Federal Court  Cour fédérale

Date: 20190207

Docket: T-554-16

Citation: 2019 FC 158

Ottawa, Ontario, February 7, 2019

PRESENT: Madam Prothonotary Mireille Tabib

BETWEEN:

PLITEQ, INC.

Plaintiff/
Defendant by Counterclaim

and

WILREP LTD.

Defendant/
Plaintiff by Counterclaim

ORDER AND REASONS

[1] The Court is seized of a motion by the Plaintiff, Pliteq, for the issuance of a protective order including provisions for designating documents as "Counsel's Eyes Only" ("CEO"), and other relief.

[2] The principal issue in dispute between the parties is whether it is appropriate for Pliteq to be permitted to designate certain documents as "Highly Confidential – Counsel's Eyes Only", such that counsel for the Defendant, Wilrep, would be unable to show them or discuss their

content with its client. As the Court understands the parties' positions, that issue constitutes the only reason for the Court's intervention and the issuance of a formal order. Should the Court decline to permit the use of CEO designations, there appears to be no reason why the manner in which the parties are to handle and treat the documents and information exchanged between them, including information they consider confidential, cannot adequately be governed by the implied undertaking rule and, as needed, a confidentiality agreement. Neither party has argued that these measures might be impractical, insufficient or unenforceable in the circumstances of this case.

I. APPLICABLE LAW

[3] There is no substantial disagreement between the parties as to the test to be met for the Court to permit CEO designations. The parties have cited a number of cases that have considered and discussed the circumstances in which it may be appropriate to issue such an order. However, it is fair to say that all pronouncements in individual cases fit within and can be subsumed in the concise, but comprehensive test set out in paragraph 53 of *Sierra Club of Canada v Canada (Minister of Finance)*, 2002 SCC 41, as follows:

> A confidentiality order under Rule 151 should only be granted when:
>
> (a) such an order is necessary in order to prevent a serious risk to an important interest, including a commercial interest, in the context of litigation because reasonably alternative measures will not prevent the risk; and
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> (b) the salutary effects of the confidentiality order, including the effects on the right of civil litigants to a fair trial, outweigh its deleterious effects, including the effects on the right to free expression, which in this context includes the public interest in open and accessible court proceedings.

[4] The case law, and in particular the decision in *Bard Peripheral Vascular Inc. v WL Gore & Associates, Inc*., 2017 FC 585 at paragraph 15, also refers to the following three factors as "factors to be generally considered by the Court as favouring granting a CEO order":

> 1) the terms reflect the terms of protective orders granted upon consent in parallel litigation in the US, in which the parties are directly or indirectly involved;
>
> 2) the terms of the order provide opportunity to a receiving party to object to the classification of certain documents as confidential; and
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> 3) the party requesting the CEO order believes in good faith that its commercial business or scientific interests may be seriously harmed by disclosure.

[5] However, these factors do not constitute additional or independent grounds to grant a CEO protective order. They are, rather, considerations that may inform the Court's appreciation of whether of the *Sierra Club* criteria have been met.

[6] For example, the existence of protective orders granted on consent in parallel US proceedings would be a factor indicating that the deleterious effects of an order – in this case, on the ability of a party to instruct counsel in an informed manner – are not of considerable weight to the parties as they had previously consented to similar strictures in similar circumstances. The inclusion of terms permitting challenges to the designation is a matter of ensuring that the proper balance between the salutary and prejudicial effects of the order can be maintained through its application. Finally, the designating party's good faith belief that its commercial business or scientific interests may be seriously harmed by the disclosure is nothing but one of several elements that might help establish the first branch of the *Sierra Club* test, that there be a demonstration, well grounded in the evidence, of a real risk of serious harm to an important

interest. Pliteq does not suggest that a party's assertion of a good faith belief is, of its own, sufficient to meet that part of the test if the belief is not otherwise reasonable or supported by objective facts.

[7] CEO orders are often sought in litigation opposing business competitors where concerns arise that a party's confidential business or technical information could, if known by the other party, be used to the competitive detriment of the producing party. However, in actions, information exchanged in the course of discovery is automatically covered by the implied undertaking rule, which prohibits the receiving party from using discovery information for any purpose other than the litigation in which it is produced (*Juman v Doucette* 2008 SCC 8, *Canada (A.G.) v Amalki* 2010 FC 733, *Merck &Co Inc. v Brantford Chemicals* 2005 FC 1360). As such, the risk that the receiving party might use the information to the producing party's competitive disadvantage can only materialize in one of two ways: deliberately or negligently, through the receiving party's contravention of the implied undertaking rule; or, unwittingly or unintentionally, in circumstances where an employee or officer of the receiving party who has obtained knowledge of confidential information could not help but be influenced by this knowledge in making business decisions for the receiving party as part of his or her regular duties, in a manner prejudicial to the disclosing party (see for example *Rivard Instruments Inc v Ideal Instruments Inc* 2006 FC 1338 at para 39).

[8] The existence of such risks cannot merely be presumed from the fact that the parties are competitors. If that were so, every action between competitors would feature CEO designations.

[9] A breach by a party of its obligations under the implied undertaking rule is a serious matter that can be punished by contempt proceedings and carry significant consequences to the corporation and the individuals who act on its behalf. The existence of a serious risk that the corporation or its employees or officers would deliberately or through negligence contravene the implied undertaking rule must be established through objective evidence. A party's sincere belief based on general mistrust will not be sufficient.

[10] Likewise, a serious risk that the persons receiving discovery information for the purpose of the litigation would find themselves in a position where they could not help but be influenced by this information in carrying out their normal duties, to the disclosing party's prejudice, must also be demonstrated through objective evidence. The moving party may not simply proceed from the presumption that a competitor's knowledge of its private business information will necessarily affect the competitor's business decisions, and in a manner that causes it significant prejudice. The assessment must be made on a case-by-case basis, taking into account the nature of the confidential information to be disclosed, the identity and duties of the person or persons instructing counsel on behalf of the receiving party, how the knowledge might affect these persons' decisions and the severity of any resulting prejudice (see *Rivard* above at paras 38-39).

II. THE EVIDENCE

[11] Pliteq has filed the affidavit of its Chief Executive Officer, Paul Downey, who asserts that for a period of some 10 years, until 2016 when the business relationship broke down, the parties worked together, Wilrep manufacturing some of Pliteq's private label products and distributing some of Pliteq's branded products. Mr. Downey's affidavit asserts that Pliteq and

Wilrep are now competitors, distributing to the same clientele in Canada and that they "may" bid on the same contracts.

[12] The Downey affidavit also refers to another corporation, Ecore International Inc., whom it identifies as a competitor of Pliteq in Canada "and elsewhere", and with whom Pliteq is engaged in litigation in the U.S. A consent protective order was issued in that litigation permitting CEO designations. Wilrep is said to distribute Ecore's products in Canada, but is not alleged to be otherwise related to Ecore, or involved in the US litigation.

[13] The Downey affidavit does not otherwise identify the size of the Canadian market, the proportion of its business derived from Canada, the number of other competitors in that market, the relative size and importance of Pliteq and Wilrep in that market or their respective market shares.

[14] The Downey affidavit then goes on to describe the measures Pliteq takes to protect the confidentiality of its "financial information, including advertising and marketing expenses, pricing, sales figures, royalties, costs, profits, research and development costs and customer information". It goes on to state that:

> 29. The disclosure of Pliteq's highly confidential information to its competitors, such as Wilrep, would cause significant commercial harm to Pliteq.
>
> 30. Among other things, the information would allow competitors to know Pliteq's revenue, expenses, profit margins, research and development costs, and advertising and marketing costs and customers. This would permit the competitors insight into Pliteq's overall business strategy and financial health. Competitors could easily use this information to strategically alter

> their pricing to outbid Pliteq, causing significant financial harm to Pliteq.
>
> 31. Access to Pliteq's customer information specifically would allow Wilrep to target Pliteq's customers, causing significant harm to Pliteq.

[15] With respect to Pliteq's "business and marketing strategies" the affidavit states the following:

> 33. The highly confidential business strategy developed and implemented by Pliteq to target certain markets and jurisdictions as reflected by its advertising, marketing, sponsorships and attendance at trade shows is highly confidential. If disclosed, Pliteq's highly confidential business strategy would unfairly provide a competitor with the blueprint to allow them to unfairly target Pliteq's potential customers.
>
> 34. Pliteq's business, advertising and marketing strategy documents provide a roadmap of Pliteq's current and target markets, jurisdictions and customers.
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> 35. If Pliteq's marketing strategy is provided to its competitors, including Wilrep, they could use the information to target Pliteq customers, emerging markets and industries, causing significant commercial harm to Pliteq.

[16] About Pliteq's confidential technical information, the affidavit describes the precautions Pliteq takes to protect its research and development data, and describes the harm it would suffer if that data were disclosed to competitors as possibly impacting the validity of any patents applied for by Pliteq, allowing competitors to produce competing products before its own products are launched, or to copy its test set up and testing methods. The affidavit acknowledges that Wilrep, as a distributor, had access to certain Pliteq test reports in the past relating to the products it distributed, but that as a competitor it no longer has any legitimate access to current test reports.

[17] Finally, the Downey affidavit states that Wilrep has already "misused" Pliteq's confidential information in reproducing data from a Pliteq test report in a brochure advertising a product manufactured by Ecore. The affidavit states that after Pliteq had "confronted" Wilrep, the brochure was modified to include different test data "demonstrating markedly reduced performance". These facts are stated as the basis for Mr. Downey's belief that there is "a substantial risk that Wilrep may misuse confidential information provided in the course of litigation."

[18] In response, Wilrep has produced the affidavit of William Wilkinson Jr., its VP Secretary Treasurer. Mr. Wilkinson states that he is responsible for and involved in all aspects of Wilrep's business, and that he is directly responsible for instructing counsel in this matter, as Wilrep, a small family business employing 14 people, does not have an in-house counsel.

[19] The Wilkinson affidavit describes how he and Downey cooperated with each other to develop a resilient sound isolation clip resulting in a patented invention bearing both their names as co-inventors, and states that Wilrep and Pliteq cooperated on marketing materials and promotion for this clip, branded as "GENIECLIP". It also states that prior to April 2016, Wilrep and Pliteq mutually purchased and sold products manufactured by each other, providing each other with product test data and marketing materials. According to the Wilkinson affidavit, this would be a common practice in the industry.

[20] Mr. Wilkinson acknowledges that Wilrep did include test data received from Pliteq in one of its brochures in relation to a product supplied by Ecore, but asserts that the inclusion was the

result of an error made when the brochure was modified after Wilrep changed its supplier from Pliteq to Ecore. Moreover, he asserts that the test data referred to in the Downey affidavit was provided by Pliteq to Wilrep in accordance with the industry practice described above, for the specific purpose of including it in marketing materials, and with no restrictions as to confidentiality. Such test data is asserted to have been regularly provided to Wilrep as well as to Pliteq's other customers, without restrictions.

[21] The Wilkinson affidavit goes on to confirm his understanding of the obligations imposed by the implied undertaking rule and of the consequences of breaching it, his intention to take these obligations seriously, Wilrep's willingness to enter into an agreement with respect to confidentiality (other than CEO designation) and that Wilrep itself has listed no documents in its affidavit of documents that it considers would require a greater level of protection.

[22] Neither Mr. Downey nor Mr. Wilkinson were cross-examined on their respective affidavits.

[23] Also included in the record on this motion are the pleadings and the affidavits of documents exchanged by the parties. The affidavit of documents of Pliteq includes some 80 documents designated as "Highly Confidential - Counsel's Eyes Only Information". The vast majority consists of test reports. Only seven are not, on their face, test reports and are described as follows: "Pliteq Inc. - Research and Development Costs"; "Pliteq Sponsorships and Memberships"; "Pliteq - Advertising (September 2011 to June 2017)"; "Pliteq - Marketing and Samples (September 2011 to June 2017)"; "Pliteq - Advertising (September 2011 to June

2017)"; "Summary of Trade Shows and Conferences attended by Pliteq"; and "Pliteq Advertisement Summary". Documents designated as CEO were not provided to counsel for Wilrep, and there is no further description of the content of these documents.

III. ANALYSIS

[24] The factual basis put forward by Mr. Downey for his belief that Wilrep may misuse confidential information provided in the course of the litigation has been comprehensively discredited by the evidence of Mr. Wilkinson. Not only has it shown that the use of the wrong test data was the result of an inadvertent error not amounting to "misuse", but the very assertion by Mr. Downey that the erroneously used information was "confidential" has been proven false. Pliteq chose not to cross-examine Mr. Wilkinson in respect of the specific facts set out in his affidavit to contradict the broad conclusions drawn by Mr. Downey in his affidavit. I accept Mr. Wilkinson's evidence as credible and prefer it to Mr. Downey's where their evidence diverge.

[25] Mr. Downey's affidavit acknowledges that Wilrep "as a distributor" had access to test reports in the past. This is consistent with Mr. Wilkinson's affidavit evidence to the effect that suppliers in the industry provide their distributors with testing data that is intended to be shared with potential customers. Indeed, when one ignores the broad general statements contained in Mr. Downey's affidavit and considers the specific facts set out, one notes that it is only "Aspects of the test reports, such as the specific test set up and procedures" that "are considered by Pliteq to be highly confidential and are only disclosed to acoustical consultants". There is no basis to believe that test results or data provided by Pliteq to a distributor with respect to its existing products could be described as confidential.

[26] The Court concludes that Pliteq has not established the existence of a risk that Wilrep would, wilfully or negligently, misuse information disclosed through litigation, such that CEO designations would be justified. Indeed, the statements contained in Mr. Downey's affidavit with respect to misuse of confidential information by Wilrep can only be described as misleading. The accusations of "misuse of confidential information" levelled against Wilrep in Mr. Downey's affidavit are, in the circumstances of this motion, very serious and should not have been made without careful consideration of the underlying facts and of the words used to describe them. This seriously undermines the credibility of Mr. Downey's statements as to the confidential nature of the information to be disclosed by Pliteq in this litigation and his assessment of the risk of harm that would flow from its disclosure to Wilrep, and will carry through in the Court's assessment of remaining issues.

[27] Having concluded that there is no reason to believe that Wilrep would breach its obligations under the implied undertaking rule and deliberately use discovery information for purposes other than the litigation, including for the purpose of gaining a competitive advantage over Pliteq, it is necessary to now consider whether the evidence discloses a risk that Mr. Wilkinson, as the person with whom the information must be shared for the purpose of instructing counsel, might be in a position where he would unwittingly or involuntarily be influenced by the knowledge acquired in making business decisions, in a manner prejudicial to Pliteq.

[28] The affidavit of Mr. Downey does not directly address that issue. All of the forms of harm to which his affidavit alludes presuppose a deliberate modification of competitors' business

conduct to "strategically alter their pricing to outbid Pliteq", to "target" Pliteq's customers, emerging markets, industries or jurisdictions, to "produce competing products" and to "copy" test set up and testing methods. There is no indication of the existence of a particularly intense competitive climate in the industry, and in particular, between Pliteq and Wilrep, such that competitors are constantly adjusting their practices and even a minute competitive edge can lead to significant commercial harm, whether in terms of product development, testing methods, pricing structures, client development or advertising.

[29] A closer look at the evidence provided fails to reveal reasonable grounds to believe that prejudicial, unwitting use of confidential information is likely to occur in the present circumstances.

[30] Under the rubric "Financial and Customer Information", the evidence is to the effect that Pliteq and Wilrep already serve the same clientele in Canada, and only goes so far as to suggest that they "may" bid on the same contracts. Furthermore, the apprehended harm of "strategic" alteration of pricing contemplates that a competitor would "gain insight into Pliteq's overall business strategy and financial health", by aggregating knowledge of Pliteq's revenue, expenses, profit margin, research and development costs, and advertising and marketing costs and customers. Yet, at this time, Pliteq has not listed any financial documents in its affidavit of documents other than one document relating to research and development costs; both parties' pleadings suggest that they intend damages to be assessed after a reference. It is also noted that the action is based on Trade Mark infringement, passing off and false and misleading statements in respect of two products only: treadmills isolation pads and the Genieclip, and that the

counterclaim is for copyright and Trade-Mark infringement relating to the same products. It is hard to fathom how financial information relating to two products, if it were to be exchanged and even if it were to include associated products, would allow Wilrep to gain a comprehensive insight into Pliteq's "overall business strategy and financial health".

[31] Pliteq has therefore not established a factual basis to support a reasonable belief that the mere knowledge of the financial information that might be relevant and produced in the context of this litigation could or would unwittingly influence the decisions Mr. Wilkinson will make in the normal course of his business, or that this influence could cause significant prejudice to Pliteq.

[32] With respect to documents relating to "Business and Marketing Strategies", the evidence on record does not even establish that confidentiality arises in respect of the documents produced or to be produced. The evidence does not indicate that documents setting out Pliteq's business, marketing or advertisement strategies actually exist. Rather, Mr. Downey's affidavit states that its business strategy is "reflected by its advertising, marketing, sponsorships and attendance at trade shows". None of the documents listed in Pliteq's affidavit of documents are described as strategic plans, but the document descriptions do seem to correspond to a compilation of the advertisement and marketing activities that have been carried out in the past eight years by Pliteq. While a company may claim that its internal strategic plans are confidential, no claim of confidentiality can reasonably be made in respect of advertisements that were published, marketing campaigns that were executed, attendances that were made at trade shows, sponsorships that were given, and current or past memberships in trade organisations. Finally,

given the issues raised in the pleadings, it is unclear what relevance past or present business or marketing strategies might have, or why documents going beyond published advertisements or marketing materials might even be produced.

[33] The final category of allegedly "Highly Confidential" information consists of technical information. As with "Business and Marketing" documents, the evidence on record does not satisfactorily establish that these documents are, in fact, confidential. In addition, there is no evidence that disclosure to Wilrep of the information contained in these documents would be prejudicial to Pliteq.

[34] All such documents are described in Pliteq's affidavit of documents as "measurement", "test and classification", "test", and "test reports", and date from 2008 to 2015. As determined above, Mr. Downey has already claimed confidentiality in respect of a test report that had already been shared without restrictions with Wilrep, and it is admitted that as a distributor, Wilrep would have been provided with test reports on products it distributed. There is no basis on which the Court might find that the reports listed in Pliteq's affidavit of documents are of a different kind than those technical reports which Pliteq has voluntarily shared with distributors in the past. Given the nature of the issues in dispute, there is no basis to believe that there would be any relevance to other kinds of test reports. Furthermore, the allegations made in Wilrep's pleadings, and supported by the uncontracted evidence of Mr. Wilkinson, are to the effect that Mr. Wilkinson and Mr. Downey collaborated in the development of Genieclip. There in no reason to believe that even the allegedly "highly confidential" aspects of the testing relating to that product would not already be known to Mr. Wilkinson.

[35] In any event, the affidavit of Mr. Downey does not explain the nature of the prejudice Pliteq would suffer from disclosure of these documents to Wilrep, assuming they have not already been communicated to it. The Affidavit of Mr. Downey speaks of a competitor being able to "produce competing products before the new Pliteq products are launched" and of disclosure having an impact on "the validity of any patents applied for by Pliteq", but clearly, none of these can apply in respect of the products that are already launched and are at issue in this action. The only other alleged consequence of the disclosure of even those confidential aspects of test reports, such as specific test set up and procedure, is the ability of a competitor to copy them. The affidavit however does not suggest how Pliteq might suffer prejudice from such copying.

IV. CONCLUSION AND COSTS

[36] Pliteq has failed to establish the first branch of the *Sierra Club* test, and has even failed to establish the confidential nature of most of the information designated as CEO, and as a result, its motion will be dismissed.

[37] It is noted that Mr. Downey's affidavit contains a great deal of information and statements that are not applicable to the circumstances of this case and are ultimately irrelevant, such as the existence of a CEO protective order in US litigation between itself and another competitor unrelated to Wilrep, and the confidentiality of a wide array of financial documents that are not expected to be produced in this litigation, of inexistent strategic documents, and of research and development documents for future products that are irrelevant to these proceedings. This extraneous information appears designed to allow Mr. Downey to make general assertions

of significant commercial harm, where there is no genuine risk of harm from the specific disclosure to Wilrep of the documents that are relevant to this proceeding. This suggests an awareness of the dubious merits of the motion and an effort to bootstrap it into an arguable case. The Court is satisfied that the motion should not have been made, and that costs should accordingly be made payable forthwith.

[38] As noted above, Pliteq has also made unsubstantiated and serious allegations of misuse of confidential information against Wilrep. Such conduct deserves sanction in the form of elevated costs. The amount of $4000, which includes counsel for Wilrep's cost of travel from Toronto for the hearing, appears to the Court reasonable in the circumstances.

ORDER

THIS COURT ORDERS that:

1. The Plaintiff's motion is dismissed, with costs fixed in the amount of $4000, payable to the Defendant forthwith and in any event of the cause.

"Mireille Tabib"
Prothonotary

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-554-16
STYLE OF CAUSE:	PLITEQ, INC. v WILREP LTD.
PLACE OF HEARING:	OTTAWA, ONTARIO
DATE OF HEARING:	JANUARY 28, 2019
ORDER AND REASONS:	TABIB P.
DATED:	FEBRUARY 7, 2019

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