COPY

IN THE SUPREME COURT OF BRITISH COLUMBIA

Date: 20100618
Docket: S103125
Registry: Vancouver

Between:

Retrotec Energy Innovations Ltd.

Plaintiff

And

Wayne Doucette, Glen Birks and 636915 B.C. Ltd.

Defendants

And

Milen Ivanov

Third Party

Before: The Honourable Mr. Justice Butler

Oral Reasons for Judgment

Counsel for the Plaintiff:	Aiyaz A. Alibhai
Counsel for the Defendants:	D. Michael Bain
Place and Date of Hearing:	Vancouver, B.C. June 3, 2010
Place and Date of Judgment:	Vancouver, B.C. June 18, 2010

[1] **THE COURT:** The plaintiff Retrotec Energy Innovations Ltd. ("Retrotec") designs and manufactures air flow testing equipment used in buildings for the purpose of energy conservation and fire safety. The equipment is sometimes referred to as "blower door technology" because it involves fitting a door with a fan in a building in order to assess whether the building is airtight. The hardware devices manufactured by Retrotec include fans and monitoring equipment. The hardware is operated and the monitoring is performed through the use of proprietary software and firmware, the programmable content of a hardware device. Retrotec is one of only three or four companies that produce such equipment. It sells products in more than 65 countries.

[2] Retrotec employed Wayne Doucette for 18 months as a technical writer and quality assurance manager. He quit his position with Retrotec on January 4, 2010 and maintains he was constructively dismissed. Glen Birks was the sole employee of 636915 B.C. Ltd., which was under contract for one year to provide Birks' services as a sales agent to Retrotec. His contract was terminated by Retrotec on January 8, 2010, a few days before the term of the contract expired.

[3] Messrs. Doucette and Birks have established a new unincorporated business which operates under the name of Patriot Virtual Instruments ("PVI"). PVI has developed technology and equipment that allows an operator to control the hardware and monitoring systems of Retrotec and other manufacturers of blower door equipment through wireless devices such as an iPhone. It describes the intellectual property portion of its development as an electronic interface that connects multiple peripheral products to a control system.

[4] In this action, Retrotec alleges that the defendants breached their employment or service contracts and that Mr. Doucette breached fiduciary duties by using confidential and proprietary information belonging to Retrotec. Retrotec also alleges that the defendants have breached their contractual or fiduciary duties by advertising and attempting to sell through PVI devices that can control Retrotec's fans and other equipment. It alleges the defendants have been wrongfully soliciting

customers or former customers of Retrotec. It alleges the defendants have converted equipment (fans, gauges and prototypes) belonging to it. Finally, it alleges that the defendants have infringed its copyright in the source code and firmware used to operate Retrotec equipment.

[5] The defendants deny the allegations. They say that the devices PVI is marketing were all developed after their employment or contracts with Retrotec were at an end. Further, and most significantly, they allege that PVI's technology was developed without the use of any intellectual property, confidential information, proprietary software or firmware owned by Retrotec. Neither Mr. Doucette's employment contract nor Mr. Birks' service contract contained covenants restricting competition with Retrotec and so the defendants say that they are free to compete in the business of air flow testing equipment.

[6] The situation has been complicated by the way in which PVI developed its equipment and technology. After leaving Retrotec, Mr. Doucette retained Milen Ivanov to design circuit boards to be used with PVI's system. A number of prototypes were made from his design (the "Circuit Boards"). Mr. Ivanov invoiced Mr. Doucette for the design work he performed, but Mr. Doucette did not pay him. Mr. Ivanov knew that Mr. Doucette had worked for Retrotec and so he contacted Colin Genge, CEO of Retrotec, to see if Retrotec would pay for the work he performed. After some negotiation, Retrotec paid his invoice. Mr. Ivanov then executed an assignment of his invention, copyright and design rights in the Circuit Boards to Retrotec.

[7] The defendants have counterclaimed against Retrotec for interfering with their contractual arrangements with Mr. Ivanov and for misappropriating or converting their property in the Circuit Boards. In addition, they allege that Retrotec induced Mr. Ivanov to breach his contractual relationship with them.

[8] At the hearing before me, I was advised that the defendants recently issued a third party notice against Mr. Ivanov. The third party notice was not part of the materials referred to on this application. Mr. Ivanov did not appear in person or by

counsel at the hearing of the application before me, although an affidavit authored by him was submitted in evidence.

[9] Retrotec applied for an interim injunction on May 11, 2010. On that date, the defendants, who were not ready to argue the substance of the application, consented to an interim order on the basis that the order was not a determination on the merits and was without prejudice to their right to apply to set it aside (the "Order"). The Order required the defendants to deliver to Smiths IP certain equipment, including the Circuit Boards. I should note that the defendants have complied with the Order delivering the Circuit Boards and they say they have no other equipment belonging to Retrotec.

[10] The Order also restrained the defendants from soliciting employees or customers through the use of Retrotec's property or confidential information. The Order further restrained the defendants from advertising any products or services which interact, control or interface with any of Retrotec's products.

[11] In the application before me, Retrotec seeks to continue the Order until trial. The defendants brought their own application to set aside the Order or, alternatively, to vary the Order so they can continue to develop and market products for the equipment Retrotec's competitors manufacture. If the alternative order is granted, they seek an undertaking as to damages.

[12] The issues that arise from these facts are:

1. Should Retrotec be granted an interlocutory injunction to the date of trial?

2. Should an order be made restraining the use of the Circuit Boards?

Issue 1. Should Retrotec be granted an interlocutory injunction to the date of trial?

[13] The test for granting an interlocutory injunction is not controversial. There are three questions that must be considered:

(1) Is there a serious question to be tried?

(2) Has the applicant demonstrated that it will suffer irreparable harm if the injunction is not granted?

(3) Does the balance of convenience favour granting the injunction?

[14] A court may consider the question of irreparable harm while weighing the balance of convenience in the two-part approach endorsed by the Court of Appeal in *British Columbia (Attorney General) v. Wale* (1986), 9 B.C.L.R. (2d) 333 (C.A.) or in the three-part approach endorsed by the Supreme Court of Canada in *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311.

[15] The first question requires a court to consider if there is a fair question to be tried as to the existence and breach of a legal right alleged by the plaintiff. Normally the threshold is low as the applicant need show only that its claim is neither frivolous nor vexatious. Accordingly, the court is not usually required to examine the merits closely. However, there are exceptions to this rule. In *RJR-MacDonald*, the Court described the first exception in the following terms at 338:

> The first arises when the result of the interlocutory motion will in effect amount to a final determination of the action. This will be the case either when the right which the applicant seeks to protect can only be exercised immediately or not at all, or when the result of the application will impose such hardship on one party as to remove any potential benefit from proceeding to trial.

[16] When the circumstances of a case fall within one of the exceptions, the court is required to look more closely at the merits and apply a higher threshold in the examination of the strengths of the applicant's case. In those cases, the applicant must establish that it has a strong *prima facie* case: *RJR-MacDonald*; and *Belron Canada Incorporated v. TCG International Inc.*, 2009 BCSC 596.

[17] In this province, courts have consistently applied the higher standard where the applicant was seeking to restrain the respondent from allegedly violating non-competition clauses. A higher standard is applied in those cases because the result

of the application often amounts to a final determination of the action. The losing respondent usually will have to shut down the new business or quit the new job such that the litigation will come to an end. Examples of cases where the higher standard was applied include *Belron*; *Unisource Canada Inc. v. Network Paper and Packaging Ltd.*, 2000 BCSC 396; and *Corporate Images Holdings Partnership v. Satchell*, 2008 BCSC 525.

[18] In this case, the defendants argue that the higher standard should be applied. Retrotec does not seriously disagree. If the injunction is continued, the defendants will not be able to carry on the business of PVI. If the injunction is continued to trial, the defendants' investment in PVI, both financial and otherwise, will be lost and they will have to pursue another business or other sources of income. This is one of those cases where the result of the application will impose such hardship on the defendants that there will be little or no point in proceeding to trial. From the perspective of Retrotec, the application has the potential to determine the action. If it is successful in this application, it will have the remedy it seeks and does not need to proceed to trial. Accordingly, in the circumstances of this case, I must review the merits of the claims to see if Retrotec has shown the existence of a strong *prima facie* case. Further, when assessing irreparable harm and weighing the balance of convenience, I must also consider the relative merits of the claims and the defences.

[19] There are two primary branches to Retrotec's claims. First, Retrotec alleges the defendants used proprietary or confidential information. Second, Retrotec alleges the defendants have breached contractual or fiduciary obligations by wrongfully soliciting its customers or former customers. As I will describe in more detail, there is limited merit to each of these arguments.

Use of Confidential or Proprietary Information

[20] The allegation that the defendants are using such information is at the heart of this application. It is necessary to consider the nature of the allegations to determine if Retrotec has established a strong *prima facie* case. There are two unusual features to this case. First, the defendants do not allege that they have any

right to use confidential or proprietary information belonging to Retrotec and deny using any such information. Second, Retrotec cannot identify with any precision the confidential information that the defendants have taken and used. I will deal with each of these in turn.

[21] Messrs. Doucette and Birks have both sworn affidavits denying the use of any confidential information. Mr. Doucette describes the multiprotocol software technology platform PVI designed as something akin to a universal television remote control unit. He calls it "the interface". He states in his affidavit, and I quote from paragraphs 29 to 31:

> 29. No proprietary or confidential knowledge from Retrotec was required to design or implement the Interface. The communications occur over an industry-standard communications bus; the protocols of which are common general knowledge in the public domain.
>
> 30. No part of the Interface from the handheld device to end output uses any firmware or software, proprietary or otherwise of any third parties including those of the Plaintiff, Retrotec. Indeed, the Interface is designed to bypass proprietary components of the Retrotec system altogether.
>
> 31. PVI has not used any information, plans, drawings, codes, source code, firmware, lists, data, or confidential or proprietary information of any kind in whole or in part, belonging to Retrotec in developing the interface or any of the current products I am working on.

[22] Retrotec argues that the assertions of the defendants are not credible. It says it is unlikely that anyone could have developed a device to control its equipment without using confidential and proprietary information. Further, it argues that it is not credible that the defendants could have been in a position to market their product so quickly. Mr. Genge notes that Mr. Doucette did have access to a significant amount of confidential information. He says that "[a]s part of his role, Mr. Doucette was the only employee who had complete access to all of Retrotec's product computer software, including the source code and firmware." Indeed, Mr. Doucette does not deny this.

[23] These allegations could allow me to infer, in the absence of other relevant evidence, that the defendants used confidential or proprietary information. However, there are other significant facts that do not support this inference. First, Retrotec is

not able to say with any specificity, the confidential or proprietary information the defendants have taken and used. Indeed, the vagueness of Retrotec's claim is surprising. In his first affidavit, Mr. Genge describes the confidential information taken as certain ideas Mr. Doucette developed when he was an employee. He describes the ideas as the "improvements". However, the only idea described was a somewhat casual suggestion by Mr. Doucette before he left Retrotec that it might be possible to use an iPhone application to control equipment. Mr. Genge was not interested in funding development of any such improvements and so neither Retrotec nor Mr. Doucette did further work on the idea.

[24] Second, even though Retrotec has acquired the rights to the design of the Circuit Boards by assignment, Mr. Genge is still not able to add anything to the vague description of the confidential information or the improvements. If confidential or proprietary information had been used for the design of the Circuit Boards, either Mr. Genge or Mr. Ivanov should have been able to describe it with some precision. They did not do so.

[25] Third, Retrotec's own evidence undermines its suggestion that PVI's technology must use confidential or proprietary information. Mr. Genge states at paragraph 17 of his affidavit:

> 17. Contrary to Doucette's assertion, not all of Retrotec's in-house development relates solely to its own products. At considerable time and expense we have ensured that both our digital gauges firmware and all of our current software are designed to work seamlessly with all of our major competitors' hardware. We have manufactured speed control adapters that allow us to control virtually any other manufacturers' fan.

[26] As Mr. Genge describes, Retrotec's own technology allows a user to operate the hardware of other manufacturers. In other words, Retrotec's technology interfaces with its competitors' equipment in precisely the way that it says is not possible without the use of proprietary information. This admission appears to contradict the substance of the allegations made against the defendants.

[27] In summary, Retrotec has shown a strong *prima facie* case in support of the allegation that Mr. Doucette had access to confidential and proprietary information.

However, when the frailties in Retrotec's case are measured against the defendants' definitive assertions denying any use of confidential or proprietary information, I cannot conclude that Retrotec has put forward a strong *prima facie* case in support of the allegation that the defendants have wrongfully used such information.

Wrongful Solicitation of Retrotec Customers

[28] As noted earlier in these reasons, Mr. Doucette was a relatively short-term employee. When first hired as a technical writer, he entered into a written employment agreement. The agreement contained no provision restricting Mr. Doucette from competing against Retrotec at the conclusion of his employment. He did agree "not to disclose any non-public information about Retrotec to competitors, clients or suppliers that may be injurious to Retrotec's business." The employment contract provided that he was paid a salary of $50,000 and entitled to two weeks' vacation. There is nothing about the contract or the job position that suggests he carried out a management role. He was given a raise in salary to $79,000 when his job title changed to quality assurance manager, but he did not sign a new employment contract. He says that he did not have executive or management functions and that he did not have signing authority on behalf of Retrotec. He says that his functions were subject to the approval of Mr. Dionne, his supervisor, or Mr. Genge.

[29] Mr. Genge disputes Mr. Doucette's assertions that he did not have management functions and says that he was trusted with confidential information regarding all of Retrotec's systems.

[30] For the purpose of this application, I need not resolve the dispute as to whether Mr. Doucette exercised management functions. I accept that he was a mid-level employee or manager of Retrotec. However, the difficulty with Retrotec's position is that there is nothing in the employment agreement that restricts Mr. Doucette from competing in the blower door business with Retrotec. Retrotec provided me with no basis on which to imply any such term in the employment agreement. The idea of controlling devices wirelessly through an iPhone is not the

corporate opportunity Retrotec suggests it is as it is not a unique idea. Further, as I have found that Retrotec has not put forward a strong *prima facie* case to show that Mr. Doucette is using confidential or proprietary information, there is no basis for finding a strong *prima facie* case based on the alleged breach of any fiduciary obligation by Mr. Doucette.

[31] The assertion that Mr. Birks breached his agreement by soliciting clients of Retrotec also falls short of a strong *prima facie* case. The agreement whereby he provided contract services through his numbered company to Retrotec was never reduced to writing. He never entered into a written or oral agreement with Retrotec that contained restrictive covenants. It is difficult to imagine a case for implying any such term in the arrangement between the parties.

[32] Mr. Birks asserts that he did not have any ability to exercise executive or management functions. He said that he did not have any signing or decision-making authority. Mr. Genge disputes this point. However, as with Mr. Doucette, there is no need to examine this issue in more detail. At most, Mr. Birks occupied a mid-level position with Retrotec. However, that does not assist me in considering whether Mr. Birks may have breached his contractual obligations by marketing PVI products.

[33] When considering whether there is a strong *prima facie* case for an injunction to restrain marketing of PVI's blower door technology, it is important to remember that this technology can be marketed to anyone who owns a house or a building and is interested in assessing whether the structure is airtight. In other words, it is not a business that has a limited number of clients. The potential market for the technology is very large. It is not a business where the products have to be marketed through the use of client lists. There is no suggestion that the defendants took or used confidential client information.

[34] In summary, the plaintiff has failed to put forward a strong *prima facie* case in support of its claim that the defendants, by marketing their blower door interface technology, are in breach of any contractual or other obligation owed to Retrotec.

Irreparable Harm and Balance of Convenience

[35] I propose to treat these two questions together. It is practical to do so in this case because of my conclusions on the first issue.

[36] The principles regarding consideration and proof of irreparable harm are well understood. As the court stated in *RJR-MacDonald* at 341:

> "Irreparable" refers to the nature of the harm suffered rather than its magnitude. It is harm which either cannot be quantified in monetary terms or which cannot be cured, usually because one party cannot collect damages from the other. Examples of the former include instances where one party will be put out of business by the court's decision; [or] where one party will suffer permanent market loss or irrevocable damage to its business reputation; ... The fact that one party may be impecunious does not automatically determine the application in favour of the other party who will not ultimately be able to collect damages, although it may be a relevant consideration. [Citations omitted.]

[37] This court has held that the possibility of disclosure of confidential information that has the potential to undermine a business undertaking to individuals who are not bound by any duty of confidence may amount to irreparable harm: *XY, Inc. v. IND LifeTech Inc.*, 2007 BCSC 1666. When assessing the balance of convenience, the factors to consider include: the nature of the harm alleged; which party altered the status quo; the merits of the case; and the ability of the respondent to pay damages. Any other factor that may be important given the circumstances of the case can be taken into account.

[38] I conclude that Mr. Doucette did have access during his employment to Retrotec's confidential and proprietary information. If PVI uses such information for the purpose of its technology, the harm to Retrotec may be irreparable. As counsel argued, if proprietary software or firmware is released to the world, the genie is out of the bottle. There is nothing that can be done to repair such a breach of copyright or other intellectual property rights.

[39] However, I have also concluded that Retrotec has failed to put forward a strong *prima facie* case to show that the defendants have used confidential or proprietary information in the design of the interface technology that PVI was

attempting to market. To put it in colloquial terms, Retrotec has not explained how the genie is out of the bottle if PVI is able to market its technology.

[40] I should note that when arriving at these conclusions, I have not taken into account the purported assignment of Mr. Ivanov's rights, if any, in the intellectual property, copyright or design of the Circuit Boards. I will discuss this issue separately.

[41] I also conclude that if the defendants are prevented by interlocutory injunction from exploiting their interface technology, PVI would likely go out of business. The litigation would probably be over for the defendants. The affidavit evidence put forward by Messrs. Doucette and Birks leads me to accept their contention that they could not proceed to trial if they are prevented from attempting to market their technology. The same evidence leads me to conclude that it is unlikely that the defendants could pay an award of damages if a breach is ultimately found.

[42] In these circumstances, the balance of convenience is difficult to determine. On the one hand, it is clear that Mr. Doucette had access to confidential information and that if it is released to others in the blower door industry, Retrotec could suffer serious harm. On the other hand, the defendants will certainly suffer irreparable harm if the injunction is continued. While the defendants were the ones to alter the status quo, there was no contractual obligation preventing them from doing so. In these circumstances, the balance of convenience should be decided on the basis of my assessment of the merits of the case. The remedy is extraordinary. It should not be granted where the applicant has failed to show a strong *prima facie* case of a breach of a legal right. It would be improper to enjoin the defendants from using confidential or proprietary information merely because they possess such information. This court is not in the business of issuing precautionary injunctions. The failure by Retrotec to establish a strong *prima facie* case of a breach is fatal to its claim for the continuation of the injunction in the circumstances of this case.

Issue 2. Should an order be made restraining the use of the Circuit Boards?

[43] I was invited by both parties to this application to make a ruling on the injunction that would deal specifically with the Circuit Boards. The question as to the rights to the intellectual property in the Circuit Boards is critical to the ongoing business of PVI. It is my understanding that the interface technology developed by PVI requires the use of the Circuit Boards technology. While I was not advised of this directly, I infer that PVI needs to be able to incorporate the Circuit Boards in their products in order to market and sell their technology.

[44] In light of the issuance of the third party proceedings and the joinder of Mr. Ivanov as a party to this action, the issues surrounding the ownership of the intellectual property and the Circuit Boards are also extremely important to the litigation. Given this situation, it would be unfair to rule upon the use that can be made of the Circuit Boards in the absence of Mr. Ivanov. As I noted earlier in these reasons, Mr. Ivanov, as a recently added party, was not present at this application. In these circumstances, it would be inappropriate for me to comment on the merits of the claims and counterclaims in relation to the Circuit Boards.

[45] It is unfortunate that I am not able to deal with the issues that arise from the circumstances surrounding the creation and purported assignment of the technology relating to the Circuit Boards. What I can do is set out the procedure that needs to be followed to consider this issue. I note that the Circuit Boards are currently in the possession of Mr. Bain's firm pursuant to the Order. I infer that this will prevent any further use of the Circuit Boards or the technology in relation to them pending further order of this court.

[46] Accordingly, paragraph 1 of the existing Order will remain in place pending further application of any party, including Mr. Ivanov. In order to remove any doubt about the effect of this ruling, I would add the following term to that Order:

> No party shall make use of the Circuit Boards or any proprietary information used in the design of the Circuit Boards pending further order of this court.

[47] I anticipate that either Retrotec or the defendants will promptly set down a further application for an injunction to determine which, if any, party will be restrained from using the Circuit Boards pending the trial of this matter. I am not seized of that application.

[48] In summary, I deny Retrotec's application to continue the interim injunction as set out in the Order until the date of trial. However, paragraph 1 of the Order, which restricts the use of the Circuit Boards and requires the return of Retrotec's property, will remain in place subject to the additional term I have outlined and pending further application by any party and further order of this court.

SUBMISSION OF COUNSEL

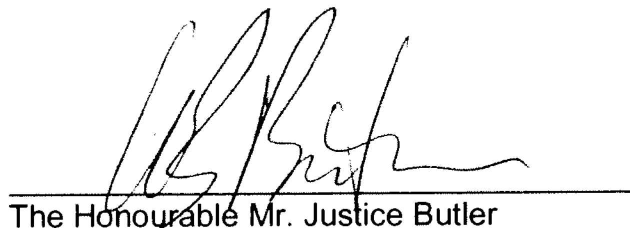
[49] THE COURT: The Order will be varied to provide that the Circuit Boards will be held by Mr. Bain's firm pending further order of the court.

SUBMISSIONS OF COUNSEL ON COSTS

[50] THE COURT: It certainly was a mixed ruling because, at the end of the day, it probably leaves the parties in a similar situation that they were in before it started. However, I agree with the defendants' submission that they were substantially successful on the application. It was a lengthy application and I think there is no reason to vary from the usual practice that costs follow the event. The defendants will be entitled to the costs of this application.

[51] MR. ALIBHAI: Thank you, My Lord.

[52] MR. BAIN: Thank you, My Lord.



The Honourable Mr. Justice Butler