See paras. 21-25, 35

Case Name:

Trimay Wear Plate Ltd. v. Way

Between
Trimay Wear Plate Ltd., Plaintiff, and
Keith Way and Premetalco Inc., Carrying on Buisness
Under the Firm Name and Style Wilkinson Steel and
Metals, Defendants

[2008] A.J. No. 1280

2008 ABQB 707

66 C.P.C. (6th) 315

2008 CarswellAlta 1794

456 A.R. 388

Docket: 9703 22138

Registry: Edmonton

Alberta Court of Queen's Bench
Judicial District of Edmonton

R.A. Graesser J.

Heard: May 20-21, June 19, and September 3, 5, 23,
25, 30, 2008.
Judgment: November 12, 2008.
Released: November 13, 2008.

(63 paras.)

Civil litigation -- Civil procedure -- Discovery -- Examination for discovery -- Range of examination -- Objections and compelling answers -- Relevancy -- Application by plaintiff to compel responses from defendant's officer related to accounting of profits allowed -- Plaintiff commenced action against former employee and corporate defendant, alleging employee gave

corporation confidential information allowing it to produce product -- That defendants disputed plaintiff's entitlement to accounting, or to time period requested for insufficient to prevent plaintiff from asking questions -- Financial information material and relevant to plaintiff's claim and plaintiff entitled to obtain that information -- Plaintiff entitled only to specific information requested, financial reports provided by defendant to its parents company, from date of alleged breach to date of trial.

Statutes, Regulations and Rules Cited:

Rules of Court, Rule 209

Counsel:

Donald J. Wilson, Davis LLP, for the Plaintiff.

Robert P. James and Lynn Michele Angotti, Parlee McLaws LLP, for the Defendants.

Memorandum of Decision

R.A. GRAESSER J.:--

Introduction

1 This is an application arising during case management of this action. The parties brought some 7 applications, which were heard over a series of case management meetings from May to October. This memorandum deals with the Plaintiff's application to compel responses to 2 undertakings given by Wilkinson's officer, Mr. Hughes, relating to Wilkinson's financial information. Some information was provided, but Trimay says that the information given by Wilkinson, or offered to be provided by Wilkinson, does not satisfy the undertakings.

2 Wilkinson opposes the application, and maintains that it should not be obliged to provide the information sought unless and until it has been established that Wilkinson has been proven to have conducted itself wrongfully.

Background to Application

3 Way is a former employee of Trimay. He left his employment with Trimay in March, 1996. He immediately began employment with Premetalco, which carries on business under the name Wilkinson Steel. Trimay alleges that Way disclosed confidential information regarding the production and sale of metal wear plates to Wilkinson. According to Trimay, use of this confidential

information by Wilkinson allowed Wilkinson to produce a product that it would not otherwise have been able to produce, and allowed them to get into the wear plate market much sooner than they would have been able to had they not misappropriated Trimay's proprietary secrets.

4 Trimay also alleges that use of confidential pricing and customer information provided to Wilkinson by Way gave Wilkinson access to Trimay's customers, and was wrongfully used by Wilkinson to compete with Trimay.

5 Trimay commenced this action in November, 1997, seeking an interim and permanent injunction against Way and Wilkinson, damages in the amount of $450,000.00 or such other amount as is proven at trial, an accounting of Wilkinson's revenues, punitive damages, interest and costs.

6 In ***Trimay v. Way***, [2008] A.J. No. 1279, 2008 ABQB 705, I recently allowed Trimay to increase its damage claim against the Defendants to $8,000,000.00. The Plaintiff's claim with respect to an accounting of Wilkinson's revenues or profits remains the same.

7 Trimay's position on remedies is that they should either recover their own losses, based on the sales they would have made but for the competition from Wilkinson, or an accounting of Wilkinson's profits from the time it started competing with Trimay, until trial. Trimay has not yet elected which of these remedies it will seek at trial, and will not likely make such an election until discoveries are over and they have all of the necessary information to make a reasoned decision, and possibly expert reports.

8 Undertaking 184, taken under advisement, was to:

> Provide documentation with respect to the financial statements, profit/loss reporting, the revenue, sales, expenses that was reported to AMC in 1995 through 2000.

9 Undertaking 185, also taken under advisement, was to:

> Provide all of the financial reporting that the Wilkinson division of Premetalco Inc. has provided to AMC that generate the report that have been provided to the Plaintiff up to and including the date of trial.

10 AMC is the parent company of Premetalco Inc. (Wilkinson) and apparently consolidates its financial results with those of its various subsidiaries.

11 The Defendants responded to the request for undertakings in its brief in opposition to the motion:

> Undertakings 184 and 1985 - Until the Plaintiff has proven that the Defendants conducted themselves wrongfully, the Defendant Wilkinson will not provide financial information, as it is not related to the damages suffered by the Plaintiff.

> Should the Court determine such information is to be provided, the Defendant submits that the information should be restricted solely to its products which the Plaintiff advises it specifically alleges are strikingly similar to its products, the confidential information of which is alleged to have been stolen. In addition, the Defendant submits that such information should only be provided pursuant to a Confidentiality Order.

Position of the Plaintiff

12 The Plaintiff argues that:

> 1. Wilkinson provided financial reports from its parent company, AMC, from 1995 to 2000. The financial reports of AMC provide financial information for the company as a whole and do not identify the financial information relating to any of its individual divisions, more specifically the reports provide no breakdown as to financial information for Wilkinson.
> 2. Counsel for Trimay requested financial information relating to Wilkinson from 1995 to the date of trial. Wilkinson has responded that they are prepared to give the financial reports from AMC up to the date of trial, however the request for financial information relating specifically to Wilkinson were refused.
> 3. Trimay submits that the financial information requested of Wilkinson will assist Trimay both in establishing the amount of damages and in providing information related to the pleaded remedy of an accounting. The financial information relating to Wilkinson's profit, loss, revenue, sales and expenses of its wear plate business are both relevant and material to the issues raised in the pleadings.

13 The parties are agreed that the starting point for this application is whether or not the requested information and records are relevant and material. They agree that the law in that regard is well described by Slatter J. (as he then was) in ***Weatherill (Estate) v. Weatherill***, [2003] A.J. No. 88 (Q.B.) At para. 16:

> In determining whether a document is relevant and material, the starting point is the pleadings. The pleadings define the issues, and relevance must be determined with respect to the issues. The pleadings are also relevant with respect to the issue of materiality. However, with respect to materiality, one must also have regard to the issue in question. Where does the burden of proof lie? Is the issue something that is capable of direct proof, or is it something like a person's state of mind, which can only be proven indirectly? Does one party essentially have to try and prove a negative? How are cases of this type usually proven at trial? The less amenable a fact is to direct proof? the wider will be the circle of materiality.

> There are some facts that can only be proven by essentially eliminating all of the competing scenarios, thereby leaving the fact in issue as the sole logical inference.

14 In addition, it is clear that Trimay is requesting information from Wilkinson as to what it provided to its parent company, rather than of the parent company as to what it received from its subsidiary. No third party issues arise on this application.

15 Wilkinson elaborated its position in its brief on damages and the relevance of financial information.

16 They argued that the time period for a remedy in favour of Trimay is not open ended, such that information to the date of trial would not be available to the Plaintiff. This makes the scope of the information sought by the Plaintiff too broad, and for too long a period of time.

17 A number of cases on damages were submitted by Wilkinson, namely ***Strother v. 346920 Canada Inc.***, [2007] 2 S.C.R. 177, 2007 SCC 24; ***Cadbury Schweppes Inc. v. FBI Foods Ltd.***, [1999] 1 S.C.R. 142; ***Firemaster Oilfield Services Ltd. v. Safety Boss (Canada) (1993) Ltd.***, [2000] A.J. No. 1480 (Q.B.); ***Monarch Messenger Services Ltd. v. Houlding***, [1984] A.J. No. 1018 (Q.B.); ***Canson Enterprises Ltd. v. Boughton & Co.***, [1991] 3 S.C.R. 534; ***Sure-Grip Fasteners Ltd. v. Allgrade Bolt & Chain Inc.***, [1993] O.J. No. 193 (Ont. C.J.G.D.); ***Unified Freight Services Ltd. v. Therriault***, [2006] A.J. No. 125 (Q.B.); and ***Canwest Propane, Inc. v. Steele***, [1990] A.J. No. 903 (Q.B.).

18 Trimay responded, arguing that because AMC's financial statements are not broken out by division, the information in them is essentially irrelevant to the issue of damages or profits. Trimay is seeking financial information that is directly related to the remedies sought in the case. They raise ***Hodgkinson v. Simms***, [1994] 3 S.C.R. 377 and ***Lac Minerals Ltd. v. International Corona Resources Ltd.*** , [1989] 2 S.C.R. 573 with respect to the availability and nature of equitable remedies, and ***Cadbury Schweppes*** (*supra*) and ***Matichuk Equipment (1991) Ltd. v. Northern Truck & Industrial Supplies Ltd.*** (*infra*) in support of their arguments concerning relevance and materiality.

19 Wilkinson responded further, and argued that:

> Wilkinson Steel, on a general level, agrees that information about profit, loss, revenue, sales and expenses of its wear plate business is relevant. until discoveries on undertakings, the Plaintiff never requested financial information from Wilkinson Steel, other than the cost center statements regarding wearplate (see Mr. Hughes' undertakings 125 and 126, Exhibit "A", Douglas Fraser's affidavit of February 1, 2008) and some general questioning around profit margins and sales methods about wearplate, all of which was relevant. Wilkinson Steel submits that the Plaintiff's current requests, set out in Undertakings 184 and

185, are extremely broad and go far beyond what is material and relevant to the success of Wilkinson Steel's wearplate cost center.

However, the Plaintiff requests "all of the financial reporting that the Wilkinson division of Premetalco has provided to AMC", similar to the breadth of discovery permitted by Justice Acton in ***Matichuk Equipment Ltd.***, relied upon by the Plaintiff. That case is distinguishable, as the Plaintiff alleged that the entire business of the Defendant was based upon the improper use of the Plaintiff's property. Wilkinson Steel conducts significant business in its other divisions, which business is irrelevant to these proceedings. The Plaintiff does not require, to obtain disgorgement of profits, ant specific information in relation to these other decisions or Wilkinson Steel's other cost centers.

As set out in Wilkinson Steel's brief, dated June 10, 2008, any profits relating to the non-wearplate business would not be caused by the alleged wrongdoing of the Defendants; such financial information would therefore be irrelevant (para. 12, 23). The relevant financial information would be the sales of wearplate and the reasonable necessary expenses required to earn the sales such as direct expenses and the general overhead attributable to the wearplate cost center (para. 16). This does not, by necessity, include information on the sales, direct expenses or general overhead attributable to other cost centers. Therefore, Wilkinson Steel submits that the type of evidence referred to in paragraph 24(a) of its brief, as it relates to relevant material information of Wilkinson Steel, would be restricted to Wilkinson Steel's financial records of revenue, profit and expenses of its wearplate business.

In conclusion, Wilkinson Steel submits that Undertakings 184 and 185 are overly broad, request irrelevant and immaterial information, and should be denied by this Honourable Court.

Analysis

20 Trimay seeks an accounting of Wilkinson's profits to the time of trial. They seek the alternative remedy of damages. Trimay has not elected which of these somewhat mutually-exclusive remedies it will pursue. It cannot have its lost profits on the sales it claims it would have made but for Wilkinson's wrongful acts, plus Wilkinson's profits. It can likely have one or the other remedy if it is successful. It does not have to make an election as to which remedy it will seek until sometime before trial. That issue will undoubtedly be determined in case management when the matter is ready to be set for trial.

21 ***Strother*** involved a claim by a lawyer's former client against the lawyer and his former law firm for damages for breach of fiduciary duty and breach of confidence. The lawyer had taken a financial interest in a second client in the same line of business as the Plaintiff. The Supreme Court noted that equitable remedies are always subject to the discretion of the court (at para 74). The Court affirmed a number of principles relating to the equitable remedy of accounting of profits:

> ... equity is not so rigid as to be susceptible to being used a vehicle for punishing defendants with harsh damage awards out of proportion to their actual behaviour." (at para. 88)

22 And at para. 89:

> ... the stringent rule requiring a fiduciary to account for profits can be carried to extremes and ... in cases outside the realm of specific assets, the liability of the fiduciary should not be transformed into a vehicle for the unjust enrichment of the plaintiff.

23 At paragraph 90, the Court noted:

> At some point, intervention of other events and actors (as well as the behaviour of the claimant) dissipates the effect of the breach.

24 The Court went on to consider a number of "cut-off dates" and limited the length of time the lawyer's profits should be disgorged to the length of time he remained at the law firm, rather than to the time of trial.

25 I do not read ***Strother*** as holding that an accounting can never be ordered from the time of the breach of duty to trial; rather, the court in assessing damages must be careful not to give the plaintiff an inequitable remedy. Indeed, ***Tree Savers International Ltd. v. Savoy*** *(infra)* assessed damages beyond the date of trial.

26 ***Cadbury Schweppes Inc.*** considered the argument that the defendant got a "head start" on its manufacture of a new product by getting and using confidential information from a former employee of the plaintiff. The court held that the defendant used the information to "springboard" into the highly competitive juice market, and that it had saved a 12 month in-house development period.

27 In ***Firemaster***, damages were tied to the length of notice the departing employee should have given his employer, there having been no conspiracy on the part of the new employer nor any breach of fiduciary duty by the departing employee. His only wrongful act was the failure to give reasonable notice of his departure.

28 ***Monarch*** involved an improper use of confidential information by a departing courier, namely

the precise business needs of two important customers of his former employer. Sulyma J. based damages on the non-compete period of one year standardly used by Monarch with its couriers (Houlding had not signed such an agreement). Sulyma J. considered that Monarch should not expect an employee who hadn't signed a non-compete clause to be in a worse position than an employee who had, and thus limited Monarch's damages to a one year period, despite evidence that Monarch's losses had continued beyond that period.

29 ***Canson*** deals with the equitable remedy of compensation, where restitution and accounting are not appropriate. That remedy is tied to losses suffered by a plaintiff through the defendant's breach of fiduciary duty or breach of confidence. It relates to the alternate remedy being sought by Trimay, but not the accounting claim.

30 The ***Cadbury Schweppes Inc.*** case also deals with the remedy of compensation. The plaintiff was seeking damages to the time of trial, some 11 years earlier. The court had made an express finding that the confidential information taken by the individual defendant was "nothing special" and a competitive juice formula could have been developed quite easily by existing information known to anyone "skilled in the art". Damages were limited to a one year period.

31 ***Sure-Grip*** involved the departure of three employees, without notice, who immediately started up a competing business. One of the employees was found to be a fiduciary of his former employer. The court awarded damages based on a 1 year period, having found that the fiduciary employee should not have solicited any of the employer's customers for a period of one year following his departure. The balance of the case dealt with how to measure the loss of profits of the plaintiff (as opposed to their loss of revenues).

32 In ***Unified Freight,*** Therriault had agreed to a one year non-compete provision in his employment agreement. He was dismissed, and immediately went into competition. Unified alleged that he had taken and used confidential information, and was soliciting Unified's clients. Erb J. awarded Unified damages in the amount of its loss of profits over the year following Therriault's termination.

33 ***Canwest*** involved a dispute over a restrictive covenant in an employment agreement. After finding that the 2 year covenant was reasonable and enforceable, Prowse J. awarded only nominal damages because of the failure of the Plaintiff to prove that its losses over the two year period had been caused by the wrongful act of the defendant, as opposed to market forces.

34 ***Hodgkinson*** is cited by Trimay for the point that equitable remedies are highly flexible and are intended to be restitutionary in nature. The Court should look at the harm suffered by the breach of duty and tailor a remedy to fit the particular circumstances of the case. That is what occurred in the ***Cadbury Schweppes Inc.*** case.

35 Wilkinson has established that there are a number of defences which it may raise to Trimay's claim for an accounting: that an accounting beyond a fixed period of time might give the plaintiff

windfall-type damages; that Way (even if he were found to be a fiduciary to Trimay) would have been free to compete after perhaps a year from his departure; that even if Wilkinson were found to have received and used confidential information, Wilkinson could have developed its own wear plate within a short time based on technology known to those already skilled in the art; Trimay's losses were not caused by any wrongful act on the part of Way or Wilkinson, so there should be no accounting ordered; and Trimay's losses were caused or significantly contributed to by its own internal management problems, so there should be no accounting ordered; Trimay's losses were caused by external market forces so there is no causal link between any decline in their business and any wrongful act on the part of Way or Wilkinson. There are likely other defences possible to the accounting remedy not listed above.

36 However, the availability of possible defences is not a significant factor in answering the question of what information must be provided on examinations for discovery. Relevant and material information must be provided, which will either assist the plaintiff in proving its case or in responding to the defences raised. Relevance and materiality is determined by the pleadings, not by the strength of the various positions being taken by the parties. The defence raised by the Defendants are largely questions of fact, and the Plaintiff is entitled to canvas the facts on discovery.

37 As noted by Master Funduk in ***Beanstock Coffee & Tea etc. v. Westmount Shopping Centre***, [1998] A.J. No. 1748, (Alta M 12 Nov 98 JDE 9603 20619), relevance on discovery is set by all the pleadings, not just by the statement of defence (as cited by Stevenson & Cote, *Civil Procedure Encyclopaedia*, 28-34, footnote 9).

38 The statement of claim seeks an accounting. Remedies are sought to and are assessed as at the date of trial. The fact that Wilkinson disputes the Plaintiff's entitlement to an accounting at all, or an accounting to the time of trial, does not mean that the Plaintiff cannot ask Wilkinson's officer relevant and material questions about the accounting remedy from the alleged breach date to the date of trial.

39 As such, I do not see any valid objection to the questions covered by undertakings 184 and 185 on the basis that they cover too long a period of time. The questions asked by counsel for the Plaintiff cover the period of time claimed for in the statement of claim. Subject then to relevance and materiality, they should be answered.

40 Trimay may be entitled to an accounting. It may not. Even if it establishes an entitlement to an accounting, it may be held to an accounting for a limited period of time from any breach. It may or may not be entitled to an accounting to the date of trial (see ***Tree Savers International Ltd. v. Savoy,*** *(infra*).

41 But it is entitled to obtain the necessary information to attempt to prove its case in accordance with its statement of claim.

42 Just because Wilkinson denies Trimay's entitlement to an accounting, or maintains that the accounting cannot go for as long as Trimay claims, these allegations do not preclude Trimay from asking relevant and material questions about its claim or the Defendants' defences. Wilkinson's remedy is in the area of costs, if it is successful in defeating the claim for an accounting, or it successfully limits the accounting claim to a fixed period of time from any breach. Its remedy is not to deny Trimay the ability to gather information about its claims or Wilkinson's defences.

Relevance and materiality

43 With respect to the accounting remedy, there can be little doubt that the accounting remedy, if ultimately sought by Trimay and ordered by the court, will involve a detailed analysis of Wilkinson's gross revenues from the products in question.

44 Because a determination of Wilkinson's gross revenues is the starting point for calculating Wilkinson's profits (and the statement of claim seeks gross revenues as the basis for Trimay's accounting claim), Trimay is entitled to test the information provided by Wilkinson by not only looking at the records which have been produced in the lawsuit, but also by looking at any other records in Wilkinson's possession or control on the same subject. Production is not complete by providing only part of the relevant and material records. Records which are relevant and material cannot be held back on the basis that they contain similar information to records already produced.

45 In determining the amount of gross sales or revenues it would appear that it is a legitimate line of enquiry to determine the extent of sales to related or affiliated companies. Internal sales may allow the affiliate to book the profit, which might artificially reduce Wilkinson's profits. That would in any event be a proper line of questioning in a case like this.

46 Wilkinson will likely be entitled to deduct from its gross revenues all costs and expenses that it can tie to the manufacture and sale of those products. That would likely include general overheads attributable to its business as a whole and not just those tied to the products in question.

47 Indeed, it is to Wilkinson's advantage, for the purpose of this lawsuit, to attribute as much expense as it can to these products, and minimize its profitability.

48 Trimay does not simply have to accept Wilkinson's calculations as to costs and expenses. It is entitled to test those costs and expenses to ensure that they are being accurately recorded, and properly attributed to the products in question. For the purpose of looking at attribution of overheads, for example, it is likely relevant to see what other revenues Wilkinson has. For example if wear plate amounts to 10% of the overall business of Wilkinson, it may not be reasonable to attribute 50% of the general overheads to the wearplate business. Trimay would at least be entitled to question about the basis of attribution.

49 As can be seen from the various cases cited by Wilkinson, the determination of profits is not a straightforward matter.

50 It is not clear to me the extent to which Wilkinson has provided information as to its profits or losses on the manufacture and sale of wearplate since it began its manufacturing operation in 1996. That is not the subject of this application.

51 As to what Wilkinson was providing to its parent company, it is, in my view, reasonable for Trimay to want to see whatever Wilkinson has provided to its parent company as to its revenues and expenses relating to the wear plate business, as well as its overall operations, in the event Wilkinson seeks to deduct general overheads from its gross revenues relating to wear plate.

52 Trimay is entitled to see if the information provided by Wilkinson to its parent company is the same as the information being provided by Wilkinson for the purposes of the lawsuit.

53 That being said, this is not a Rule 209 application with respect to AMC. All Trimay is entitled to is information provided by Trimay to AMC. AMC does not have to break down any of the information in its annual reports or other financial reporting documents.

54 Wilkinson says that the AMC reports were provided not in connection with the financial information in them, but rather in relation to corporate governance issues. As I have said, AMC doesn't have to provide anything on this application. Trimay must produce what it has in its possession or power, although that may include its parent company's annual reports and financial statements (to the extent those records are relevant and material to any of the issues in this action).

55 To the extent information and records are relevant and material, the appropriate time period spans the date Way left Trimay's employment, and continues to the time of trial (or the date Trimay elects not to seek an accounting, if that is ever the case).

56 The parties have referred to the breadth of discovery of financial information sought in ***Matichuk Equipment (1991) Ltd. v. Northern Truck & Industrial Supplies Ltd.***, [2003] A.J. No. 894, 2003 ABQB 608. There, a long list of reports and records were sought from the defendant. Master Funduk ([2002] A.J. No. 575, 2002 ABQB 440) had refused to order the production because the plaintiff had not made out a case for its relevance, not because the records would not be relevant to the calculation of profits. Acton J. allowed the plaintiff's appeal, and ordered production of a number of records :

> Of the specific documents sought, I would direct that all financial statements, audited or unaudited, from January 1, 1998 to the time of trial be produced, together with all monthly sales summaries, all month end reports, and aged accounts receivable listings, all product group sales summaries and all extra parts sales summaries for the same period.
>
> (At para. 18)

57 Acton J. noted that damages for breach of fiduciary duties might be assessed to or even past the date of trial, as had been the case in ***Tree Savers International Ltd. v. Savoy***, [1991] A.J. No. 686, 1991 CanLII 3952 (AB Q.B.)

Conclusion

58 The information and documents sought by the Plaintiff in undertakings 184 and 185 are relevant and material to the determination of Wilkinson's profits. The appropriate period of relevance, based on the pleadings, is from the date of the alleged breach to the time of trial.

59 Wilkinson should provide Trimay with the information covered by these undertakings, within a reasonable time from the entry of the order following this decision.

60 It is implicit in this decision that it applies to records and information within Wilkinson's possession or power. No order is made with respect to AMC.

61 All of the information provided under these undertakings shall be subject to appropriate confidentiality protection, and should be dealt with in the same manner as the parties have dealt with production of other financial information. It they cannot agree, they may raise this with me at the next case management conference.

Costs

62 Trimay has been successful on this application. It is entitled to costs in any event of the cause, payable at the conclusion of the litigation and in an amount to be determined by the trial judge.

63 I am indebted to counsel for their able submissions and oral arguments.

R.A. GRAESSER J.