

Federal Court



Cour fédérale

Date: 20180115

Docket: T-1645-16

Citation: 2018 FC 37

Ottawa, Ontario, January 15, 2018

PRESENT: The Honourable Madam Justice Roussel

BETWEEN:

ARKIPELAGO ARCHITECTURE INC.

Plaintiff

and

**ENGHOUSE SYSTEMS LIMITED,
ENGHOUSE NETWORKS LIMITED,
STEPHAN J. SADLER AND DOUGLAS
BRYSON**

Defendants

ORDER AND REASONS

I. Introduction

[1] This is an appeal of a “Counsel’s and Expert’s Eyes Only” Protective Order [CEEOProtective Order] granted by Case Management Judge Madam Prothonotary Mandy Ayleson [Case Management Judge] on October 19, 2017. Under the terms of this CEEOProtective Order, the Plaintiff’s President and sole employee, Mr. Timothy O’Hara, will not have access to

information designated by the Defendants as “Counsel and Expert’s Eyes Only – Highly Confidential Information”.

[2] The Plaintiff argues that while the Case Management Judge correctly stated the relevant legal principles for a CEEO Protective Order, she erred in their application.

[3] For the reasons that follow, I am of the view that the appeal must be dismissed.

II. Background

[4] The Plaintiff and the corporate Defendants are direct competitors on the market of software products for telecommunication carriers and telecom engineers.

[5] In September 2016, the Plaintiff commenced proceedings against the Defendants for copyright infringement relating to a computer program entitled ROME v3.0 [Rome Computer Program]. In its statement of claim, the Plaintiff alleges that since approximately 2015, the Defendants have been reproducing, or causing to be reproduced, in Canada the Rome Computer Program or substantial portions thereof in computer software they are selling, distributing and offering up for sale, including “Aktavara OSS” and “NetDesigner”.

[6] In June 2017, the Plaintiff brought a motion seeking a confidentiality and protective order pursuant to Rules 151 and 152 of the *Federal Courts Rules*, SOR/98-106 on the basis that the disclosure of some of its confidential information, including the computer source code, could seriously harm its proprietary and commercial interests. In its draft order, the Plaintiff proposed

that access to the confidential information be granted only to Mr. O'Hara and other designated employees of the Defendants, the parties' experts and solicitors of record, and the Court and its personnel and court reporters.

[7] In response to the Plaintiff's motion, the Defendants sought a higher level of protection and proposed an order that allowed them to designate certain information as highly confidential information to be disclosed on a "counsel and experts' eyes only" basis, thus preventing disclosure to Mr. O'Hara. The Defendants argued that given the Plaintiff's claims of software copyright infringement, they would be required to disclose proprietary and other highly sensitive commercial information that has always been maintained in strict confidence and is not generally known to the Plaintiff, other competitors and the public. Such information, designated by the Defendants as "highly confidential information", fell into three (3) broad categories: (1) proprietary and technical information relating to the source code, design, structure or architecture of the Defendants' software products; (2) commercially sensitive confidential business information relating to the Defendants' current or future operations and activities; and (3) confidential financial information relating to the performance of specific product lines of the Defendants.

[8] The protective and confidentiality motions were heard concurrently with another motion brought by the Defendants under Rule 107. While the Plaintiff initially sought bifurcation of the liability issues and quantification issues, the Defendants requested that a distinct issue that fell within the liability phase be determined separately and in advance of the remaining liability issues. That distinct issue referred to by the Defendants as the "Threshold Issue" consisted of

determining whether the Defendants' computer programs reproduce all or a substantial part of the Rome Computer Program.

[9] On October 19, 2017, the Case Management Judge defined the "Threshold Issues" and ordered that they be determined separately and in advance of the remaining liability issues.

Specifically, the Trifurcation Order defines the "Threshold Issues" as :

[W]hether the software defined in the Statement of Claim as the "Infringing Enghouse Computer Programs" reproduces all or a substantial part of the ROME Computer Program and whether the ROME Computer Program is the source from which the Infringing Enghouse Computer Programs were derived.

[10] In a separate decision issued the same day, the Case Management Judge granted a CEEO Protective Order with respect to the "Threshold Issues" and directed that the parties provide her with a jointly-proposed order. The CEEO Protective Order was finalized and issued on November 17, 2017.

[11] The Plaintiff now appeals the CEEO Protective Order on the basis that the Case Management Judge erred in reaching the following two (2) conclusions: (1) Mr. O'Hara's evidence that the confidential information needed to be disclosed to him in order for the Plaintiff to understand the Defendants' case, to make informed decisions about the litigation and to provide instructions and assistance to counsel were bald assertions and not persuasive; and (2) there was a "risk" that if Mr. O'Hara were given access to the Defendants' source code and related information, such information could influence, subconsciously or inadvertently, future decisions made by Mr. O'Hara.

III. Analysis

[12] The parties agree that the applicable standard of review governing appeals of discretionary orders of prothonotaries is the standard enunciated by the Supreme Court of Canada in *Housen v Nikolaisen*, 2002 SCC 33 [*Housen*] : (1) the correctness standard for questions of law and questions of mixed fact and law, where there is an extricable legal principle at issue; and (2) the “palpable and overriding error” standard for factual conclusions and questions of mixed fact and law (*Housen* at paras 19-37; *Hospira Healthcare Corporation v Kennedy Institute of Rheumatology*, 2016 FCA 215 at para 66; *Mahjoub v Canada (Citizenship and Immigration)*, 2017 FCA 157 at para 74).

[13] However, the parties disagree on the standard of review applicable to the case at bar.

[14] The Plaintiff submits that the standard of correctness should be applied to dispose of the appeal because the alleged errors are questions of law or legal principles. The Plaintiff argues that it did not have the burden of establishing that it wished to exercise the inherent right of a party to participate in the litigation process and to provide instructions and assistance to counsel. The Plaintiff also argues that the risk of harm identified by the Case Management Judge was not sufficient to constitute the unusual circumstances necessary to justify the order granted and as such, she applied the wrong threshold of harm to be met by the moving party.

[15] The Defendants submit that the Plaintiff has failed to identify an extricable question of law or legal principles and as a result must show a palpable and overriding error with the Case

Management Judge's CEEO Protective Order. They further add that "because of their intimate knowledge of the litigation and its dynamics, prothonotaries [...] are to be afforded ample scope in the exercise of their discretion when managing cases" (*J2 Global Communications Inc v Protus IP Solutions Inc*, 2009 FCA 41 at para 16).

[16] The Plaintiff acknowledges that the Case Management Judge correctly stated the principles that apply to a CEEO Protective Order. While the Plaintiff may argue that the underlying legal principles have been altered, upon review of the Plaintiff's submissions, I am of the opinion that the Plaintiff is essentially arguing that the application of the legal principles should have resulted in a different outcome. Accordingly, the issues raised by the Plaintiff amount to questions of mixed fact and law, where no extricable legal principle is at issue. The appropriate standard of review is a palpable and overriding error, not correctness.

[17] In reaching this conclusion, I considered the decision of the Supreme Court of Canada in *Teal Cedar Products Ltd v British Columbia*, 2017 SCC 32 [*Teal Cedar*], which warned appellate courts to exercise caution in identifying extricable questions of law because mixed questions, by definition, involve aspects of law (*Teal Cedar* at para 45).

[18] Regardless of the standard of review to be applied by this Court, I am satisfied that there is no error on either basis which would justify the intervention of this Court.

[19] The Case Management Judge correctly articulated the legal principles that govern the issuance of a CEEO Protective Order. She first noted that orders seeking to limit access to

confidential information to legal counsel should only be granted in unusual circumstances (see *Bard Peripheral Vascular Inc v WL Gore & Associates, Inc*, 2017 FC 585 at para 15 [*Bard*]; *Lundbeck Canada Inc v Canada (Health)*, 2007 FC 412 at para 14 [*Lundbeck*]; *Merck & Co Inc v Brantford Chemicals Inc*, 2005 FC 1360 at para 15 [*Brantford Chemicals*]; *Merck & Co v Apotex Inc*, 2004 FC 567 at para 8). Then, she set out some of the factors that have been enunciated by the courts to define what constitutes unusual circumstances and noted that in the case of harm to a commercial business or scientific interest, the harm caused by the disclosure of the confidential information must be a serious threat to the interest in question and must be real, substantial and grounded in the evidence (see *Bard* at paras 15-16; *Lundbeck* at paras 5, 7, 14-16; *Brantford Chemicals* at para 10). She also noted that this Court has recognized that preventing disclosure to the opposing party is a perfectly legitimate purpose of a protective order, where the parties themselves are competitors and particularly where the evidence shows that the disclosure to the opposing party could injure the interests of the other party (see *Lundbeck* at para 16). Finally, she acknowledged that the onus is on the requesting party to establish the need for a restriction which effectively prevents counsel from showing relevant evidence to his client in order to get instructions (see *Bard* at para 29; *Deprenyl Research Limited v Canguard Health Technologies Inc*, (1992), 41 CPR (3d) 228).

[20] The Case Management Judge then properly applied those legal principles in determining that the confidential information at issue was highly sensitive in nature and warranted protection by way of a CEEO Protective Order. In reaching this conclusion, the Case Management Judge found not persuasive Mr. O'Hara's bald assertions that he required the disclosure of the Defendants' highly confidential information in order to understand the Defendants' case, to

make informed decisions about the litigation and to provide instructions and assistance to counsel. She also found that there was a real and substantial risk, grounded in the evidence, that the Plaintiff could subconsciously or inadvertently use the Defendants' confidential information in conducting the Plaintiff's future business activities.

[21] The Plaintiff submits that in concluding that the Plaintiff's "bald assertions" were not persuasive, the Case Management Judge imposed upon the Plaintiff the burden of establishing that it wished to exercise its inherent right to participate in the litigation process and to provide instructions and assistance to counsel.

[22] I am satisfied that the Case Management Judge did not impose such a burden on the Plaintiff. She simply was not persuaded by the Plaintiff's assertion that disclosure of the information was required. I also note, upon review of the record, that the Case Management Judge did not mischaracterize Mr. O'Hara's assertions. With the exception of stating that the Plaintiff does not have in-house counsel, Mr. O'Hara does not particularize in his sworn affidavits his assertion that the Plaintiff's ability to understand the Defendants' case, to make informed decisions about the litigation and to provide instructions and assistance to counsel will be significantly impaired if he does not have access to the documents, information or evidence disclosed or produced by the Defendants.

[23] The Case Management Judge's "bald assertion" finding is consistent with the jurisprudence of this Court. In *Lundbeck*, Justice Luc Martineau granted a CEEO Protective Order and rejected the respondent's argument that its principals needed to see the moving party's

restricted confidential information in order to instruct counsel, partly on the basis that the respondent's counsel could share the confidential information with outside experts. As in this case, he also found not persuasive the "bald assertion" that counsel would need to send or show the restricted confidential information to the respondents to get instructions (*Lundbeck* at para 18).

[24] In *Rivard Instruments, Inc v Ideal Instruments Inc*, 2006 FC 1338 [*Rivard*], this Court also rejected the argument that a CEEO Protective Order frustrated a party's ability to conduct its case. Justice Michel M.J. Shore held that to the extent a party's counsel identifies a CEEO document that had to be shown to the client, the party's counsel could always challenge the designation (*Rivard* at para 41).

[25] The same applies here. In order to ensure that the CEEO Protective Order not unduly interfere with the Plaintiff's ability to conduct this litigation, the Case Management Judge found that the CEEO Protective Order would apply only to the confidential information relevant to the "Threshold Issues" as defined in her Trifurcation Order. She also directed that the CEEO Protective Order include a provision permitting counsel for the Plaintiff to challenge any CEEO designation by the Defendants if counsel for the Plaintiff believes that the disclosure to Mr. O'Hara of a particular document is necessary for the Plaintiff to properly conduct its case. These measures, in my view, strike a proper balance between the Plaintiff's ability to conduct its case and the need to protect the highly confidential information of the Defendants. Contrary to the Plaintiff's submission, the Case Management Judge's finding does not impinge upon the

solicitor-client relationship. To hold otherwise would mean that no CEEO Protective Orders could ever be granted.

[26] The Plaintiff relies on this Court's decision in *Bard* to demonstrate the importance of the solicitor-client relationship and the heavy onus on the party seeking an order which impinges on the basic rights of a litigant. That case dealt with the appropriateness of a protective order preventing the defendant's in-house lawyers from accessing a US order quashing a subpoena on the basis that the witness was medically unfit to be examined as well as that witness' medical records. After finding that the case was distinct from cases dealing with the commercially sensitive information of the parties to litigation, the Court considered whether the privacy interest of the witness constituted unusual circumstances warranted granting a counsel's eyes only order. It noted that no explanation had been provided why the inclusion of the defendant's in-house counsel would cause serious harm to the witness' privacy interests, especially considering that they were both officers of the Court and had serious obligations not to disclose or otherwise use confidential information originating from the action for purposes other than the litigation in question. It is in that context that the Court found the allegations of harm to be just bald statements which did not justify the interference with the normal solicitor-client relationship. In the end, the Court found that the prothonotary erred in holding that the protective order would not prejudice the defendant because precluding its outside experts or in-house counsel from seeing the subpoena order and medical records would have prevented it from challenging the admissibility of the hearsay evidence.

[27] In my view, the circumstances in *Bard* are entirely different than in this case. Here, the commercially sensitive information at stake is the computer source codes of the Defendants' computer programs. The parties are direct competitors and the Plaintiff's President and sole employee is Mr. O'Hara. As stated by the Defendants, once Mr. O'Hara receives communication of the Defendants' highly sensitive information, he will not be able to "unlearn" what he learns in the context of the Plaintiff's action.

[28] The Plaintiff also relies on *Novopharm Limited v Nycomed Canada Inc*, 2011 FC 109 for the proposition that a CEEO Protective Order should not be granted where the party excluded from disclosure is a small company without in-house counsel.

[29] In my view, the absence of in-house counsel may in certain circumstances justify refusing a CEEO Protective Order. However, each case must be decided on its own merits. Here, the Case Management Judge indeed considered the fact that the Plaintiff does not have in-house counsel. She was also mindful that as a result of the CEEO Protective Order, no one within the Plaintiff would have access to the highly confidential information. Although sympathetic to the Plaintiff's submission, she noted that the Plaintiff would have the ability to retain an expert who would have access to the information and who could discuss it with, and explain it to, counsel for the Plaintiff. She also noted that Mr. O'Hara would also be able to share the information about the ROME Computer Program with the Plaintiff's expert and that this would assist the Plaintiff's expert in his or her analysis of the Defendants' computer programs.

[30] The Plaintiff further submits that the Case Management Judge applied the wrong threshold of harm to be met by the party requesting a CEEO Protective Order when she found that there was a “risk” that if Mr. O’Hara were given access to the Defendants’ source code and related information, such information could “influence, subconsciously or inadvertently”, future decisions made by Mr. O’Hara. The Plaintiff argues that such a “risk” of “subconsciously or inadvertently” influencing future decisions is not sufficient to constitute “unusual circumstances” necessary to justify a CEEO Protective Order.

[31] I disagree. The Plaintiff’s submission is not supported by the case law or the evidence before the Case Management Judge.

[32] The Defendants asserted that in the event of disclosure of any highly confidential information – such as proprietary and technical information relating to the Enghouse Group’s software products, their business operations of activities, or their financial performance information – they would be at risk of significant adverse consequences. The Defendants claimed that : a) competitors or potential competitors could copy or imitate the Enghouse Group’s intellectual property and incorporate it into their products, which would cause the Enghouse Group to lose its competitive advantage and negatively impact the value of its investment in acquiring, researching, or developing its software products; b) the Enghouse Group’s commercial positioning would be negatively impacted in that competitors or potential competitors will have the opportunity to target the Enghouse Group’s customers, replicate the Enghouse Group’s operations, or modify their sales effort to undermine the Enghouse Group’s business strategy; c) competitors or potential competitors could undercut the Enghouse Group’s

pricing or better position their competitive products, which would negatively impact the Enghouse Group's business going forward (see Mr. Vaduva's July 7, 2017 affidavit at para 16).

[33] This Court has held that where the parties themselves are competitors, preventing disclosure to the opposing party is a perfectly legitimate purpose of a protective order, particularly where the evidence shows that the disclosure to the opposing party "could injure the interests of the other party" (*Lundbeck* at para 16; *Rivard* at para 40), that "a party's commercial interests could be harmed without such an order" (*Rivard* at para 39), or that the disclosure of the confidential information "would create potential harm if divulged" (*Lundbeck* at para 19).

[34] This Court also recognized in *Lundbeck* that the disclosure of a party's marketing and sales' strategies would provide a commercial advantage to its competitors, even if the party receiving the information had no intention to misuse the information. Specifically, Justice Martineau stated:

[...] Such competitor may gain a competitive advantage in knowing the sales and marketing strategy of Lundbeck. If disclosure of these undisclosed documents to Genpharm, Genpharm and/or Taylor were permitted, valuable commercial information helpful to these companies would come to be known by their employees who may unwittingly and unintentionally misuse that information at some future time in a fashion undetectable by Lundbeck and in respect of which there could be no adequate remedy.

[35] The very same concern was identified by Justice Shore in the *Rivard* case where he stated that "once employees of Rivard have had access to the sensitive and proprietary information, they cannot be expected to have an 'empty head' as to such information as they make business decisions relating to the competing products" (*Rivard* at para 39).

[36] The same can be said for the information the Defendants' are seeking to protect by way of a CEEO Protective Order. The Case Management Judge's finding in this regard is therefore grounded in the evidence and in law.

IV. Conclusion

[37] Having reviewed the record and considered the submissions of the parties, I am satisfied that the Case Management Judge did not err in determining that there were unusual circumstances allowing for the issuance of the CEEO Protective Order. In the absence of a reviewable error which justifies the intervention of this Court, the motion to appeal shall be dismissed with costs. Costs, assessed at \$2,300, shall be paid by the Plaintiff to the Defendants, in any event of the cause.

ORDER in T-1645-16

THIS COURT ORDERS that the Plaintiff's motion appealing the "Counsel's and Expert's Eyes Only" Protective Order of Madam Prothonotary Mandy Aylen dated October 19, 2017 is dismissed with costs. Costs, assessed at \$2,300, shall be paid by the Plaintiff to the Defendants, in any event of the cause.

"Sylvie E. Roussel"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1645-16

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SYSTEMS LIMITED ET AL

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