Federal Court  Cour fédérale

Date: 20210106

Docket: T-921-17

Citation: 2021 FC 19

Ottawa, Ontario, January 6, 2021

PRESENT: The Honourable Mr. Justice Lafrenière

BETWEEN:

ROVI GUIDES, INC.

Plaintiff/
Defendant by Counterclaim

and

VIDEOTRON LTD.

Defendant/
Plaintiff by Counterclaim

ORDER AND REASONS

[1] The issue to be determined on this motion is whether the Court should grant the request by the Defendant, Videotron Ltd. [Videotron] to reopen the evidentiary portion of the patent infringement trial to allow the parties to adduce additional expert evidence relating to the accounting of profits remedy sought by the Plaintiff, Rovi Guides, Inc. [Rovi].

[2] The motion is brought due to what Videotron characterizes as a "sea change" in the law relating to the accounting of profits remedy as dictated by the recent decision of the Federal Court of Appeal in *Nova Chemicals Corporation v. Dow Chemicals Company*, 2020 FCA 141 [*Nova Chemicals*].

[3] Rovi requests that Videotron's motion be dismissed on the grounds that *Nova Chemicals* does not fundamentally change the cost approach to accounting of profits. However, in the event that the Court grants Videotron's motion, Rovi seeks by way of a cross-motion the right to file an expert report in reply, as well as an order that the Court hear *viva voce* evidence from the parties' experts regarding their opinions and that they be subject to cross-examination in Court.

[4] For the reasons that follow, I conclude that Videotron's motion and Rovi's cross-motion should be granted.

I. Background Facts

[5] A brief summary of the facts is required to provide contextual background to the motion and cross-motion.

[6] On June 23, 2017, Rovi commenced the underlying action against Videotron alleging infringement of certain claims of four of its patents relating in general to interactive program guides. Videotron denied the allegations of infringement and counterclaimed that the asserted claims were invalid for anticipation, obviousness and double patenting.

[7] Following documentary productions and examinations for discovery, the parties exchanged expert reports. Rovi delivered its expert reports on infringement of the patents as well as remedy. One of the reports delivered on remedy was from Andrew Harington.

[8] Videotron subsequently delivered its responding reports on infringement and remedy, including the expert report of Farley Cohen.

[9] Both Mr. Harington and Mr. Cohen agreed in their reports that the incremental costs approach was the appropriate way to calculate an accounting of profits. However, Mr. Cohen described in his report the possibility of factoring in some allocation of Videotron's capital costs. While full discovery was conducted by the parties on this issue and the factual record in the trial already includes information for determining a full cost approach to Videotron's costs, Mr. Cohen provided no calculation of those costs.

[10] The trial commenced on March 9, 2020. It initially proceeded in person but had to be adjourned due to the exceptional circumstances of the COVID-19 pandemic. The trial resumed virtually on May 25, 2020.

[11] Mr. Harington testified on May 29, 2020, while Mr. Cohen was called to testify on June 16, 2020. Mr. Cohen expressly adverted in his examination in chief to the full cost approach and encouraged the Court to consider whether to deduct some of Videotron's capital costs, as reflected in the following exchange.

Q. Great. On the second point here, you have an excerpt from paragraph 30 of your report. Can you just explain what you mean by the capital investments and how those are incorporated or not?

A. Sure. The key point here is that capital cost or the depreciation resulting from a reflection of that capital cost, so the cost of actually inputting the infrastructure, of actually installing the lines and all the rest of the information and updating it and upgrading it, is not included in these contribution margins. And there's an issue about whether or not those calculations should properly be calculated in the profits that Videotron actually earned. As I think everyone acknowledges, this is a capital-intensive business. You need to have a lot of equipment, either computer equipment or equipment actually located out in the neighbourhoods, and none of the cost of putting that in place is reflected in these numbers because these numbers are calculated before depreciation. So therefore they represent the actual benefit or profit of a particular subscriber excluding the cost of actually setting up that subscriber and getting the service to their home in the first place. And in light of this, it depends on how many subscribers you're talking about as to how much you should maybe take this into account, but the point I'm just making here is the incremental profits that we earn based on contribution margin do not reflect any of those costs, which are significant.

Q. Great.

JUSTICE LAFRENIERE: I'm just wondering, what do I do with that, Mr. Cohen? You're just making an observation or is there anything else that I should be taking from that?

THE WITNESS: That's a great question. What we calculated here, like I say, is the marginal profit from one extra customer. I think it's up to you, Justice Lafreniere, to decide if that's the appropriate profit to be determined in this case. If we were using a full costing approach, which sometimes we do in these types of cases, then we would have to account for some of those other costs as well, which would reduce the profits that we determined here.

> JUSTICE LAFRENIERE: And did you do a full costing approach?
>
> THE WITNESS: No, we did not.

[12] After Videotron closed its case on June 17, 2020, Rovi elected not to call any reply witnesses.

[13] The parties subsequently filed written closing submissions. For reasons beyond the parties' control, there was a substantial delay in scheduling oral arguments. They are now scheduled to be heard commencing January 20, 2021.

[14] On September 18, 2020, the Federal Court of Appeal released its public reasons in *Nova Chemicals*, which effectively flipped the default approach to accounting of profits. Previous case law in this Court and the Federal Court of Appeal had adopted the incremental cost approach in determining what profits ought to be disgorged by an infringer, relegating the full costs approach to an alternative that could only be employed in particular circumstances. Mr. Justice David Stratas stated in the majority decision at para 145, "absent some exceptional or compelling circumstance or persuasive expert evidence to the contrary in a particular case, the full cost method is the appropriate approach to deducting costs in an accounting of profits".

II. Analysis

[15] Given that Videotron has no objection to Rovi introducing expert evidence of its own and both parties agree that cross-examination of the experts is appropriate, the sole issue to be

determined is whether the Court should reopen the evidentiary portion of the trial to allow Videotron to submit additional expert evidence.

A. *Test to Reopen*

[16] The parties could not refer to any binding authority on the test to be applied by this Court when asked to reopen the evidentiary record after the evidence is closed, but before oral argument is heard. Reference was made however to useful authorities that have considered requests to reopen actions, including the leading decision of the Supreme Court of Canada in *671122 Ontario Ltd v Sagaz Industries Canada Inc,* [2001] 2 SCR 983 [*Sagaz*].

[17] In *Sagaz*, Major J. endorsed the trial judge's use of the two-part test articulated in *Scott v. Cook,* [1970] 2 OR 769 [*Scott*], which requires the party seeking to reopen the trial to show that:

1) The evidence, if presented, would change the result; and
2) The evidence could not have been obtained before trial by the exercise of reasonable diligence.

[18] While both *Sagaz* and *Scott* were concerned with reopening a trial to permit fresh evidence after reasons were delivered by the trial judge and before entry of judgment, I accept that the two-part test should apply equally to requests to admit further evidence after parties have closed their respective cases. The public interest in the finality of litigation is an important consideration and the Court must be wary of motions to reopen as they have the potential to create an injustice.

B. *First Branch of the Test*

[19] Rovi accepts that if this Court were to use the full cost approach, Mr. Cohen's evidence would change the result of the profits calculation and the first branch of the test would be met. It submits, however, that the full costs approach is not appropriate in the circumstances.

[20] According to Rovi, the governing law on accounting of profits is and remains the decision of the Supreme Court of Canada in *Monsanto Canada Inc. v Schmeiser* [2004] 1 SCR 902 [*Schmeiser*]. The Supreme Court held at para 102 that the preferred means of calculating an accounting of profits is the value-based or "differential profit" approach, where profits are allocated according to the value contributed to the defendant's wares by the patent.

[21] Rovi submits that the Federal Court of Appeal's decision in *Nova Chemicals* is either consistent with *Schmeiser*, which would mean that there has been no fundamental change in the law, or that *Nova Chemicals* is inconsistent with *Schmeiser*, and therefore wrongly decided and should not be followed.

[22] *Nova Chemicals* is considered as a significant decision and viewed by some as departing from established law both in statements of principle and in the result. Professor Norman Siebrasse in his online blog, Sufficient Description (Norman Siebrasse, "*Nova v Dow*: A Radical Departure from Established Law") criticizes the decision, stating that:

> Stratas JA's decision for the majority in *Nova v Dow* has thrown a grenade into that edifice and rattled it down to those foundations. The general statements of principle set out by Stratas JA constitute, in my view, a radical and unsound departure from established principles, including those set out by the SCC in *Schmeiser*. Some specific holdings might be seen as refinements of prior law, but even then, because of the unorthodox reasoning, it is not clear whether even these points can now be considered settled.

[23] I express no view on whether there is any merit to the above views. The doctrine of *stare decisis* requires judges as a matter of law to follow the *ratio decidendi* of courts higher in the hierarchical structure. Given that *Nova Chemicals* unambiguously provides that the full costs approach should be the default one, I consider the decision of the Federal Court of Appeal binding on me, at least for the purposes of this motion. In the circumstances, I conclude the first branch of the *Scott* test has been met.

C. *Second Branch of the Test*

[24] In terms of the second prong of the test, that is, whether the evidence could have been obtained with reasonable diligence, counsel for Rovi argued with a good deal of force that Videotron cannot plausibly suggest that it could not have led evidence on the full cost approach at trial.

[25] I agree. It is clear on the evidence before me that Mr. Cohen was well aware that the full cost approach could be used in particular circumstances and that Videotron elected not to adduce opinion evidence on the subject.

[26] It remains that Videotron's strategic decision not to address the full cost approach was made prior to the issuance of *Nova Chemicals*. Before the decision, this Court and the Federal Court of Appeal had not been receptive to such an approach. I agree with my colleague, Mr. Justice Sébastien Grammond, when he concludes in *Bauer Hockey Ltd. v. Sport Maska Inc. (CCM Hockey)*, 2020 FC 1123 [*Bauer Hockey*] at para 7, that "given the understanding of the law

prevailing among intellectual property lawyers prior to *Nova v Dow*, [the defendant] could not have been expected to file evidence regarding total costs earlier."

D. *Residual Discretion to Reopen*

[27] In any event, the failure to exercise due diligence is not fatal. In cases where the interests of justice call for the admission of fresh evidence as the Court possesses a residual discretion to admit fresh evidence even if the two-part test is not satisfied: *Brace v Canada*, 2014 FCA 92, at para. 12. Such discretion should be exercised sparingly and only in the clearest of cases, where the interests of justice so require.

[28] Rovi submits that it would be prejudiced in the event Videotron's motion is granted.

[29] First, Rovi argues that if this Court finds that its patents have been infringed and accepts its election for an accounting of profits, then a calculation based on a full costs approach could deprive it of millions of dollars. This argument is devoid of any merit. The full costs approach is a question of entitlement. If this Court finds that the full costs approach applies, Rovi would not be deprived profits; it would simply not be entitled to them.

[30] Second, Rovi argues that granting Videotron's motion would further delay the conclusion of the trial, to its prejudice. However, as explained at the hearing of the motion, I was not prepared to grant any further adjournment of the hearing of closing arguments. A timetable was fixed for the exchange of expert reports and for cross-examination of the experts remotely in advance of the hearing.

[31] Here, the new evidence Videotron seeks to introduce is opinion evidence, not fact evidence. Documents providing details of the non-incremental costs, including the allocation by service, are already included as trial evidence and can be used by the Court to calculate full costs. In light of *Nova Chemicals*, counsel for Videotron is fully entitled to argue in their closing submissions that the full cost approach should be applied, which would then require the Court to calculate by itself the costs relevant to Videotron's television line of business.

[32] Videotron simply seeks to admit additional expert evidence analyzing the trial evidence to provide a more precise allocation across the service lines. This would, Videotron argues, further assist the Court in appreciating these documents, calculating the allocation of costs and to calculate the various possible scenarios based on the positions of the parties.

[33] Expert opinion on corporate and financial data relating to fixed costs would certainly assist this Court. I can do no better than to repeat the words of Justice Grammond in *Bauer Hockey* at paragraph 9:

> […] financial experts, however, are extremely useful in amalgamating raw financial data and presenting it in a manner that helps the Court focus on the issues it needs to decide. I have alluded to this reality in separate proceedings between the same parties: *Bauer Hockey Ltd v Sport Maska Inc*, 2020 FC 212 at paragraph 29. If I do not grant leave to file the report, CCM will nevertheless be entitled to make arguments regarding fixed costs based on the existing evidence. It will be much easier for the Court if this information is amalgamated in the proposed expert report.

III. Conclusion

[34] For the above reasons, I consider it in the interests of justice to grant Videotron's motion and admit expert evidence from the parties to assist the Court with additional context and calculations based on the existing trial evidence of the full cost approach in accordance with the *Nova Chemicals* decision. As trial judge, I would be assisted by expert evidence on this narrow issue, to the extent I will be considering the accounting of profits remedy.

ORDER IN T-921-17

THIS COURT ORDERS that:

1. The Defendant's motion and the Plaintiff's cross-motion are granted on the following terms.

2. The Defendant is granted leave to serve and file an expert report of Farley Cohen on or before noon on December 16, 2020. The expert report is to be limited to the mandate set forth in the Cohen Affidavit filed in support of the Defendant's motion, namely to the full cost approach and calculations on the issue of the profits of the Defendant.

3. The Plaintiff is granted leave to serve and file an expert report on or before the end of the business day on January 11, 2021 directed to the impact of the Federal Court of Appeal's decision in *Nova Chemicals Corporation v Dow Chemicals Company*, 2020 FCA 141, including on the appropriateness of the full cost approach and its quantification.

4. The evidentiary phase of the trial shall be reopened to adduce the above expert reports and to permit the conduct of cross-examinations before the trial judge on the reports. The trial will be reopened for cross-examination of the two experts on January 13, 2021 for no longer than 90 minutes each.

5. The parties are granted leave to serve and file supplemental written submissions, not exceeding 5 pages in length, on the issues raised in the new evidence of the experts in advance of the closing hearing and, in any event, no later than January 19, 2021.

6. On agreement of the parties, the fees of this motion are fixed in the amount of $2,000.00 and are payable to the Defendant in the cause, as determined by the Trial Judge, with expert disbursements on the motion to be determined as part of any determination on expert fees and disbursements.

"Roger R. Lafrenière"
Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-921-17
STYLE OF CAUSE:	ROVI GUIDES, INC. v VIDEOTRON LTD.
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