenses. In Canadian litigation, parties tend to receive only rather modest compensation for legal expenses incurred in the early stages of litigation. For example, a winning party at litigation will typically

only receive a small portion of the costs it actually took to prepare its pleadings. This is intended to act as an incentive to parties to settle their disputes early in the process as they should recognize or be advised by counsel that they are unlikely to receive extensive or complete compensation for early-stage expenses. In other words, it is not worth taking a matter to trial in order to receive the legal fees incurred for having pleadings prepared and for other pre-trial activities compensated because frankly, the Courts are not awarding that compensation to the successful party.

### **32. Quality of Rights/Risk of Liability**

A registration of intellectual property rights is often based on a partial, imperfect assessment of the validity and scope of those rights. (In contrast, for some types of rights such as copyright or rights in confidential information, there is no examination.) When a Plaintiff asserts rights, there is always a possibility that the rights might not be infringed or the underlying rights might be found by a Court to be invalid. To look at this question another way, when assessing the damages or remedies that are available, one should consider chances or prospects that the Defendant will not be held liable. This may play out in two ways: in extreme situations, a complete failure to find any liability on the part of the Defendant will mean that the damages claim or any claim for compensatory remedies by the Plaintiff will necessarily go to zero. However, this situation must be addressed in less extreme circumstances as well. For example, where it can be shown that a portion of the asserted rights are either non-infringed or not valid, then in some situations, it is possible that the overall value of the Plaintiff's claim may be reduced.

For each type of right, there are a number of initial or preliminary questions that can be asked.

## Patents

1. How many claims does the patent contain?
2. Was the description of the invention detailed and fulsome or, in contrast, was it skeletal and sketchy?
3. Is the invention supported by experimental results, modelling and calculations or are there embodiments of the invention claimed for which there is no such demonstration or analysis supporting an allegation that the invention would actually work as claimed?
4. Did the Patent Examiner miss relevant prior art?
5. Was there non-patent prior art that the Examiner missed?
6. Will the Plaintiff be able to claim literal infringement or will they need to rely on other doctrines that permit the court to find infringement even where, on a more literal reading, the claim would not be infringed. For example, does the Plaintiff need to rely on Canadian doctrines such as purposive construction or US doctrines such as the doctrine of equivalents to establish infringement.
7. How easy is it for the Defendant to design around the patent?
8. How easy would it be to mount an attack on the obviousness or validity of the patent claim?
9. Could a couple of items of prior art be stitched together in a compelling way to provide all the elements of a claim that is alleged to be infringed?

## Copyright

1. Was the whole work taken or only a portion of the work?
2. If only a portion of the work was taken, was it a substantial portion?
3. Does the work consist of short phrases or titles?– these generally do not obtain copyright protection in Canada.
4. Is there any chance that the Plaintiff was not the creator of the work or didn't receive an assignment of rights from the creator of the work?
5. Is copyright asserted over a work for which rights typically are not available, such as a database?
6. What other defences to copyright infringement might be available?

## Trademarks

1. Has the Plaintiff actually been using the trademark extensively in their activities?
2. Has the Plaintiff spent extensive amounts of money to advertise and promote the trademark?
3. Is the trademark distinctive or does it have more descriptive or generic elements?
4. Were aspects of the trademark disclaimed during the trademark registration process?
5. Have the Plaintiff's customers or prospective customers been confused by the Defendants allegedly infringing use of the trademark?

## Confidential Information/Trade Secret Rights

1. Is the confidential information that was stolen a type of information that the Court has put "bright line" prohibitions around infringement, for example, customer lists?

2. How hard would it be for a person, who didn't have access to the confidential information, to re-create it through independent efforts? What time and/or cost would be involved?
3. What precautions did the Plaintiff take to ensure the secrecy of the confidential information?
4. Were non-disclosure agreements entered into with the relevant parties?
5. To what extent does any of the confidential information exist in the public domain?

### **Contract/Licensing**

1. Is the breach of the contract clear? Or, will the Plaintiff have to construct a detailed argument or rely on a strange contractual interpretation to show that the contract has been breached?
2. Are multiple provisions of the contract breached, or simply a single contractual provision?
3. Does the contract limit the Defendant's liability for damages and if so, how?
4. Did the Plaintiff give the Defendant notice of the breach and a reasonable opportunity to cure or correct the breach?

The above questions in each category of rights or claims are just a starting point. A significant work of litigation counsel is to develop possible claims and possible defences against these claims. However, even at a relatively early stage, it can often be determined whether one has a very strong case, a very weak case or something in the middle, and use this to appropriately discount, if necessary, the damages or remedies that might be claimed.

