

**ASSESSMENT OF PARTY AND PARTY COSTS STEMMING FROM A SUCCESSFUL
PATENT INFRINGEMENT ACTION: FORENSIC ACCOUNTING SERVICES MUST MEET
THRESHOLD OF REASONABLE NECESSITY**

By

Alexandra Steele*

LEGER ROBIC RICHARD, Lawyers

ROBIC, Patent & Trademark Agents

Centre CDP Capital

1001 Square-Victoria - Bloc E – 8th Floor

Montreal, Quebec, Canada H2Z 2B7

Tel.: (514) 987 6242 - Fax: (514) 845 7874

www.robic.ca - info@robic.com

The Federal Court of Canada recently reaffirmed the criteria for assessing costs for services rendered by an forensic accounting expert retained in respect of a reference regarding an accounting of profits after a trial on the issue of liability in a patent infringement action. The Assessment Officer ruled that many of the services detailed in the bill of costs of the successful Plaintiff were unnecessary and consequently, the Assessment Officer reduced the Plaintiff's award of costs (*Merck & Co. Inc. v. Apotex Inc.*, 2002 FCT 842, August 7, 2002, Charles E. Stinson, Assessment Officer).

The facts

After a trial on the merits, Defendant, Apotex Inc. ("Apotex"), was found liable for the sale of pharmaceutical products which infringed those of the Plaintiffs Merck & Co. Inc. and Merck Frosst Canada & Co. ("Merck"). Since the monetary award for such infringement, namely damages or an accounting of profits, was to be determined separately from that of Apotex's liability, i.e. by way of a reference on the issue, Merck eventually elected an accounting of Apotex's profits. The parties agreed on most of the issues relevant to the calculation of the profits prior to the reference, leaving few matters for the Referee to determine. Upon ruling on the amount of profits Apotex would pay to Merck, the Referee also awarded Merck the costs of the reference to be taxed on a party and party basis. A bill of costs was presented to the Assessment Officer of the Federal Court of Canada, together with the submissions of the parties relating thereto.

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* Of the Lawfirm LEGER ROBIC RICHARD, g.p. and the Patent and Trademark Agency Firm ROBIC, g.p. Publication 142.143.

The question at bar

The principal debate before the Assessment Officer revolved around the necessity and cost of Merck's forensic accounting expert whose services were retained to analyze and advise Merck's counsel on the issue of Apotex's profits and also to testify before the Court on the amount of profits to be awarded to Merck as a result of Apotex's sale of infringing product.

The submissions of the parties

Merck represented that the conduct of Apotex and the nature of the information disclosed to it for the purpose of an accounting of profits rendered it essential to hire the services of a forensic accounting expert. The expert was required to establish the validity of the figures provided by Apotex. Although the expert did not testify at the reference, the decision to incur the expense for such expertise should be evaluated in light of the circumstances existing at the time the decision was made. Moreover, as it appeared from the Court record, Apotex had agreed that an expert was required to settle the figures.

Apotex disagreed with the amount of costs requested by Merck, since it was of the view that no costs, or reduced costs only, should be awarded to Merck in respect of the reimbursement of the expert's fees. Apotex relied on the fact that it had disclosed sales data which required no analysis and that the expertise of a forensic accountant was not needed for the issues which were debated at the reference. In addition, Apotex submitted that the amounts claimed were unreasonable: it argued that part of the expert's work could have been done by Merck's counsel and hence, that the amounts claimed were simply a disguised way of enabling Merck to recover full indemnity for work of its counsel which had been delegated to the expert for this purpose.

The Assessment of Costs

The Assessment Officer addressed the case law presented to him by the parties in support of their respective positions. The Officer noted that the absence of specific ruling on the assessment of the expert's fees by the Referee did not preclude their assessment. However, in his view, it would have been preferable to obtain directions from the Court in this respect since the Court is in a better position to evaluate the necessity and amount of the expert's fees since it is able to observe the expert's role throughout the reference.

The Officer further noted that experts might also have a role in responding to evidence, even though their testimony is not necessarily required in the end; under these circumstances, the expert's fees, although not automatically payable, can be assessed. An award of costs to a successful litigant serves as reasonable compensation, not a full reimbursement, of the actual cost of litigation. The preparation time of an expert is assessable, despite case law to the contrary. A party may have its expert prepare in foresight of possible testimony on a particular issue, therefore ensuring that the Court's time is used as efficiently as possible. It is the party's counsel prerogative to set and vary, from time to time, the parameters of the expert's work in order to provide the Court with the necessary technical assistance.

The Officer agreed with Merck's assertion that the threshold test for evaluating the appropriate reimbursement an expert's fees is that of "reasonable necessity" at the time the decision to incur such expenses is made. The Officer wrote that although a reference may require a forensic accountant's expertise at the outset, a successful litigant cannot circumvent the limitations of partial indemnity by attributing work to an expert which falls within the legal training of counsel. Counsel cannot migrate its responsibilities to the expert in the hopes of a fuller indemnity for the work done.

In assessing the various points in issue in the bill of costs of Merck, the Assessment Officer ruled on the following aspects:

- a) the expert's time for reading the pleadings was refused, as counsel for Merck could have provided the expert with an explanatory briefing note;
- b) the expert's time for having the expert tour Merck's plant (to gain understanding of the pharmaceutical industry) was reduced, as the expert had already testified in pharmaceutical matters. The time of junior accountants was refused;
- c) the time of junior accountants to prepare questions for discovery was allowed but not the junior accountants' time for attendance at the said discovery since the experienced lead expert's time had already been indemnified;
- d) the expert's time for preparation of a list of outstanding documents from the discovery was refused as counsel for Merck could have handled such a task;

- e) the expert's time for updating pre-judgement interest schedules was refused as the expert's assistance was not necessary. Such calculations were clearly within Merck counsel's and the Court's grasp.

The Assessment Officer allowed for reimbursement of part of the forensic accountant's preparation time, even though the expert did not testify at the reference, since same had contributed to advancing the process of the accounting of profits.

Contrary to solicitor and client costs which are awarded to the successful litigant in accordance with a pre-determined tariff, party and party costs require an assessment of the reasonable necessity of the expense. Although each case is different, the underlying threshold of reasonable necessity remains applicable whatever the circumstances may be. This case serves to remind lawyers that, although it might seem easier to delegate portions of work to the expert in order to save on counsel's fees, one must bear in mind that ultimately, the Court has discretion to evaluate the relevance of the work and the expenses of the expert and to rule on the issue of party and party costs accordingly.

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