

IN THE SUPREME COURT OF BRITISH COLUMBIA

Date: 20120803
Docket: S112421
Registry: Vancouver

Between:

**Equustek Solutions Inc., Robert Angus
and Clarma Enterprises Inc.**

Plaintiffs

And

**Morgan Jack, Andrew Crawford, Datalink Technologies
Gateways Inc., Datalink 5, Datalink 6, and John Doe**

Defendants

Before: The Honourable Madam Justice Fenlon

Oral Reasons for Judgment

Counsel for the Plaintiffs:

R.S. Fleming

Appearing on his own behalf:

A. Crawford

Place and Date of Hearing:

Vancouver, B.C.
July 27, 2012

Place and Date of Judgment:

Vancouver, B.C.
August 3, 2012

INTRODUCTION

[1] **THE COURT:** The plaintiffs are seeking orders protecting the confidentiality and use of trade secrets at issue in these proceedings.

BACKGROUND

[2] The plaintiffs manufacture networking devices which allow complex industrial equipment made by one manufacturer to communicate with complex industrial equipment made by another manufacturer.

[3] The plaintiffs claim that the various corporate defendants and Morgan Jack (the "Datalink defendants") while acting as distributor of the plaintiffs' products conspired with one of the plaintiffs' engineering employees, the defendant Andrew Crawford, to design and manufacture a competing product, the GW1000.

[4] The plaintiffs say that Crawford and the other defendants designed their competing product using trade secrets that Crawford took from the plaintiffs. The plaintiffs also claim that for many years the Datalink defendants covered over the plaintiffs' name and logo and passed off the plaintiffs' products as their own. Later when the Datalink defendants began manufacturing their competing product, the GW1000, they relied on the plaintiffs' goodwill by exclusively advertising the plaintiffs' products on the defendants' website. When the defendants received orders for the plaintiffs' products, they delivered their own competing product instead in a tactic amounting to bait and switch.

[5] When Equustek discovered the scale of the bait and switch in January 2011, they terminated the distribution agreement and demanded that the defendants delete all references to Equustek's products and trademarks on their websites.

[6] The plaintiffs allege the GW1000 was created using the plaintiffs' confidential information and contains a number of fingerprints, distinguishing features that could only have been included if the GW1000 had been built with the confidential board schematics and source code of the plaintiffs' DL3500 product.

[7] The plaintiffs further claim that the GW1000 relies on user manuals that are a direct copy of approximately 80% of the Equustek manuals.

[8] Although the Datalink defendants filed responses denying these claims, their defences were struck by order of Dickson J. on June 20, 2012, and the plaintiffs were given leave to proceed as if no defences had been filed. In the result, the Datalink defendants are taken to have admitted the facts alleged against them in the notice of claim.

[9] The defendant Andrew Crawford is a professional engineer who was the first employee hired by Equustek in 1994. He admits that he is the designer of the GW1000, but denies that he used any of the plaintiffs' trade secrets to develop it.

HISTORY OF PROCEEDINGS

[10] I am going to briefly refer to the history of the proceedings to date. On September 23, 2011, Leask J. ordered the Datalink defendants to: first, prominently post a statement on their websites directing customers of Equustek's products to Equustek, and second, disclose to Equustek a list of customers to whom Datalink had sold Equustek products.

[11] The parties appeared before me on March 20 and 21, 2012. I concluded that the Datalink defendants had not adequately complied with the Leask Order and granted further orders directing that they: first, produce a new customer list, affidavit and supporting documents; and second, make certain changes to the notices on their websites, all by April 30, 2012. I also granted the plaintiffs special costs of the application.

[12] On April 24, the plaintiffs wrote to counsel for the defendants reminding them that the deadline for full compliance with my order was April 30. The plaintiffs put the defendants on notice that since my order provided almost six weeks for compliance, they intended to make an application for default judgment immediately if the deadline was not met. The following day counsel for the Datalink defendants withdrew.

[13] The Datalink defendants did not produce a new customer list, affidavit or supporting documents by April 30, nor are their websites in compliance with earlier court orders. As a result, Dickson J. made the order earlier referred to on June 20, 2012, striking out the defences of the Datalink defendants.

[14] On July 26, the day before the hearing of the application now in issue before me, the plaintiffs obtained a *Mareva* injunction prohibiting the Datalink defendants from dealing with any of their assets worldwide, subject to a very narrow exception relating to ordinary living expenses and retention of counsel to advise on the setting aside of the *Mareva* injunction.

ANALYSIS

[15] Should the orders sought be granted? The defendant Crawford appeared in person and does not oppose the granting of the relief sought by the plaintiffs. The Datalink defendants, although no longer entitled to be served given the striking of their defences, were given express notice of this application, but did not attend or file any materials opposing it.

[16] The plaintiffs seek an order that the defendants be bound by restrictions over disclosure of the information produced in these proceedings and that they be subject to an interim injunction preventing them from using or distributing the trade secrets the plaintiffs assert belong to them. I will deal with each aspect of the order in turn.

1. Order sought to protect the confidentiality of documents and information disclosed in this proceeding.

[17] I am satisfied that orders should be made to protect the confidentiality of documents disclosed in these proceedings -- orders that go beyond the general undertaking applicable to documents produced in any action.

[18] The plaintiffs' business depends on the confidentiality of their trade secrets. Once this information enters the public domain it will no longer be confidential, and the plaintiffs will be vulnerable to any competitor who may make use of it to manufacture a competing product. The confidentiality order sought imposes

restrictions on the use of documents by the parties and on the filing of such documents in the proceedings.

[19] The simplest and bluntest tool to address disclosure of confidential information filed in the proceedings is a sealing order to limit public access to the court file or to public hearings. However, the form of order proposed by the plaintiffs falls short of a sealing order or publication ban. Instead, the order sought provides that confidential documents may not be referred to in the proceedings without a further order or consent.

[20] In the result, the parties are free to exchange documents, consult experts and then apply to court with applications to identify particular documents that should be subject to a sealing order. That approach balances the competing interests of openness and confidentiality and is in my view appropriate.

2. Application for an interim injunction.

[21] The interim injunction sought by the plaintiffs is very broad, effectively prohibiting any use of whole categories of documents and information that lie at the heart of any business of a kind engaged in by both parties. I am mindful that the effect of this order is the suspension of the defendants' business activities and their ability to earn income.

[22] The test to be applied where injunctive relief is sought is easily articulated but often difficult to apply. Justices Sopinka and Cory for the Supreme Court of Canada in *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311, identified a three-part test that requires an applicant to demonstrate, first, that there is a fair question to be tried; second, that the applicant will suffer irreparable harm if the injunction is refused; and third, that the balance of convenience lies with the applicant.

[23] An injunction is a discretionary remedy. My paramount concern is whether the injunction sought is just and equitable in all of the circumstances of the case. I am

not to insist on slavish adherence to precise formulae: *Attorney General of British Columbia v. Wale* (1986), 9 B.C.L.R. (2d) 333 (C.A.) at 345.

[24] As noted, the impact of the interim injunction sought is significant. The defendants would effectively be prohibited from carrying on business. That is a factor that must be taken into account in determining where the balance of convenience lies.

[25] I am satisfied on the evidence before me that there is a serious question to be tried with respect to the defendants' breach of confidence. The receipt of confidential information and circumstances of confidence establish a duty not to use that information for any purpose other than that for which it was conveyed. The onus falls on the confidant, here Mr. Crawford and the Datalink defendants, to show that the use of the confidential information was not prohibited: *Lac Minerals Ltd. v. International Corona Resources Ltd.* [1989] 2 S.C.R. 574.

[26] The plaintiffs' claim appears strong. Indeed, the majority of the defendants have had their defences struck and are deemed to have admitted the allegations contained in the notice of claim: *McIssac v. Healthy Body Services Inc.*, 2009 BCSC 1716.

[27] On the question of irreparable harm, there is evidence that the plaintiffs' earnings have fallen drastically since the Datalink defendants began their impugned activities. Further, there is little prospect at this point of the plaintiffs recovering damages from the Datalink defendants for loss of that business should the plaintiffs' claims be proved.

[28] The defendants have effectively disappeared. They have refused to provide any information about where they operate or where they manufacture the GW1000. The operating company has changed frequently. Morgan Jack at all times contracted in the name of Datalink Technologies Group Inc., a company that has not existed since 2007. Two other Datalink companies with almost identical names also no

longer exist. The plaintiffs became aware of the existence of Datalink Technology Gateways Inc. only in December 2010.

[29] Further, the company appears to be a virtual one. At one time it carried on business at the defendant Morgan Jack's apartment in the West End of Vancouver, but that apartment has now been sold. It also purports to carry on business, according to its website, in Washington, Texas and Arizona, although the addresses given are for rental mailboxes only.

[30] With respect to the balance of convenience, the effect of the interim injunction on the defendants is drastic, but the effect of permitting the defendants to carry on their business will also cause irreparable harm to the plaintiffs.

[31] The defendants have repeatedly failed to comply with court orders made in these proceedings and are now deemed to have admitted the use of the plaintiffs' trade secrets.

[32] The Datalink defendants have chosen not to attend to oppose the injunction sought in this application. There is some evidence that their non-compliance with court orders may be accelerating. One of the websites had the warning notice imposed by this court removed, and prices for the pirated products have been reduced significantly. I note as well in relation to the balance of convenience that the plaintiffs have provided an undertaking to pay damages.

[33] Having considered all of the relevant factors at one time and in one unified context, I have concluded that the balance of convenience favours the granting of the interim injunction, despite its breadth and potential consequences for the defendants. In the result, the orders sought in the form attached to the notice of application are granted with the following exceptions.

[34] Paragraph 2(e) is deleted, which will require a slight amendment to change the position of the "and" in the list. By way of explanation, para. 2(e) seems to be redundant because it is already referred to earlier.

[35] Paragraph 7, the final words "and that counsel's undertaking to comply with the terms of this order" are deleted.

[36] Paragraph 8(a), the words "on their undertaking to comply with the terms of this order" are deleted.

[37] Paragraph 11 is revised to read, "For clarity, paras. 8 to 10 above do not apply to the plaintiffs, except with respect to designated documents which they receive from the defendants pursuant to this order."

[38] Finally, paras. 12 and 13 –

[39] MR. FLEMING: Sorry, My Lady, can I just make – would you mind reading that again so I can make a note of it?

[40] THE COURT: Yes, I will. All of those are not new words. I am reading the whole sentence. The first sentence of para. 11 will read, "For clarity, paras. 8 to 10 above do not apply to the plaintiffs, except with respect to designated documents which they receive from the defendants pursuant to this order."

[41] And finally, paras. 12 and 13 are deleted.

[42] Are there any questions, Mr. Fleming, regarding that order?

[43] MR. FLEMING: There was just one, My Lady. You may remember in submissions there was a discussion about para. 6, which in its present form –

[44] THE COURT: I am going to stop you. Unfortunately I do not have a copy of the order in front of me. Do you have a copy of the draft order?

[45] MR. FLEMING: I have one, My Lady. Perhaps I'll just tell you what my point is.

[46] THE COURT: All right. And then I can take a look at it.

[47] MR. FLEMING: I can hand you up my chicken scratch copy. There was a concern raised about the way para. 6 was drafted, which in its present form says, "The defendants shall and the plaintiffs may identify any confidential document that is required to be disclosed in their list," blah, blah, blah, "under Rule 7-1" and so on "as a designated document," and the concern was that as it was drafted it implied that the plaintiffs didn't have to disclose relevant documents.

[48] THE COURT: You are quite right. That was to be revised to refer to "the parties".

[49] MR. FLEMING: Right. I have that note.

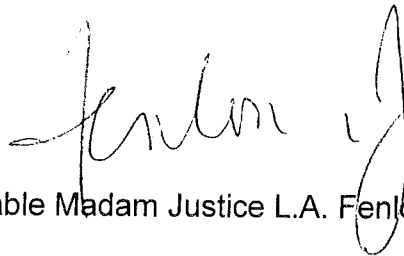
[50] THE COURT: Yes.

[51] MR. FLEMING: So my note was that it was going to be that the parties shall identify any confidential document that was required to be disclosed, blah, blah, blah.

[52] THE COURT: All right. I am going to then order as well that para. 6 is to be amended to read that the parties shall, and then do what is set out there.

[53] MR. FLEMING: Very well. Thank you. That was my only question.

[54] THE COURT: Thank you. If there is nothing further then, thank you for your able submissions. We will adjourn.



The Honourable Madam Justice L.A. Fenton