NOVA SCOTIA COURT OF APPEAL

Citation: E.B.F. Manufacturing Ltd. v. White, 2005 NSCA 17

Date: 20050126
Docket: 238176
Registry: Halifax

Between:

E.B.F. Manufacturing Limited

Appellant

v.

Eric White

Respondent

Judge:	The Honourable Justice Thomas Cromwell
Application Heard:	January 20, 2005, in Halifax, Nova Scotia, in Chambers
Held:	Application dismissed.
Counsel:	George W. MacDonald, Q.C. and, for the appellant Colin Piercey, for the respondent

Reasons for judgment:

[1] The appellant, E.B.F. Manufacturing Limited, applies to stay two orders of McDougall, J. made after an eight day trial.

[2] The appeal has been set down to be heard on September 29, 2005.

[3] The background is set out in the reasons of McDougall, J., [2004] N.S.J. No. 337 (Q.L.); 2004 NSSC 152.

[4] Mr. White developed a fencing product of braided rope containing a copper wire through which low voltage electricity can be conducted. He applied for a patent for his invention which he called ElectroBraid fence. He and his partner, Jennifer Fried, decided to form a company to market the product. Eventually, Mr. White, Ms. Fried and David Bryson became shareholders in E.B.F. Manufacturing Limited ("EBFML") and parties to a shareholders' agreement.

[5] A second company, ElectroBraid Fence ("Fence") was incorporated at Mr. Bryson's suggestion. The judge found that although this company was not the subject of a shareholders' agreement, its share structure mirrored that of EBFML. It was to own all the business assets and Fence would sell the product and act as a buffer between EBFML and its customers. The manufacture of the fence was contracted to a company called Nova Tech Braids Limited, in Yarmouth, Nova Scotia.

[6] Mr. White entered into an exclusive licence agreement with EBFML in January of 1998. That agreement provides that EBFML shall pay a royalty to White in respect to each patent in an amount equal to 2% of the company's gross revenues.

[7] Mr. Bryson then became president and sole owner of all issued shares of both EBFML and Fence.

[8] A dispute arose concerning the manner in which the royalty payments were to be calculated and the timing of those payments.

[9] Mr. White sued EBFML in the spring of 2000 claiming that the refusal of EBFML to pay royalties had resulted in a repudiation of the license agreement and seeking an accounting for all royalties owed to him since the company's formation, a permanent injunction restraining EBFML from the unauthorized use of White's intellectual property and other ancillary relief.

[10] After an eight day trial, McDougall, J. held that:

1. the license agreement had not been repudiated;

2. the royalties payable were 2% of gross revenues "defined as the total sales or revenue to third party buyers. If the sale was made by either EBFML or Fence directly to the end user or discounted to an agent of the companies then that is the amount that should be used in calculating gross revenues. It should not be some potentially arbitrary transfer price from EBFML to Fence. Sales to end users or the discounted price offered to company agents, as long as it reflects fair market value, should not be open to manipulation that could potentially harm the patent owner."

3. Within sixty days of his decision, the parties would agree upon or the court would appoint, a qualified individual or firm to conduct a proper review of the companies' financial records in order to calculate total gross revenues from the time the companies first began operations;

4. Future royalty payments should be paid by EBFML/Fence to White on a monthly basis;

5. Mr. White was entitled to interest on all unpaid royalties from the period September, 1997 to the present;

6. All Mr. White's other claims were dismissed.

[11] The judge's written decision was issued on September 10, 2004. There was considerable delay in settling the order and it was finally issued on December 7th, 2004. The most relevant provisions of that order are these:

1. The Plaintiff's claim for royalties due and owing since the commencement of operations in September 1997 is hereby granted. The precise sum of unpaid royalties to date, if any, shall be calculated at the time of the review of the financial records of EBF Manufacturing Limited and ElectroBraid Fence Limited ("the Companies") by the qualified accounting professional referred to in paragraph 7 below.

. . .

6. It is hereby declared that all royalty payments to the Plaintiff by the Defendant pursuant to the license agreement between the parties dated January 29th, 1998 be calculated based upon two percent (2%) of gross revenue of the Companies, defined as the total sales or revenues of all the

> Companies' products to third party buyers. The royalty payments are to be made on a monthly basis together with accompanying royalty statements. The royalty payments are to be paid within thirty (30) days of each month's end.
>
> 7. The Defendant shall hire a qualified accounting professional, as agreed to by the parties, to review the financial records of the Companies since the commencement of operations in September of 1997 to the present, for purposes of calculating the amount of unpaid royalties, if any, owing to the Plaintiff.
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> 8. The Plaintiff shall be paid by the Defendant the amount of unpaid royalties as determined by the qualified accounting professional together with interest at a rate to be agreed upon by the parties, provided that if an agreement cannot be reached, either party may bring the matter back before the Court and the Court may select the appropriate rate of interest. (Emphasis added)

[12] On January 7th, 2005, McDougall, J. issued a further order. It recites that EBFML had not taken any steps to proceed with the review of the financial records of EBFML and Fence. It ordered EBFML: to complete the review of the financial records of the companies; to deliver the report of Sue MacMillan (the accounting professional who was to perform the review) to Eric White on or before March 31, 2005; and to pay the amount of past royalties due and owing to Eric White, if any, within sixty days of the receipt of the report of Ms. MacMillan.

[13] EBFML filed a notice of appeal from the December 7th order of McDougall, J. on January 8th. The two grounds of appeal are that the judge erred: (i) in finding that the calculation of the royalty payments owed by EBFML to White should include the gross revenue of Fence; and (ii) in ordering Fence to make its books and records available for review by an accounting professional for the purposes of calculating the royalty payments owing to the respondent by the appellant.

[14] EBFML's interlocutory notice seeks a stay of execution of both the December 7th and January 7th orders of McDougall, J. in their entirety. However, it became clear during the hearing of the application that a stay is sought only with respect to those aspects of the order involving Fence. Specifically, the requested stay would relate to the portions of para. 6 of McDougall, J.'s December 7th order requiring royalty payments based on the gross revenues of Fence, the portion of para. 7 of that order directing a review of financial records of Fence and the portion of para. 8 of the order

directing the defendant, EBFML to pay unpaid royalties in relation to gross revenues of Fence.

[15] No stay is sought with respect to Ms. MacMillan's review of the records of EBFML or the payment of royalties based on 2% of EBFML's gross revenues.

[16] I note that McDougall, J.'s January 7th order has not been appealed. However, it is ancillary to the December 7th order and if the aspects of the December 7th order relating to Fence are stayed, the underpinning of the January 7th order, insofar as it relates to Fence, would be taken away for the duration of that stay.

[17] The applicant relies on both the primary and secondary tests set out in **Fulton Insurance Agency Ltd. v. Purdy** (1990), 100 N.S.R. (2d) 341(C.A.). It submits that there is an arguable issue, that Fence will suffer irreparable harm if the order is not stayed and that the balance of convenience favours granting the stay. It further submits that it also meets the secondary test requiring exceptional circumstances.

[18] In a nutshell, the basis of the stay application is that Fence is an independent third party company which was not a party to the proceedings before the trial judge and that Fence's financial information is confidential and should not be required to be revealed pending the hearing of the appeal on its merits. This disclosure it is submitted, constitutes both irreparable harm and exceptional circumstances. Mr. E. David Bryson, who is now the sole shareholder of the appellant EBFML as well as of Fence deposed that:

> Fence considers its list of clients, suppliers and the methods with which (sic) it uses to competitively bid on large scale projects, to be confidential and sensitive in nature. Fence further believes that if such information were available to any of its competitors then Fence would be at a competitive disadvantage.

[19] At the outset, it seems to me that this stay application is misconceived. It is brought by the appellant, E.B.F. Manufacturing Limited. Fence is not represented before the Court. Mr. MacDonald, with his usual candour, acknowledged that there is no evidence that E.B.F. Manufacturing Limited has any interest or concern about the confidentiality of Fence's financial records. However, neither counsel asked that I resolve the stay application on this procedural basis and I will therefore address the matter on its merits. However, it does seem to me that counsel may wish to consider whether Fence ought to be before the Court either as an intervenor or otherwise.

[20] Turning first to the question of an arguable issue, I agree with Mr. MacDonald that the appeal raises such an issue. The trial judge made an order against a company which was not a party to the litigation. An arguable issue, as defined by Freeman, J.A. in **Amirault v. Westminer Canada Limited** (1993), 125 N.S.R. (2d) 171; N.S.J. No. 329 (Q.L.) (N.S.S.C.A.D. Chambers) at para. 11 refers to "any ground of appeal which, if successfully demonstrated by the appellant, could result in the appeal being allowed. ...". The issue must be relevant to the outcome of the appeal and not be based on an erroneous principle of law. It must be reasonably specific. But, Freeman, J.A. continued:

> **[11]** ... if a notice of appeal contains realistic grounds which, if established, appear of sufficient substance to be capable of convincing a panel of the court to allow the appeal, the chambers judge hearing the application should not speculate as to the outcome nor look further into the merits.

[21] In my respectful view, the grounds of appeal alleging that the judge erred in ordering that the royalties be calculated on the gross revenue of Fence as well as EBFML and in requiring Fence to make its books and records available for review is an arguable ground within the meaning of the first branch of the *Fulton* test.

[22] I turn to the question of irreparable harm.

[23] The nub of the argument on irreparable harm is that the order requires Fence to disclose financial information that if disclosed would rob the appellant of any practical effect of success on appeal.

[24] I accept that, in general, the disclosure of confidential information required by a court order which is subsequently set aside on appeal constitutes irreparable harm: **Business Depot Ltd. (c.o.b. Staples) v. 2502731 Nova Scotia Ltd. (carrying on business as Mailboxes Etc.)**, [2004] N.S.J. No. 185 (Q.L.)(N.S.C.A. Chambers) and **O'Connor v. Nova Scotia** (2001), 193 N.S.R. (2d) 8 (N.S.C.A. Chambers) at paras. 14 - 17. Such harm may result either because the content of the information, once released, may cause harm that cannot be cured by a damage award or simply because the disclosure, once made, cannot be undone. The appellant says it will suffer both types of harm.

[25] The applicant emphasizes the confidential nature of the information. As expressed in its brief, "the accounting envisaged under the order would require the appellant to divulge a variety of sensitive and confidential business information. ... It is possible that Fence and the respondent White

may be competitors in the near future. If this is the case, then the respondent will be given the benefit of this confidential information ...".

[26] On the evidence before me, I am not persuaded by these claims. Although the parties have had extensive correspondence since McDougall, J.'s decision was released in September, 2004, concerns about confidentiality have only recently been raised. Fence's web site contains customer testimonials with full contract information and a lengthy list of customers of Fence was provided to Mr. White in October with no apparent concern about confidentiality.

[27] Moreover, McDougall, J.'s order does not require Fence or anyone else to reveal its accounting information to Mr. White. The order is clear: EBFML. is to hire a qualified accounting professional as agreed to by the parties to review the financial records of the companies since the commencement of operations in September of 1997 to the present, for the purposes of calculating the amount of unpaid royalties, if any, owing to the plaintiff. The plaintiff shall be paid by the defendant the amount of unpaid royalties as determined by the qualified accounting professional. ..." (para. 7-8 December 7, 2004 order of McDougall, J.). The accounting professional, Ms. MacMillan, has been agreed to by the parties. She is to be retained by the defendant, EBFML. Her role is not to relay accounting information to Mr. White but to report to both EBFML and Mr. White "the amount of unpaid royalties" found to be due pursuant to her review. Ms. MacMillan is the only person who is to be given access to the information and she is not to release any of it to anyone, but simply advise the parties of the results of her calculations. Thus, the nature of her task under the order carries with it virtually no risk of the sort of harm which concerns Fence.

[28] Any risk of irreparable harm can be further minimized by a requirement that Ms. MacMillan enter into an undertaking to the court that she will not reveal any financial information concerning Fence which she acquires in the course of her review unless required by due process of law.

[29] I note that there is no submission made on behalf of the applicant that there is any risk of irreparable harm in the sense that if payments made to Mr. White pending appeal are found not to have been due to him, they will not be repaid pursuant to whatever order the Court of Appeal may ultimately make.

[30] I will, therefore, issue an order dismissing the stay application on the condition that Ms. MacMillan, before embarking on her review of the financial information of Fence, sign an undertaking to the Court not to reveal

that information other than her calculation of net royalties as required by the order of McDougall, J. to any person except pursuant to due process of law.

[31] As to the form of the undertaking, I will give the parties and Ms. MacMillan until February 7th, 2005, to agree upon the form of undertaking and in the event of such an agreement, they may simply file a signed copy of the undertaking. In the event that they are unable to agree by February 7th, 2005, each party, no later than 4 p.m. on February 9th, 2005, shall submit to me the form of undertaking which they propose, together with Ms. MacMillan's consent to enter into it, as well as brief submissions supporting that form of undertaking. I will then direct the form of undertaking to be used.

[32] This was a lengthy application with detailed written briefs filed by both parties. I will, therefore, fix the costs of the application at $2,000.00 plus disbursements which shall be costs in the cause of the main appeal.

Cromwell, J.A.