

SUPREME COURT OF NOVA SCOTIA

Citation: Velsoft Training Materials Inc. v. Global Courseware Inc.,
2011 NSSC 274

Date: 20110706

Docket: Hfx No. 341894

Registry: Halifax

Between:

Velsoft Training Materials Inc. and Velsoft International Inc.

Plaintiffs

v.

Global Courseware Inc., Glen Myers a.k.a. Joe Myers,
Lori Gillin a.k.a. Michelle Masterson
and Charissa Fraser a.k.a. Maria Fraser

Defendants

Judge: The Honourable Justice Glen G. McDougall

Heard: June 8 and 9, 2011 in Halifax, Nova Scotia

Counsel: Dennis James, Cathy L. Dalziel and Sara Lennerton, on behalf
of the Defendants/Movers
Thomas P. Donovan, Q.C., Andrew D. Taillon and Stewart
Hayne, on behalf of the Plaintiff/Respondents

By the Court [Orally]

INTRODUCTION:

[1] This is a motion to set aside an **Anton Piller** order that was issued *ex parte*. The plaintiffs, Velsoft Training Materials Inc. (“Training”) and Velsoft International Inc. (“International”) commenced a proceeding against the defendants on January 6, 2011. The plaintiffs obtained the **Anton Piller** order to preserve evidence, relating, in particular, to electronically-stored information in the possession and control of the

corporate defendant, Global Courseware Inc. (“Global”) as well as the individual defendants, who are officers of Global and former employees of International.

BACKGROUND:

[2] Velsoft and Global are companies engaged in marketing and selling training materials, referred to as courseware, on the internet, through various websites. In their Statement of Claim, the plaintiffs allege that the defendants have taken proprietary information and used it to compete unfairly with International, their former employer.

[3] The plaintiffs allege that the defendants breached their fiduciary duties to International and used confidential information pertaining to sales, pricing and customer identification in a bid to solicit customers. They identify various specific items of confidential information that the defendants have allegedly exploited, including customer tracking software (also called SMS and CRM systems), "adwords" used by Google; Courseware and training materials; Marketing information; Pricing strategies; Financial information; Employee Salary and Benefit Information; and Company Policies (para. 41, Statement of Claim). They allege that Myers, Gillin and Fraser took steps to compete with International, and to exploit confidential information, while International was still their employer (para. 46, Statement of Claim). They say Global is vicariously liable for the individual defendants' breaches of duty (para. 47, Statement of Claim). The plaintiff Training alleges that Global has infringed its copyright and trademark rights in courseware materials, its computerized sales tracking system and in its Google adwords.

[4] In their Statement of Claim, the plaintiffs seek declarations in respect of the ownership of certain copyrights and trademarks; an injunction restraining the defendants from infringing copyrights or trademarks or passing off their wares or services as those of Training; special damages; and solicitor-client costs.

THE EX PARTE ORDER:

[5] The evidence before the court on the *ex parte* motion consisted of an affidavit of Robyn Bennett, legal assistant to the plaintiffs' counsel; an affidavit of Kimberley MacKay, a senior editor for International; and an affidavit of Marcel West, controller for training. On the strength of these materials, the court granted the **Anton Piller** order on January 11, 2011. The order was made against the defendants collectively and individually. The order was to be executed by an independent supervising

solicitor, John Rafferty, Q.C., of Truro. The supervising solicitor was authorized to seize and make mirror image copies of "all computers, hard drives, personal digital assistants (including blackberries and iPhones), servers, including servers located off-site and/or 'cloud servers,' USB drives and web-based email or other data storage accounts and any other device capable of storing digital data." For this purpose, the supervising solicitor was authorized to enter onto the premises of Global, as well as the residences of the individual defendants. The supervising solicitor was required to maintain custody of the resulting copies and was not authorized to produce them to a party without the court's express permission. The defendants were entitled to return to court to discharge the order.

[6] The Notice of Action and the **Anton Piller** order were served on the defendants on January 12, 2011. The order was executed immediately, over two days, by a technician overseen by the supervising solicitor. The process was described in the supervising solicitor's report. The defendants subsequently filed a collective defence denying any liability to the plaintiffs and seeking solicitor-client costs on the basis that the plaintiffs' action constituted an abuse of process and a contempt of court. It does not appear that the defendants take any issue with the manner in which the order was executed.

PRELIMINARY ISSUES:

[7] At the outset of the hearing, the court was asked to rule on the admissibility of certain affidavit evidence submitted by the defendants.

[8] The defendants submitted an affidavit by Louie Velocci containing opinion evidence of a technical nature pertaining to methods of erasing a computer hard drive, more specifically, the distinction between "forensic wiping" and de-installing and re-installing operating software on a hard drive. This amounts to expert opinion evidence which is governed by Rule 55. The Rule "requires disclosure of an expert opinion to be offered on a trial or hearing" and "provides for exclusion of expert opinion evidence that is not disclosed as required." (Rule 55.01(a) and (b)) Rule 55 contemplates the reception of expert evidence on the hearing of a trial or an application. (Rule 55.03(1) and (3)) Motions are dealt with in Part 6 (Rule 22). This rule does not preclude the admissibility of expert evidence but neither does it expressly allow it. I am satisfied that the Rules primarily provide for the admission of expert opinion evidence in a trial or hearing of an application. Generally speaking the Rules do not provide for the reception of expert evidence on a motion. While the

court has certain discretion under Rule 2.03 to admit such evidence on a motion, the exercise of the discretion must not result in any unfairness. Rule 55 was designed to give an opposing party ample notice of an intention to rely on expert opinion. There has been no such notice here thus precluding the plaintiffs from providing expert opinion evidence in response to the affidavit of Mr. Vellocci. I therefore ruled the contents of this affidavit inadmissible. I note that a second affidavit by Mr. Vellocci was not objected to.

[9] The plaintiffs also objected to portions of the amended affidavit of Lori Gillin, sworn on June 1, 2011, and filed on June 3; and, the affidavit of Ashley MacNeil, sworn April 15, 2011, and filed April 19. The plaintiff asked the court to strike paragraphs 45 and 47 along with Exhibits D and E of the Gillin affidavit. These portions of the affidavit pertain to certain allegations of defamation, an issue that does not arise in the pleadings. The MacNeil affidavit deals with related matters, going to statements heard by Ms. MacNeil while working at International, relating primarily to the plaintiffs' motives in commencing the proceeding. The plaintiffs submit that this material is not only irrelevant, but scandalous and an abuse of process.

[10] The contents of para. 45 of the Gillin affidavit and the related e-mail although redacted to preserve the identity of the purported author, as well as the instructions and subsequent "cease and desist" letter sent by the defendant's counsel, are relevant to the issue of notice and timing of notice. I do not consider them scandalous and, as such, they will continue to form part of the amended affidavit. Plaintiffs' counsel had the opportunity to cross-examine Ms. Gillin on these aspects of her affidavit.

[11] As to the challenged passages of Ashley MacNeil's affidavit, I take a different view. Paragraphs 9, 10, 11 and 17, along with Exhibit C, are all irrelevant to the issues on this motion. They might be relevant at trial, particularly with respect to costs, but they do not assist the court in deciding on the merits of the motion before the court. I ruled that the four paragraphs referred to above, as well as Exhibit C of Ms. MacNeil's affidavit, be struck from the affidavit in their entirety.

THE LAW ON ANTON PILLER ORDERS

[12] The **Anton Piller** order has its origins in **Anton Piller KG v. Manufacturing Processes Ltd.**, [1975] EWCA Civ 12, [1976] 1 All E.R. 779, [1976] Ch. 55, where the plaintiff manufacturer sought an order permitting it to inspect the defendant's premises for evidence that the defendant was stealing its trade secrets. The Supreme Court of Canada elaborated on the doctrine in **Celanese Canada Inc. v. Murray Demolition Corp.**, [2006] 2 S.C.R. 189, 2006 SCC 36, where Binnie J., speaking for the court, said, at paras. 28-29:

Anton Piller orders have been available in Canada for close to 30 years. Unlike a search warrant they do not authorize forcible entry, but expose the target to contempt proceedings unless permission to enter is given. To the ordinary citizen faced on his or her doorstep with an *Anton Piller* order this may be seen as a distinction without a meaningful difference.

Originally developed as an "exceptional remedy" in the context of trade secrets and intellectual property disputes, such orders are now fairly routinely issued in ordinary civil disputes....

[13] Binnie J. went on, at para. 30, to emphasize the exceptional nature of an **Anton Piller** order:

With easier access to such orders, there has emerged a tendency on the part of some counsel to take too lightly the very serious responsibilities imposed by such a draconian order. It should truly be exceptional for a court to authorize the massive intrusion, without advance notice, of a privately orchestrated search on the privacy of a business competitor or other target party. As it was put by Lord Denning, M.R., in the original *Anton Piller* case:

We are prepared, therefore, to sanction its continuance [i.e. of the order], *but only in an extreme case* where there is grave danger of property being smuggled away or of vital evidence being destroyed. [Emphasis added by Binnie J.]

(*Anton Piller KG v. Manufacturing Processes Ltd.*, [1976] 1 Ch. 55 (C.A.), at p. 61)

[14] Binnie J. went on to say, at para. 31:

Experience has shown that despite their draconian nature, there is a proper role for *Anton Piller* orders to ensure that unscrupulous defendants are not able to circumvent the court's processes by, on being forewarned, making relevant evidence disappear. Their usefulness is especially important in the modern era of heavy dependence on computer technology, where documents are easily deleted, moved or destroyed. The utility of this equitable tool in the correct circumstances should not be diminished. However, such orders should only be granted in the clear recognition of their exceptional and highly intrusive character and, where granted, the terms should be carefully spelled out and limited to what the circumstances show to be necessary....

[15] Binnie J. set out the conditions for issuing an **Anton Piller** order at para. 35:

There are four essential conditions for the making of an *Anton Piller* order. First, the plaintiff must demonstrate a strong *prima facie* case. Second, the damage to the plaintiff of the defendant's alleged misconduct, potential or actual, must be very serious. Third, there must be convincing evidence that the defendant has in its possession incriminating documents or things, and fourthly it must be shown that there is a real possibility that the defendant may destroy such material before the discovery process can do its work....

[16] Binnie J. noted, on account of the *ex parte* nature of the order, the "motions judge necessarily reposes faith in the candour and complete disclosure of the affiants, and as much or more so on the professional responsibility of the lawyers participating in carrying out its terms" (**Celanese Canada**, *supra*, at para. 36) and pointed out the "heavy obligation" of a moving party seeking an **Anton Piller** order to make full and frank disclosure to the court (**Celanese Canada**, *supra*, at para. 37).

[17] The four conditions set out in **Celanese** were recently reaffirmed in **British Columbia (Attorney General) v. Malik**, 2011 SCC 18, at para. 29.

STANDARD OF REVIEW

[18] An **Anton Piller** order issued *ex parte* is subject to review by hearing *de novo*. As Hughes J. said in **Netbored Inc. v. Avery Holdings Inc.**, 2005 FC 1405, 2005 CarswellNat 3289 (F.C.):

In reviewing an *Anton Piller* Order the Court is entitled to consider, in addition to the evidence that was before the Judge issuing the Order, further evidence, and to consider the matter de novo.

[19] Similarly, McMahon J., in **Canadian Derivatives Clearing Corp. v. EFA Software Services Ltd.**, 2001 ABQB 425, 2001 CarswellAlta 674 (Alta. Q.B.) at para. 39, stated:

The Court is entitled and required to examine all the evidence before it, not merely the evidence that was presented at the time of the *ex parte* application

[20] The defendants point to several items of new evidence that are available to the court on this *inter partes* motion: International's registration as a foreign corporation under the *Corporations Registration Act*, R.S.N.S. 1989, c. 101; the plaintiffs' answer to the defendants' Demand for Particulars; the Statement of Defence; and the defendants' affidavits.

[21] The plaintiffs say the order was executed in a minimally intrusive manner, without depriving the defendants of any assets, and without making the results of the search available to the plaintiffs (absent a court order). As such, they submit, reversing the order will not benefit the defendants and will prejudice the plaintiffs if the defendants do not adhere to their disclosure obligations. The plaintiffs provide no authority to suggest that any of these considerations are relevant on a review of an **Anton Piller** order. An **Anton Piller** order is intended to prevent the loss or destruction of evidence. It is not simply an alternative method of making disclosure.

A STRONG PRIMA FACIE CASE:

[22] **Competition with former employers.** An employer is not entitled to protection from competition by former employees, although "employees may not compete unfairly by taking or using confidential and proprietary information, such as trade secrets or customer lists": **Flag Works Inc. v. Sign Craft Digital (1978) Inc.**, 2007 ABQB 434, 2007 CarswellAlta 1829 (Alta. Q.B.), at paras. 83-85. As McLachlin C.J.C. said, for the majority, in **RBC Dominion Securities Inc. v. Merrill Lynch Canada Inc.**, [2008] 3 S.C.R. 79, 2008 SCC 54, at para. 19:

... The contract of employment ends when either the employer or the employee terminates the employment relationship, although residual duties may remain. An employee terminating his or her employment may be liable for failure to give

reasonable notice and for breach of specific residual duties. Subject to these duties, the employee is free to compete against the former employer.

[23] Where there is no enforceable covenant in the employment contract restraining competition, it has been said that in "cases involving activity by key or senior former employees, or by directors in situations disclosing manifest unfairness ... a court may be persuaded to grant injunctive relief or to award damages against former employees," but that "the general interest of the public in free competition and the consideration that in general citizens should be free to pursue new opportunities, in my opinion, requires courts to exercise caution in imposing restrictive duties on former employees in less than clear circumstances": **Barton Insurance Brokers Ltd. v. Irwin**, 1999 BCCA 73, 1999 CarswellBC 190, at para. 39. A breach of fiduciary duty would be an example of such a situation. However, not every employee – even those who are "important to the smooth and profitable functioning of the enterprise" – are fixed with fiduciary duties: **Flag Works**, *supra*, at para. 47. Nor does competition with a former employer necessarily constitute a breach of a fiduciary duty that is found to exist; rather, the employee "may not actively solicit the business of specific customers of the employee and that restriction continues for a reasonable period of time after the termination of the employment": **R.J.V. Gas Field Services Ltd. v. Baxandall**, 2003 ABCA 170, 2003 CarswellAlta 819, at para. 25.

[24] While it has been held that "there is no such thing on the part of a servant, upon leaving his master's employ, as an obligation not to compete 'unfairly'," the law does protect "the master's goodwill and other property, by holding that the servant may not take away confidential documents and trade secrets": **RBC Dominion Securities Inc. v. Merrill Lynch Canada Inc.**, 2007 BCCA 22, 2007 CarswellBC 46, at paras. 65 and 68. In varying the decision on other grounds, McLachlin C.J.C., for the majority, said at para. 19, 2008 SCC 54, [2008] 3 S.C.R. 79, that the "contract of employment ends when either the employer or the employee terminates the employment relationship, although residual duties may remain. An employee terminating his or her employment may be liable for failure to give reasonable notice and for breach of specific residual duties. Subject to these duties, the employee is free to compete against the former employer".

[25] The defendants submit that Global does not actively solicit customers. Rather, potential customers seek out Global through web searches. As such, they say, it is unclear how they could breach a fiduciary duty by soliciting the plaintiffs' customers.

They say this method of online commerce was not explained to the court on the *ex parte* motion.

[26] In addition to breach of fiduciary duty, the plaintiffs allege breach of confidence in relation to the alleged misuse of confidential information. The defendants deny that Myers, Fraser and Gillin were key employees in late 2008 and 2009 after Randy Ansems took control of International. The defendants allege that during this period they were demoted, asked to accept reduced pay, and asked to sign contracts with "excessive" covenants in restraint of trade. Their position is that they were being "pushed out" at the time when the plaintiffs allege they were breaching their duties of confidentiality. The plaintiffs point out that the defendants have not pleaded constructive dismissal and argue that Gillin's affidavit does not support the claim of a salary reduction or demotion.

[27] The plaintiffs submit that the affidavit of Kimberly McKay (Jackson) that was before the court on the *ex parte* motion was sufficient to establish a very strong *prima facie* case that the individual defendants violated their duty not to compete while employed. Ms. McKay's affidavit indicated that she was receiving e-mails from Myers in relation to Global while Myers was still employed by International. The defendants say that Ms. McKay did not indicate that she had used any Velsoft materials.

[28] Further, the plaintiffs say, Ms. Gillin's affidavit indicated that she began discussing and planning for Global while still employed by the plaintiffs. This evidence, they say, establishes a breach of the duty of good faith and of the defendants' employment contracts. They also point to the language of Ms. Gillin's employment contract which was an exhibit to her affidavit. The contract prohibits the employee from engaging "in any business, commercial activity or employment" during the term of the contract without written consent of the employer. The contract also includes a non-competition and non-solicitation provision. In view of this evidence provided through Ms. Gillin's affidavit, the plaintiffs speculate that they might amend their Statement of Claim to allege a breach of the non-competition and non-solicitation provisions.

[29] The plaintiffs argue that fiduciary duty is not limited to a prohibition on soliciting specific clients. They note that the court in **Baxandall** cited **Physique Health Club Ltd. v. Carlsen**, [1996] A.J. No. 1004, 1996 CarswellAlta 958 (Alta. C.A.), where the court set out a more extensive list of principles governing the scope of fiduciary duty in the employment context (some citations omitted):

(1) A fiduciary cannot take a maturing business opportunity from an employer either while he or she is an employee or after the employment relationship has been terminated....

(2) In opportunity cases, there must be a misuse of the fiduciary's power before liability attaches....

(3) Competition with the Plaintiff after the employment relationship has ceased does not of itself constitute a breach of the fiduciary duty. *Metropolitan Commercial Carpet Centre Ltd. v. Donovan et al.* (1989), 91 N.S.R. (2d) 99 (T.D.), per Davison J. at page 103:

Even top management, in the absence of a contract, have the right to leave their employment and form a company ... which is in direct competition with their former employer.

(4) The right to compete is qualified; the employee must not actively solicit the business of specific customers of the employer. The restriction continues "for a reasonable period of time after termination of the employment". *Sure-Grip Fasteners Ltd. v. Allgrade Bolt & Chain Inc.*, *supra* at page 290.

(5) After the employment relationship has terminated, the employee must not use or disclose confidential information learned in the course of his or her employment, but the obligation does not extend:

... to cover all information which is given to or acquired by the employee while in his employment, and in particular may not cover information which is only 'confidential' in the sense that an unauthorized disclosure of such information to a third party while the employment subsisted would be a clear breach of the duty of good faith. (*Faccenda Chicken Ltd. v. Fowler* (1985), [1986] 1 All E.R. 617 at 625 (C.A.)).

Monarch Messenger Services Ltd. v. Houlding (1984), 56 A.R. 147, affirmed (1986), 13 C.C.E.L. xxxvi (Alta. C.A.), is to a like affect. O'Leary J. (now J.A.) stated at page 152:

An employee will not be permitted, following termination of his employment, to use for his own benefit confidential information acquired in the course of his employment or information which is 'special or peculiar to his ex-employer'. On the other hand, it is

equally clear that following termination of the relationship an employee is free to use for his own benefit or for the benefit of third parties any skill and general knowledge which he acquires during the course of his employment.

(6) Employees who are fiduciaries of their former employer breach those obligations when they take a confidential customer list and use trade secrets of the former employer for use in a competing enterprise. *Tree Savers International Ltd. v. Savoy* (1992), 84 Alta. L.R. (2d) 384 (C.A.).

[30] The plaintiffs say the defendants "have not submitted any convincing evidence that they were not fiduciaries. Given that the evidence is clear that they did compete with the Plaintiffs while employed by them, it is submitted that this is sufficient in any event to ground a claim for breach of fiduciary duty...." They maintain that Ms. Gillin's affidavit and cross-examination support a finding that a very strong *prima facie* case has been made out that the individual defendants were having discussions and preparing to compete with the plaintiffs while still employed. They point to evidence of regular meetings as well as the fact that Mr. Myers was still working at Velsoft in early May when the Global Courseware name was reserved. Furthermore, Mr. Myers was a general manager and even if a written contract of employment cannot be found he nevertheless had a common law duty not to compete with his employer. The plaintiffs ask the court to draw a negative inference from the fact that Mr. Myers did not file an affidavit.

[31] **Confidential Materials.** The defendants deny that the information they allegedly misappropriated was confidential or proprietary. They say the list of "confidential" materials that the plaintiffs claim they appropriated or exploited was too broad, resulting in "an omnibus swoop of every piece of electronically stored information in the defendants' possession." They say the categories of "pricing strategies," "financial information," "employee salary and benefit information," and "company policies" are too vague, providing no account of what material they are said to encompass, what basis there is for a claim of confidentiality, or description of harm incurred. The defendants cite *AgraCity Ltd. v. Skinner*, 2009 SKQB 362, 2009 CarswellSask 612, where the court, in vacating an *Anton Piller* order, said, at paras. 93-94:

A further issue arises because the plaintiffs were exceedingly vague as to what confidential information they say it was that Ashley used to compete with them. For the most part, they simply stated that he was a high level employee who knew all

about how they did business. One specific they gave was in respect of the "FNA System", described as follows at para. 16 of the statement of claim:

16. FNA is a membership entity with approximately [*sic*] 4,500 members. FNA has developed a unique system to deliver to the farm community significantly reduced input costs by utilizing a combination of preferred suppliers, international sourcing for products, direct-from-manufacturer process, volume buying, regulatory and policy applications and private labeling (The "FNA System").

I cannot divine how the "FNA System" is unique. It appears to be similar to the business strategy employed by entities such as Costco -sell memberships, obtain products cheaply and sell the products for less than others. In any event, the uncontroverted evidence is that GNG does not use a membership system to sell "KnockOut". Dean and James Skinner tried that through GNGA, but found that farmers did not like it. Instead, GNG sells "KnockOut" to brokers who in turn sell it to anyone who wants to buy.

[32] According to the defendants, only three of the eight items identified by the plaintiffs provide sufficient specifics to constitute categories of confidential information: the SMS/CRM customer and sales tracking system, adwords, and courseware. The plaintiffs maintain that all of the impugned material is rightfully regarded as confidential and that the defendants have not established the contrary.

[33] With respect to the SMS/CRM system, the defendants say that it was not put to the court on the *ex parte* motion that this system is not used to solicit customers but only to follow up on customer inquiries. The defendants say that a sales and customer tracking system is a business method and is not subject to a patent. They take the position that the plaintiffs have not established a strong *prima facie* case justifying protection of their sales tracking system. The plaintiffs state that the system is indeed used to solicit customers.

[34] **Infringement of Copyright.** As to the categories of "adwords" and "courseware and training materials," the defendants submit that their inclusion under the heading of "confidential information" does not strengthen the plaintiffs' claim and argue that the real basis of the claim in this regard lies in the realm of copyright. According to the Statement of Claim, Training owns the copyright in the sales and customer tracking system, in Google Adwords, in courseware materials and in "other copyright works" (para. 52, Statement of Claim). An extremely strong *prima facie*

case of copyright infringement, the defendants say, would require the plaintiffs to show that they have good title to the materials and that the defendants' actions constituted a breach of copyright. They note that there are no registrations of copyright. Further, they suggest that the claim of copyright infringement by Training is weakened by the fact that when International transferred it the copyright in January 2010, Training was a foreign corporation.

[35] The defendants cite **Netbored Inc. v. Avery Holdings Inc.**, 2005 FC 1405, 2005 CarswellNat 3289, where the Federal Court reviewed an **Anton Piller** order in a proceeding between an employer and an ex-employee, both internet retailers. The employer alleged that a website partially designed by an ex-employee infringed its copyright. Hughes J. said, at paras. 44-51:

Simply to plea or state "Plaintiff's copyright" without more is simply a meagre and imprecise conclusion in law. No foundation has been laid to demonstrate what the particular subject matter is, how copyright in that subject matter subsists in Canada, and how it is that the Plaintiff asserts ownership in that copyright.

The *Copyright Act* R.S.C. 1985, c. C-42 provides that copyright subsists in a variety of works and compilations thereof, provided that the author was a Canadian or citizen of a country to which Canada has extended copyright privileges, such as a Berne Convention country; and if the work was published, then first published in Canada or such country (section 5). Thus the pleading here should state the identity of the work, such that it is within the meaning of the *Copyright Act*, the nationality of the author and place of first publication. The pleading does none of this. Further the Order gives no identification as to the work or works which are the subject of the Order.

Copyright may be registered cheaply and easily, in which case the registration provides prima facie proof of all the requisite factors as to identity, authorship and publication (*Copyright Act supra* section 53). While there is no requirement for registration, a Plaintiff can help its cause enormously by doing so.

Even if copyright is not registered, the subsistence of copyright in an identified work will, *prima facie*, be presumed and, if the name of the author and/or owner appear on the work, then the authorship and ownership are also *prima facie* presumed (*Copyright Act* 34.1). Here no facts giving rise to such presumption were pleaded nor were any facts put in evidence other than the assertion by the Plaintiff that all works were created by its principal Crosier or by Eren under an obligation to the Plaintiff, and owned by the Plaintiff.

The identity of the works in which copyright is asserted was never clearly particularized. At the hearing, Counsel for the Plaintiff asserted that the materials found on Susan Eren's hard drive were copyright works asserted by the Plaintiff, in particular, the Plaintiff's web pages, the accounting software and the meta tags.

The bits and pieces that Avery may have incorporated into its own web pages, taken from those of Netbored are minimal, and even if there was copyright in the Netbored material and Netbored owned it, the infringement approaches de minimus and is scarcely an "extremely strong *prima facie* case".

As to the accounting software, we do not know to what use, if any, it was put by Avery, or to what extent. No showing of an "extremely strong *prima facie* case" has been made out in this respect.

As to the meta tags there is a question as to whether they possess copyright at all or whether they are simply formulae derived arrangements designed to serve a business function something like the arrangement of information in *Tele-Direct (Publications) Inc. v. American Business Information Inc.* (1997), [1998] 2 F.C. 22 (Fed. C.A.). This question should not be pre-judged. However, given the legal uncertainty there is again no "extremely strong *prima facie* case". Further the extent to which such meta tags were copied and used by Avery and Sean Eren is unproven.

[36] The defendants say the Statement of Claim of Training and International has similar defects to the claim in **Netbored**, in failing to clearly identify the works, the nationality of the author or the place of first publication. More generally, the defendants say the plaintiffs did not adequately apprise the court of the law relating to copyright issues in digital works and in the international marketplace. They dispute the plaintiffs' assertion that **CCH Canadian Ltd. v. Law Society of Upper Canada**, 2004 SCC 13, 2004 CarswellNat 446, "set the threshold low" for establishing copyright infringement. They note that an **Anton Piller** order requires an extremely strong *prima facie* case. The plaintiffs say that their position is that **CCH Canadian** set a low threshold for originality, not for establishing copyright infringement generally. The plaintiffs also point out that **Celanese** would supersede **Netbored**. I note that the test as framed in **Celanese** refers to a "strong *prima facie* case," rather than an "extremely strong" one.

[37] The plaintiffs say they do not claim copyright in a business method as, for instance, was the case in **Agracity**. They say, rather, that they claim ownership of the copyright over a proprietary computer program, the CRM system (as described at para. 18 of the Statement of Claim) developed by their employees, including the

defendant Mr. Myers. A computer program is protected by the *Copyright Act*, and there is no evidence of any agreement that the employer would not be the first owner of the copyright, as contemplated by s. 13(3) of the *Act*.

[38] Additionally, the plaintiffs say, in response to the defendants argument that they failed to establish their copyright, that a foreign corporation is not prevented from owning copyright, and, in any event, the plaintiffs plead a breach of copyright held by Training, a Nova Scotia company, not International (Statement of Claim, para. 52). They say that the content of their copyright claim is fully set out (unlike the vague pleadings in **Netbored**), pointing to the Statement of Claim's descriptions of the "intellectual property assets" of which Myers, and others, had "intimate knowledge" (para. 18, Statement of Claim) including the SMS/CRM program and the marketing adwords. They also point out that copyright does not require publication and registration is not a prerequisite for copyright to subsist.

[39] **Infringement of Trade-Marks.** In addition to copyright, the Statement of Claim alleges that the defendants wrongfully used the trade-marks "COURSEWARE" and "COURSEWARE ASSURANCE", or "confusingly similar" ones, in association with their own products, "via Google AdWords, or on their websites" (paras. 57-61, Statement of Claim). According to their Answer to Demand for Particulars, the plaintiffs have no registrations in these trade-marks. The defendants suggest that a transfer of unregistered trade-marks from a foreign-registered corporation (International) to Training does not provide for an extremely strong *prima facie* case of ownership of the trade-marks. The defendants suggest that the law pertaining to trade-mark infringement on the internet is not entirely clear and submit that whether Global's use of the impugned terms in its domain name or on its web pages amounts to "use" of a trade-mark is an issue for trial. They also question the distinctiveness of the trade-marks, a requirement for validity under the *Trade-marks Act* (s. 18(1)(b)). They suggest that "Courseware" is a generic term. As such, the defendants submit, Training has not established an extremely strong *prima facie* case of trade-mark infringement.

[40] The plaintiffs say they do not rely on the provisions of the *Trade-marks Act* that require registration but on the tort of passing-off and its codification in section 7 of the *Act*. This is borne out by the language of the Statement of Claim (paras. 57-63). A plaintiff can rely on adoption and use to establish the right to a trade-mark at common law: A.K. Gill and R.S. Joliffe, Fox, Canadian Law of Trade-marks and Unfair Competition (Toronto: Carswell) at 4-16. Further, the plaintiffs say, because

the defendants' website allows for transfer of possession (for example, by allowing downloading of materials) rather than being an entirely passive site, it falls within the definition of "use" in the *Act*. As such, the plaintiffs say, **Pro-C Ltd. v. Computer City Inc.**, 2001 CanLII 7375, 2001 CarswellOnt 3115 (Ont. C.A.), on which the defendants rely for the proposition that use of the trade-mark on their website and in their domain name is not sufficient to make out an infringement, is distinguishable. As to the defendants' claim that COURSEWARE is a generic term, the plaintiffs say this may be a defence at trial, but that it does not damage the *prima facie* case they say they have established. They note that the defendants do not claim that COURSEWARE ASSURANCE is generic.

[41] The plaintiffs have pointed out that Mr. Myers has not provided an affidavit to challenge or clarify their own evidence. I agree that this is relevant to the analysis, within limits (see **Malik** at para. 9). In particular, on the issue of competition, where a good deal of evidence has been presented by the Plaintiffs, I have taken into account the absence of evidence on the point from Mr. Myers.

[42] I am satisfied that the plaintiffs have made out a strong *prima facie* case on at least some aspects of their claim. In particular, there is a strong *prima facie* case that the defendants at least took steps to compete with their employer while still employed.

VERY SERIOUS DAMAGE, ACTUAL OR POTENTIAL:

[43] The defendants say the defendants provided no evidence of damage on the ex parte motion. The plaintiffs took the position that the damage required for an **Anton Piller** order was damage to their case in that the case could not be proven if the evidence that the defendants were using the materials in question was destroyed. The defendants make several arguments on this point. As to the fear that the individual defendants would destroy evidence of their activities while they were still employed by International, the defendants say that the computers used by the individual defendants were returned to International when they left. As such, the evidence should be in the plaintiffs' hands already. Further, they say, much of the relevant information is already publicly available on the parties' websites. They say it is "fanciful" to suggest that they would stop using a sales tracking system and would hide all traces of having used it, unless an **Anton Piller** order was issued. They point out that a list of purchased adwords would be available from Google. And finally, they submit that the affidavit evidence of the plaintiffs with respect to Google search results does not

go to the question of damage for the purposes of an **Anton Piller** motion but is more relevant to an application for an injunction. On that point, the court said in **Netbored**, at paras. 56-58:

While Crosier in his affidavit alleges that very serious damage would occur if the Defendant's activities were to continue and unless an *Anton Piller* Order were to be issued. Why it is necessary to have an *Anton Piller* Order where what is really sought is an injunction is not clear. Damage, in the case of an *Anton Piller* Order would be more connected to the need to preserve documents and materials, and not in respect of continuing business activity. No damage has been shown in the *Anton Piller* sense.

In the injunction sense the damage alleged is that the new website of the Defendant Avery, using the meta tags in question, will prejudice the Plaintiff's Google ranking, hence its ability to attract customers. In support of this allegation the Plaintiff produced a chart purportedly showing a falling from its rank of third to two hundred in its category in the period since Avery began to use its website. The Plaintiff also produced figures showing that in this period its earnings fell well short of targeted earnings. The Defendant Avery says that there is no link between what happened to the Plaintiff's Google ranking, if it happened at all, and the fact that Avery's website became active. Any change Avery says is due to a "Google dance" which occurred at about the same time such that the Plaintiff's 2-2-6 meta tag formula no longer attracted high Google ranking. Avery also asserts that the alleged perceived losses are against targeted and not reasonably expected earnings and, in any event, the rise and fall in earnings in the period is consistent with the Plaintiff's overall historic rise and fall of earnings.

Whatever may ultimately prove to be the case, whether a casual link between Avery entering the marketplace and any losses of the Plaintiff can be established, and if so did that link truly cause any real damage, is at this stage largely speculative and unproven. The Plaintiff has, at best shown a possible monetary loss which is compensable in damage. There is no showing of "very serious damage" or of irreparable harm.

[44] The defendants take a similar position with respect to the plaintiffs' allegations of damage in this case.

[45] With respect to the defendants' argument that the evidence sought by the plaintiffs could be obtained from other sources, the defendants say: (1) there is no evidence that the computers used by the defendants in starting their competing business were owned by International; (2) the course material on Global's website at the present time is not necessarily the same as it was when it was allegedly copied

from the plaintiffs' materials and it would be unreasonable to restrict the plaintiffs to the evidence available on the defendants' public website; (3) the plaintiffs believe that the defendants would erase the impugned materials in the absence of an **Anton Piller** order contrary to the defendants' claim that such a suggestion is fanciful; (4) the plaintiffs say they cannot compel Google to provide business records of the defendants and that evidence of copying of their adwords would not be available from Google in any event; and (5) evidence of Google searches was not offered to support a finding of serious damage but in support of a *prima facie* case of copyright infringement. They say the passage from **Netbored** relied upon by the defendants is therefore not applicable.

[46] I am satisfied that the loss of the materials sought to be protected by way of the *Anton Piller* order would potentially cause very serious damage to the plaintiffs' case. I do not believe that it is sufficient for the defendants to argue, essentially, that this material might be available from other sources.

CONVINCING EVIDENCE THAT THE DEFENDANT HAS POSSESSION OF INCRIMINATING DOCUMENTS OR THINGS:

[47] This element of the analysis is closely linked in this case to the issues of potential damage and the destruction of evidence. Although there was little or no specific argument on this point, the obvious inference is that the plaintiffs believe that the defendants' computers contain incriminating materials. In the case of the software and other materials (such as adwords) in which the plaintiffs claim intellectual property rights, I am not convinced that the plaintiffs have provided convincing evidence that incriminating materials will be found on the defendants' computers. In any event, I have not found that a *prima facie* case was made out on these aspects of the claim. Clearly the defendants had possession of at least one of the employment contracts the plaintiffs claim to have lost, as Ms. Gillin produced her contract to them. Additionally, the allegation that the defendants competed with the plaintiffs while employed by them rests in part upon exchanges of e-mails. These points are sufficient to constitute at least marginally convincing evidence that the defendants have incriminating materials in their possession.

REAL POSSIBILITY THAT EVIDENCE MAY BE DESTROYED:

[48] The Statement of Claim alleges that before returning his company computer upon resigning from International, the defendant Myers "had the computer

forensically wiped clean of all memory in a manner that has made it impossible to reconstruct any of its data. In addition, following his resignation and upon investigation of Myers' personnel files, Ansems discovered that file material, including employment contracts, had been removed. Ansems also discovered that Gillin's employment contracts had disappeared." (para. 35, Statement of Claim) The affidavit of Marcel West repeats the allegation that upon its return, Myers's company computer's memory had been "completely erased," although the company "had not given Myers any permission or direction to erase the memory on the laptop." West goes on to state that "a professional data recovery firm named CBL Data recovery" was unable to recover any information (paras. 19-20). The foundation for the latter assertion was apparently an e-mail from the plaintiffs' technical consultant, Andrew Douglas, to Mr. West, dated October 7, 2009, in which Douglas says:

Sorry, there wasn't really much of a report as this was deemed DOA and no recovery efforts really took place. During evaluation we found that the drive had been re-installed or overwritten, and no significant amount of the requested target data from the previous install could be located and the project was deemed unrecoverable.

[49] The Statement of Defence asserts that Myers de-installed and re-installed the Microsoft Windows software on the computer to ready it for the next user in the normal course. The defendants go on to argue that the plaintiffs appear not to have taken reasonable steps to preserve the hard drive. They point to an October 6, 2009, e-mail from Douglas to West, in which Douglas said:

Unfortunately we only hold hard drives for 30 days from the last contact, after which they are considered abandoned and destroyed, and it looks like this was recycled around the end of August.

Sorry!

[50] It appears that the loss of the hard drive was not brought to the court's attention on the *ex parte* motion.

[51] In addition to the allegedly "wiped" hard drive, the plaintiffs assert that Myers removed documents, specifically, the defendants' employment contracts. In his affidavit, West states that he was told by Ansems that after Myers left the company Ansems "searched for Myers' and Gillin's employment contracts" but they were missing. He adds the information from Jim Fitt that Myers had a contract. He goes on to state that "Myers would have had exclusive access to personnel files in his capacity as Operations Manager" (paras. 21-22). The Statement of Defence indicates that Mr. Myers was presented with an employment contract near the end of his employment and that he refused to sign it. Gillin, by contrast, does not deny signing a contract and has attached a copy to her affidavit.

[52] The defendants point out that the allegations of "forensically wiping" his company computer and of absconding with employment contracts, appear calculated to depict Myers as a "slippery fellow" who would destroy evidence. The law suggests that a stringent review of the plaintiffs' evidence is called for in order to determine that there is a danger that documents will be destroyed. In **AgraCity Ltd. v. Skinner**, 2009 SKQB 362, 2009 CarswellSask 612, Dufour J. discussed the proof required to establish the "fourth **Celanese** condition," at paras. 52-56:

As it would be rare that there would be direct evidence that a defendant is preparing to destroy relevant evidence, the fourth *Celanese* condition is usually addressed by the plaintiff adducing evidence of the defendant's dishonest nature. Evidence that the defendants have engaged in questionable business practices in the past or that they are generally dishonest is not sufficient. The plaintiffs must prove that the defendants are the types of persons who would destroy evidence....

Important to this case is that the plaintiffs must satisfy the Court by adducing admissible evidence.... Opinion, supposition or the plaintiffs' "fear" that documents will be destroyed will not suffice.

It is not my mandate to make findings of fact. That is the task of the trial judge. My mandate is to determine whether the plaintiffs have discharged their onus in respect of the fourth *Celanese* condition. That which they must establish was described in two ways in *Celanese*. At para. 30, Justice Binnie quoted with approval that portion of *Anton Piller* ... that required the plaintiffs to prove that there is a "grave danger of property being smuggled away or of vital evidence being destroyed." Later, at para. 35, Justice Binnie held that the plaintiff must adduce evidence to show "a real possibility that the defendant may destroy such material before the discovery process can do its work."

Other courts have described the standard in various ways, requiring that the plaintiffs show:

"... a clear risk that the evidence will be destroyed and that the infringing articles cannot otherwise be recovered" (*Pulse Microsystems Ltd. v. SafeSoft Systems Inc.*, *supra*, at para. 22)

That "[t]he risk [that the defendant will destroy materials before discovery] must amount to a probability, not a possibility." (*NAC Air, LP v. Wasaya Airways Limited Partnership*, *supra*, at para. 29)

A "very clear *prima facie* case leading the court to fear that the defendant will conceal or destroy essential evidence in the grossest possible contempt of the court" (*Malik*, *supra*, at para. 60). [Emphasis by Dufour J.]

The plaintiffs' case must be strong - the granting of an *Anton Piller* order means that a court of law is satisfied that the defendants are the kind of contemptuous rogues described in *Yousif v. Salama*, *supra*. The defendants' reputations are sullied and their lives are disrupted. The proof offered by the plaintiffs must be such that it justifies inflicting such damage.

[53] The defendants submit that the plaintiffs' inability to locate copies of employment contracts and their discovery several months after Myers left that his computer had been erased are not a sufficient basis upon which to find a grave risk that the defendants will destroy evidence. Moreover, they point out, all of the allegations on this ground are against Myers. There is no apparent basis (other than their association with Myers) to assert that Fraser and Gillin are "rogues" who are likely to destroy evidence. The following remarks from **Agracity**, at paras. 104-105, are relevant:

The plaintiffs adduced little or no evidence of the honesty or dishonesty of the other defendants, relying instead upon a "guilt by association" analysis:

1. Ashley is dishonest and is the type of person who would destroy documents;
2. The other defendants are related to and/or doing business with Ashley; and
3. Therefore, the other defendants are dishonest and the types of individuals who would destroy documents.

This argument obviously fails, given my finding that the plaintiffs have not adduced sufficient proof that Ashley is dishonest or that he is the type to destroy documents. Further, I would not accept this flawed attempt at syllogistic reasoning in any event - the major premise and minor premise do not lead logically to the conclusion. Further, a simplistic "guilt by association" argument cannot support an inference that the other defendants are dishonest.

[54] The defendants submit that the plaintiffs failed to establish any danger that the defendants would destroy evidence let alone the degree of danger necessary to justify an **Anton Piller** injunction. They note that Rule 16.02 imposes a duty to preserve electronic information and submit that there is no evidentiary basis to conclude that they would not observe that duty. They note that Ms. Gillin's employment contract, which the plaintiffs claimed was lost, was in fact disclosed by the defendants as part of her affidavit.

[55] The plaintiffs maintain that the defendants' willingness to act contrary to their employment contracts – for instance, by taking steps to set up a competing business – go toward establishing a real possibility that they will destroy evidence. Mr. West indicated in his affidavit that Mr. Myers was not given permission or direction to erase the memory on his laptop. There was, however, no company directive prohibiting this and there is no indication that Mr. Myers was expressly told not to do so. The plaintiffs also question Mr. Myers's use of cash for business transactions and the individual defendants' use of aliases suggesting that such conduct "evinces a tendency on the part of the Defendants towards concealing their true intentions, and is a strong indicator that they would be likely to destroy evidence."

[56] I am not satisfied that the plaintiffs have established a real possibility that evidence may be destroyed. I am mindful of the statement in **Malik** (citing **Capitanescu v. Univeral Weld Overlays Inc.** (1996), 46 Alta. L.R. (3d) 203 (Alta. Q.B.), at para. 22, and **Catalyst Partners Inc. v. Meridian Packaging Ltd.**, 2007 ABCA 201, at para. 13) that generally, "courts have inferred a risk of destruction when it is shown that the defendant has been acting dishonestly, for example where matter has been acquired in suspicious circumstances, or where the defendant has knowingly violated the applicant's rights" (cited in **Malik** at para. 59). I note that in the **Catalyst** case, cited in **Malik**, the Alberta Court of Appeal held that the chambers judge erred in granting the **Anton Piller** order specifically on the third ground. The court said, inter alia, at paras. 33-34:

As noted, the chambers judge relied on some specific evidence as supporting an inference of dishonesty. The fact that the appellants were in possession of confidential information is largely neutral. That confidential information had been delivered to them as part of the working relationship between the parties. The confidential information was not "acquired in suspicious circumstances", as set out in *Capitanescu*, or "incriminating" as suggested by the chambers judge. The circumstances surrounding the allegation that the appellants were manufacturing the respondent's proprietary products and selling them to former customers are ambivalent, and are the very essence of this contentious lawsuit. The evidence that suggests the appellants were knowingly violating the applicant's rights is hotly contested in conflicting affidavits. However, even if true that would not disclose a level of "dishonesty" that would support a strong inference that the appellants would destroy evidence. Even if there was a breach of contract or breach of fiduciary duty, there is no clear evidence of deliberate dishonest conduct.

As mentioned, an *Anton Piller* order is an extraordinary remedy. Not only is it very invasive, it will have a negative effect on the reputation of the defendant in the community. The appellants argue that the respondent is seeking access to proprietary information of the appellants (that is not relevant and material to this claim), and that this is the true motivation for the Anton Piller order. In the circumstances, it is not sufficient that an inference of dishonesty can be drawn from the evidence. The inference of dishonesty, and that there is a "real possibility" that evidence will be destroyed, must be compelling before the court should presume prospectively that the defendant will do so.

[57] In this case, I am not satisfied that the finding of a strong *prima facie* case on an element of the plaintiffs' claim requires the court to find that there is a real risk of destruction of evidence. I am not satisfied that the plaintiffs have provided compelling evidence of a real possibility that the defendants will destroy evidence. I am

particularly concerned by the plaintiffs' failure to ensure the preservation of the hard drive and by the speculativeness of the plaintiffs' argument on this point. Further, I am not prepared to conclude from the absence of an affidavit by Mr. Myers that he acted in the manner alleged by the plaintiffs. Unlike the situation with regard to the competition issue, the available evidence respecting the various dealings with the hard drive is too uncertain to draw any inference from the absence of evidence from Mr. Myers.

[58] Accordingly, I am not satisfied that the plaintiffs have established a real possibility that the defendants will destroy evidence in the absence of an **Anton Piller** order.

FULL AND FAIR DISCLOSURE:

[59] The defendants take the position that the plaintiffs failed in their duty to make full and fair disclosure on the *ex parte* motion. As Binnie J. noted in **Celanese**, on an *ex parte* and interlocutory motion for an **Anton Piller** order, a "motions judge necessarily reposes faith in the candour and complete disclosure of the affiants, and as much or more so on the professional responsibility of the lawyers participating in carrying out its terms" (para. 36). The defendants particularly object to counsel's apparent extrapolation from West's inability to find the defendants' contracts to the conclusion that Myers had removed the contracts and from there to the conclusion that he would be likely to destroy evidence. They also submit that counsel overstated the conclusiveness of the available information about the hard drive Myers erased, among other alleged failures, to present "the actual, unvarnished state of affairs." The plaintiffs, not surprisingly, object to the suggestion that they failed to make full and fair disclosure.

[60] Among the defendants' allegations, and the plaintiffs' responses, are (1) that the plaintiffs failed to disclose that International was a foreign corporation, to which the plaintiffs point out that this is set out in the Statement of Claim; (2) that the plaintiffs failed to indicate that they had never held any registered copyrights or trade-mark, to which the plaintiffs respond that the causes of action pled do not require registration; (3) that the plaintiffs failed to advise the court the customer and sales tracking system was used internally, and not for solicitation, a characterization with which the plaintiffs do not agree; (4) that the plaintiffs failed to provide a balanced treatment of copyright and trade-mark law as it applies in electronic commerce cases, a claim with which the plaintiffs disagree; (5) that the plaintiffs failed to advise the court of the

changing relationship of the individual defendants and International in the later period of their employment, which the plaintiffs say is an issue for trial; and (6) that the plaintiffs provided a vague and all-encompassing list of categories of confidential information, which the plaintiffs deny.

[61] I am not prepared to find that the plaintiffs knowingly failed to make full and fair disclosure on the *ex parte* motion. The point of a *de novo* review like this one is to enable the defendants to advance their own evidence and argument and that is what has been done.

DAMAGES:

[62] The defendants seek damages on the basis that the **Anton Piller** order amounted to an abuse, sullyng their reputations, disrupting their lives and interfering with their business. I am not convinced that this is an appropriate case for damages at this stage in the proceedings. The manner in which the order was structured and executed was designed to minimally interfere with the defendants' lives and business. The defendants were not actually deprived of the materials that were the subject of the order and the plaintiffs have not had access to them. In these circumstances, I am not persuaded that damages are called for.

CONCLUSION:

[63] The **Anton Piller** order is therefore set aside. I invite counsel to attempt to reach an agreement on costs failing which I will make time available to hear from them either in person or in writing.

McDougall, J.