See paras. 3, 35, 70, 75, 97

Case Name:

Certicom Corp. v. Research In Motion Ltd.

Between
Certicom Corp., Applicant, and
Research In Motion Limited and Research In Motion Acquisition Corporation, Respondents

[2009] O.J. No. 252

53 B.L.R. (4th) 286

2009 CanLII 1651

71 C.P.R. (4th) 278

94 O.R. (3d) 511

2009 CarswellOnt 331

Court File No. CV-08-7914-00CL

Ontario Superior Court of Justice

A. Hoy J.

Heard: January 9, 2009.
Judgment: January 19, 2009.

(99 paras.)

Corporations, associations and partnerships law -- Corporations -- Compulsory and compelled acquisitions -- Transactions that give rise to rights -- Take-over bids -- Procedure -- Offeror's obligations -- Powers of the court -- Application for permanent injunction allowed -- The applicant sought a permanent injunction enjoining the respondent from advancing its hostile take-over bid on the basis that the bid was crafted using confidential information in breach of non-disclosure confidentiality agreements -- The court found that the agreements were signed in contemplation of a friendly acquisition and did not permit the use of information made by the respondents -- The public policy rationale in enforcing confidentiality agreements and the inadequacy of damages as a

remedy warranted the grant of injunctive relief.

Civil litigation -- Civil procedure -- Injunctions -- Permanent injunctions -- Circumstances when granted -- Considerations affecting grant -- Public interest -- Sufficiency of damages in lieu of injunction -- Application for permanent injunction allowed -- The applicant sought a permanent injunction enjoining the respondent from advancing its hostile take-over bid on the basis that the bid was crafted using confidential information in breach of non-disclosure confidentiality agreements -- The court found that the agreements were signed in contemplation of a friendly acquisition and did not permit the use of information made by the respondents -- The public policy rationale in enforcing confidentiality agreements and the inadequacy of damages as a remedy warranted the grant of injunctive relief.

Application by Certicom for a permanent injunction enjoining the respondent, Research In Motion, from taking any steps to advance its hostile take-over bid of the applicant. The respondent was a leading designer, manufacturer and marketer in the mobile communications industry. The applicant was a leading authority for the cryptography required by software vendors and device manufacturers to embed security in their products. The respondent had been a customer of the applicant since 2000 and they had exchanged commercial information in the ordinary course of their relationship. In 2007, the parties discussed the possible acquisition of the applicant by the respondent. The parties entered into a non-disclosure agreement in order to facilitate the due diligence process. No acquisition agreement was reached. A second non-disclosure agreement was entered into in 2008 in the course of the parties' ordinary commercial relationship. The parties relied on that agreement when acquisition discussions recommenced. Again, no agreement was reached. Subsequently, the respondent launched an unsolicited hostile bid for the applicant through a subsidiary. Prior to the bid, the respondent had obtained confidential information about the applicant under the terms the two non-disclosure disagreements. The respondent considered that information in assessing the desirability of launching its bid. The applicant contended that the use of the confidential information for such purpose breached the non-disclosure agreements. The respondent submitted that the agreements permitted its use of the information. In the alternative, it argued that the relief sought was an inappropriate remedy for breach of the agreements.

HELD: Application allowed. The respondent's use of the confidential information to assess the desirability of a hostile take-over bid breached the parties' non-disclosure agreements. The 2007 agreement contemplated use of the information for a friendly acquisition transaction between the parties, but did not include use for a hostile take-over. The non-disclosure provision did not conflict with the standstill provision, as the former provided commercially reasonable long-term protection of the applicant's patents. In addition, the factual matrix underlying the negotiation of the 2008 agreement left no ambiguity as to its purpose. The public policy rationale in enforcing confidentiality agreements and the inadequacy of damages as a remedy warranted the grant of injunctive relief. The respondent was still free to launch a friendly bid, or re-craft a hostile bid without breaching its non-disclosure obligations.

Counsel:

Neil Finkelstein, R. Seumas M. Woods and Ryder Gilliland for the Applicant.

Robert W. Staley and Lincoln Caylor, for the Respondents.

REASONS FOR DECISION

A. HOY J.:--

INTRODUCTION

1 This Application turns on the interpretation of two non-disclosure agreements and raises the issue of the appropriate remedy for the breach of such an agreement in the context of a hostile take-over bid.

2 Research In Motion Limited ("RIM"), through its wholly-owned subsidiary, Research In Motion Acquisition Corporation Inc. ("RIMAC"), launched a hostile (or "unsolicited") take-over bid for Certicom Corp. on December 10, 2008. Before launching its hostile bid, RIM obtained confidential information about Certicom under the terms of two non-disclosure agreements it had entered into with Certicom. RIM considered that information in assessing the desirability of launching a bid for Certicom. Certicom asserts that the use of the confidential information for this purpose breached the two non-disclosure agreements and, to remedy this breach, RIM and RIMAC should be permanently enjoined from taking any steps to advance their bid.

3 Certicom is clear that it does not seek to enjoin RIM from making any hostile bid. RIM was not precluded from launching a hostile bid at this time, Certicom argues. It could have properly done so, had it set up a "firewall" so that no use was made of the confidential information. Alternatively, Certicom says, RIM could make a "friendly bid".

4 RIM argues that the use of the confidential information to make a hostile bid was permitted by the two non-disclosure agreements and, in the alternative, in the circumstances the injunction sought by Certicom is not an appropriate remedy for a breach of those agreements.

5 In its Application, Certicom also sought a declaration that the circular filed by RIM in connection with its hostile bid is materially false and fails to disclose material facts that would reasonably be expected to affect the decision of Certicom shareholders. Given the limited time available for submissions, that relief was not pursued before me and Certicom was left to reschedule that portion of its Application if unsuccessful on the issues before me.

6 While I expressed doubts to counsel before they began their submissions that this matter could be resolved without a trial, after hearing their submissions and reviewing all of the evidence, I accept that the determination of this time-sensitive matter can properly be made on the extensive application record before me, and that there is no necessity for *viva voce* evidence. I note that in arguing the merits of its case, Certicom relied on the evidence of RIM's own deponents.

CONCLUSION

7 The use of the confidential information provided pursuant to the two non-disclosure agreements at issue - referred to in these reasons as the "2007 NDA" and the "20008 NDA" - to assess the desirability of a hostile take-over bid breached those agreements. RIM and RIMAC shall be enjoined from taking any steps to advance the hostile take-over bid launched by them on December 10, 2008.

BACKGROUND

8 RIM is a well known and highly successful company with a current market capitalization of over $20 Billion. It is a leading designer, manufacturer and marketer of innovative wireless solutions for the worldwide mobile communications market. The BlackBerry is one of its products.

9 Certicom, a much smaller company, is a leading authority for the cryptography required by software vendors and device manufacturers to embed security in their products.

10 RIM has been a customer of Certicom since 2000. RIM and Certicom exchanged commercial information in the ordinary course of their relationship pursuant to standard form non-disclosure agreements signed in 2002 and 2005. These agreements are not at issue in this Application.

The 2007 NDA

11 In February of 2007, Certicom and RIM first discussed the possible acquisition of Certicom by RIM. At the time, the price of Certicom's shares was between $5.00 and $6.00. In order to facilitate due diligence of Certicom, Certicom and RIM entered into the "2007 NDA" - the first of the two non-disclosure agreements at issue - on July 11, 2007 At the time that Certicom and RIM entered into the 2007 NDA, the non-disclosure agreement executed by the parties in 2005 (the "2005 NDA") was in effect. The 2005 NDA was RIM's standard form, reciprocal non-disclosure agreement for commercial use.

12 The 2007 NDA limited the use of "Confidential Information" disclosed pursuant to the 2007 NDA to certain permitted purposes during a five-year term and provided that the disclosing party would have the right to seek injunctive relief for any use of the Confidential Information that was contrary to the terms of the 2007 NDA.

13 Section 4 of the 2007 NDA provides that, "Recipient shall use and reproduce the Confidential

Information only to the extent reasonably required to fulfill the Purpose." Section 3 of the 2007 NDA defines "Purpose" to mean, "(i) assessing the desirability or viability of establishing or furthering a business or contractual relationship between the Parties which may include, without limitation, some form of business combination between the Parties; and (ii) to the extent this Agreement is incorporated by reference into any other agreement between the Parties, achieving the objectives of that agreement." At issue on this Application is whether a hostile take-over bid is some form of a business combination between the parties and therefore whether the Confidential Information could be used for the purpose of assessing the desirability of a hostile bid.

14 By its terms, the 2007 NDA only applies to information provided within six months of its execution.

15 At Certicom's request, the 2007 NDA also contained a "standstill" provision pursuant to which RIM specifically agreed, among other things, not to make a hostile take-over bid for Certicom for a 12-month period. The precise wording of this clause, reproduced as Schedule A, was negotiated by the parties. The standstill provision expired before RIM launched its bid and is not at issue, except to the extent it affects the interpretation of the definition of the Purpose for which RIM is permitted to use the Confidential Information.

16 The 2007 NDA contains an "entire agreement clause", which provides that it contains the entire agreement of the parties with respect to the subject matter of the 2007 NDA.

17 The 2007 NDA is the same as the 2005 NDA except that: the recitals are modified to indicate that it was entered into by the parties in order to protect certain Confidential Information "*and provide for certain other obligations of the parties*"; the purpose for which the confidential information may be used is broadened to permit the use of the information to assess the desirability or viability of establishing or furthering "some form of business combination between the parties"; disclosure to the disclosees' advisors, consultants, agents, officers and directors (and not just its employees) is permitted; it applies to confidential information disclosed within six months, as opposed to three years, of its execution; it includes the standstill provision, referred to above, and a clause restricting solicitation by RIM of Certicom's founder, Scott Vanstone, during a 12 month period; and the wording of the "entire agreement" clause is somewhat different.

The First Tranche of Disclosure

18 In September of 2007, Certicom provided RIM with a large package of disclosure pursuant to the 2007 NDA. This package was the first of three tranches of confidential information provided. It included: Certicom's financial year 2008 strategic growth plan and business plan; a detailed list of Certicom patents pending and issued; patent licence agreements, including confidential agreements with Certicom's key customers; a breakdown of Certicom's patent licence revenue; Certicom's patent infringement information; and Certicom's litigation information. The information provided was specifically deemed Confidential Information pursuant to the 2007 NDA.

19 Mr. Wormwald, RIM's Vice-President of Strategic Alliances, conceded on his cross-examination that RIM did not have information of the nature provided before this disclosure, the information was protected by the 2007 NDA, and the information was important for its assessment of a potential acquisition of Certicom. The licensing agreements were reviewed by competent people at RIM, including patent counsel. Mr. Wormwald acknowledged that the customer agreements continue to constitute "Confidential Information"; they are still not available to the public.

20 In November of 2007, Certicom's interim Chief Executive Officer put the possible acquisition "on hold" because Certicom anticipated that a permanent CEO would be named by year-end, and the matter should be left to the new CEO.

21 A new CEO of Certicom, Karna Gupta, was appointed in January of 2008.

The Second Tranche of Disclosure

22 Certicom's founder, Scott Vanstone, was not aware that Certicom's interim CEO had shut down RIM's due diligence and acquisition discussions. In February of 2008, he met with Chris Wormwald of RIM and asked why RIM appeared disinterested in making an acquisition of Certicom. He provided Mr. Wormwald with an e-mail with a summary of certain licences, and later, a memory stick containing some, but not all, licensing agreements. The parties agreed to treat this information as though it was provided pursuant to the 2007 NDA, even though the 2007 NDA only applied to information provided within six months after the agreement was executed.

23 Following Mr. Gupta's appointment, Certicom began to pursue a new strategic direction. In March of 2008, RIM's CEO, Jim Balsillie, spoke to Mr. Gupta about the potential acquisition. Mr. Gupta advised him, by e-mail, that he was focusing on fixing the business fundamentals and would only turn his attention to the potential acquisition in a few quarters.

The 2008 NDA

24 Certicom and RIM executed the second non-disclosure agreement at issue - what I refer to as the "2008 NDA" - on June 17, 2008. This agreement was signed in the ordinary course of the parties' commercial relationship and not in contemplation of an acquisition. Like the 2005 NDA, it is RIM's standard form, reciprocal non-disclosure agreement for commercial use. It does not contain a standstill provision. It limits the use of Confidential Information disclosed within three years following execution to certain permitted purposes during a five-year term and provides that an aggrieved party is entitled to seek injunctive relief. It provides that Confidential Information disclosed may be used only for the Purpose of "(i) assessing the desirability or viability of establishing or furthering a business or contractual relationship between the Parties; and (ii) to the extent this agreement is incorporated by reference into any other agreement between the Parties, achieving the objectives or that agreement." "Purpose" in the 2008 NDA does not include the language, "some form of a business combination between the Parties" which was added to the 2007

NDA.

Discussions Resume

25 Certicom approached RIM again about a potential acquisition in September 2008, after Certicom had commenced discussions with an unidentified multinational company. That company signed a non-disclosure agreement with Certicom that contained a 12-month standstill provision.

26 RIM expressed interest but indicated that it wanted to undertake further due diligence. It wanted information about Certicom's patent portfolio and its new business plan. At this point, neither Mr. Gupta, on the one hand, nor Mr. Wormwald and Jamie Belcher of RIM, on the other, were aware that the 2008 NDA had been signed. Mr. Gupta indicated that while a non-disclosure agreement was not mandatory for an IP discussion at the "first level", it was mandatory if RIM wished to review the business plan. The multinational company, referred to above, had signed a standstill agreement. It would be unfair to treat potential bidders differently. RIM, which was unhappy that it had agreed to a standstill provision in the 2007 NDA only to have the due diligence and acquisition process shut down by Certicom a few months later, indicated that it was unwilling to sign a non-disclosure agreement with a standstill provision.

27 Certicom sent RIM a non-disclosure agreement, without a standstill provision.

28 In response, Jamie Belcher of RIM advised Mr. Gupta on September 29, 2008 that RIM's legal department had advised him of the existence of the 2008 NDA and that RIM was of the view that it was "sufficient for the purposes presently being contemplated and we do not feel another NDA is required". Mr. Gupta responded, "Great. This works." Based on the 2008 NDA, he was willing to proceed with technical and IP disclosure.

29 Mr. Wormwald's evidence is that because Mr. Gupta had agreed that additional information could be provided without RIM executing a standstill provision, Mr. Wormwald "understood the information disclosed could be used for the potential acquisition of Certicom and RIM was in no way precluded from making an offer directly to Certicom's shareholders". Mr. Wormwald's further evidence was that his preference was to proceed by way of a negotiated acquisition, but that he did not want to preclude RIM from launching a hostile bid.

30 Mr. Gupta's evidence was that each time he spoke to Mr. Balsillie, which he did on March 19, 2008, October 28, 2008, November 7, 2008 and November 9, 2008, Mr. Balsillie confirmed that RIM would proceed in a "friendly" fashion, and that Certicom would not have provided RIM with confidential information had it known that RIM would use that information to make an offer directly to Certicom's shareholders. Mr. Gupta's further evidence is that no one at RIM suggested that RIM reserved the right to go directly to Certicom's shareholders until Mr. Balsillie wrote to Certicom to that effect on November 28, 2008. Mr. Gupta's evidence was not challenged on cross-examination, and Mr. Balsillie did not provide any evidence to the contrary.

The Third Tranche of Disclosure

31 Relying on the provisions of the 2008 NDA, Certicom provided RIM with the third, and final, tranche of "Confidential Information" in October of 2008. The third tranche included: slides presented at a meeting held on October 6, 2008 regarding Certicom's patents and Certicom's IP licensing and related oral disclosure; materials sent by Certicom on October 17, 2008 and October 20, 2008 co-relating claims in several patents against particular industry standards (the "Mapping Analysis") and the relevant portions of the applicable standards; disclosures made at a meeting on October 21, 2008 (which primarily entailed explanation of the Mapping Analysis); and further patent mapping information sent in an October 22, 2008 e-mail. The Mapping Analysis was specifically prepared by Certicom for provision to RIM. While RIM could have obtained the relevant industry standards and created the Mapping Analysis from materials publicly available, by providing the information in this manner, Certicom saved RIM a few days to about a week of work. The definition of "Confidential Information" in the 2008 NDA (and the 2007 NDA) includes "proprietary or confidential information". The information provided was at a minimum proprietary and it is not disputed that at the time provided, constituted Confidential Information under the 2008 NDA.

32 Mr. Wormwald acknowledged on cross-examination that the disclosure went "slightly" beyond that which might occur between businesses engaged in a licensing or supplier relationship, and that the information was being assessed from a mergers and acquisitions point of view.

Events Leading up to the Bid and the Bid

33 By November, Certicom's share price has plummeted. On November 7, 2008, Mr. Balsillie told Mr. Gupta that RIM wanted to acquire 100% of Certicom, wanted to proceed in a friendly fashion, and wanted exclusivity to complete its due diligence. Certicom indicated that it could not provide exclusivity because another party had executed a non-disclosure agreement. Certicom proposed "refreshing" the 2007 NDA, which as noted above, contains a standstill provision.

34 On November 28, 2008, Mr. Balsillie sent a non-binding expression of interest to the Certicom board, proposing a price of $1.50 per common share, and indicating that RIM reserved its right to take its offer directly to Certicom's shareholders.

35 Mr. Wormwald acknowledged that RIM had the information provided under the 2007 NDA and the October 2008 disclosures when it decided to launch its hostile bid. Mr. Wormwald's evidence is also that RIM made no attempt to use a different group of internal people to prepare its hostile offer from those who had been involved with Certicom in 2007 to the end of October 2008, and that essentially the same group of people was involved.

36 RIM announced its intention to make an offer on December 3, 2008, and circulated its offer and circular to RIM shareholders on December 10, 2008. Its offer was extended and currently expires January 27, 2009. RIM's offer is conditional, among other things, on not less than 66 and

2/3% of Certicom's shares being deposited under the bid and on the waiver or cease trade of Certicom's shareholder rights plan, or "poison pill". Counsel for RIM advised that RIM has not yet made an application to the Ontario Securities Commission (the "OSC") to cease trade the poison pill, but intends to do so. It is acknowledged that the poison pill would result in an unacceptable level of dilution, and that as a practical matter RIM will not complete its acquisition with the poison pill in place. This raises the possibility that RIM will further extend its offer.

37 The board of directors of Certicom has determined that the RIM offer is inadequate and recommended that shareholders reject RIM's offer. In response to RIM's bid, Certicom has commenced an auction process in an attempt to secure a superior bid. Confidential information is being made available to interested parties who have signed non-disclosure and standstill agreements.

APPLICABLE PRINCIPLES OF CONTRACT INTERPRETATION

38 A commercial contract is to be interpreted:

> (1) as a whole, in a manner that gives meaning to all of its terms and avoids an interpretation that would render one or more of its terms ineffective;
> (2) by determining the intention of the parties in accordance with the language they have used in the written document and based upon the "cardinal presumption" that they have intended what they have said;
> (3) with regard to objective evidence of the factual matrix underlying the negotiation of the contract (what *Kentucky Fried Chicken Canada v. Scott's Food Services Inc.*, [1998] O.J. No. 4368 at para. 25 (C.A.) refers to as "the general context that gave birth to the document"), but without reference to the subjective intention of the parties; and
> (4) to the extent there is any ambiguity in the contract, in a fashion that accords with good business sense, and that avoids a commercial absurdity.
>
> *Ventas, Inc. v. Sunrise Senior Living Real Estate Investment Trust* (2007), 85 O.R. (3d) 254 (C.A.), para. 24

39 To the extent there is ambiguity after applying principles 1 through 3 above, the court is also entitled to consider the subsequent conduct of the parties as evidence of their intention at the time that the contract was executed: *Re Canadian National Railways and Canadian Pacific Ltd.*, [1979] 1 W.W.R. 358 (B.C.C.A.) at para. 48; affirmed [1979] 2 S.C.R. 668 (S.C.C.).

INTERPRETATION OF THE 2007 NDA

Relevant Provisions

40 Section 4 of the 2007 NDA provides, in part, that,

> Recipient shall use and reproduce the Confidential Information only to the extent reasonably required to fulfill the Purpose.

41 Section 3 defines "Purpose" to mean,

> (i) assessing the desirability or viability of establishing or furthering a business or contractual relationship between the Parties which may include, without limitation, some form of business combination between the Parties; and (ii) to the extent this Agreement is incorporated by reference into any other agreement between the Parties, achieving the objectives of that agreement.

42 Section 12, the standstill provision, is set out in Schedule A to these Reasons.

The Parties' Positions

43 The evidence established, and it is conceded, that the first two tranches of information provided to RIM constitute Confidential Information under the 2007 NDA.

44 Certicom argues that an offer by RIM to Certicom's shareholders to purchase their shares in Certicom, which is not endorsed by Certicom, is not a "business or contractual relationship between the Parties which may include, without limitation, some form of business combination between the Parties". An offer from RIM to Certicom's shareholders is not "between" Certicom and RIM.

45 Certicom argues that its interpretation is supported by wording in the standstill provision, in section 12 of the 2007 NDA. In that section, RIM agrees, among other things, that neither it nor any of its affiliates will effect or propose to effect, "any merger or other business combination or tender, takeover bid or exchange offer involving [Certicom] or any of its subsidiaries or shareholders". This disjunctive language, Certicom argues, makes clear that a take-over bid is not a business combination. Certicom submits that if the parties had intended to permit RIM to make a take-over bid directly to Certicom shareholders, they would have used the language "take-over bid ... involving ... shareholders" used in section 12.

46 RIM points to the following sentence in the standstill provision in section 12 of the 2007 NDA as indicating that a business combination includes an offer by RIM to Certicom's shareholders: "Nothing contained herein shall prohibit RIM from making a private proposal to the Board of Directors of [Certicom] relating to a proposal for *an offer for the assets, securities of [Certicom] or other business combination*."[1] Based on this wording, RIM argues that an offer for the securities of Certicom is a form of business combination, and an offer by RIM to Certicom's shareholders to purchase their shares in Certicom is accordingly a business combination between RIM and Certicom within the meaning of section 3 of the 2007 NDA.

47 RIM also argues that where, as in this case, the parties specifically negotiated a standstill provision, the confidentiality obligation should be interpreted in a manner that does not, effectively, extend the duration of the negotiated standstill.

Analysis

48 I accept RIM's argument that a take-over bid can constitute a business combination for the purposes of the 2007 NDA, based on the language RIM refers to in section 12 and the factual matrix.

49 When the 2007 NDA was negotiated, the acquisition by RIM of Certicom through a "friendly" transaction was contemplated. The information was provided to facilitate the assessment of the desirability of an acquisition. Such an acquisition could have taken the form of an offer to the shareholders of Certicom, consented to in writing by the board of directors of Certicom. If a take-over bid does not constitute "some form of business combination", the 2007 NDA would not have permitted RIM to use the information for the very purpose intended.

50 That being said, a takeover bid is not necessarily a business combination *between* the parties.

51 The Shorter Oxford English Dictionary (Oxford University Press, 1973) defines "between" as "Expressing reciprocal action or relation between two agents; Used of relation to two (or more) things or parties acting conjointly or participating in action" and "Of time, quantity or degree: Intermediate to two others."

52 The word "between" is, on my count, used three other times in the 2007 NDA. In each case, it is used in manner consistent with its conventional meaning and dictionary definition and in two cases it imports the concept of a contractual relationship between Certicom and RIM. The recitals indicated that the 2007 NDA is "entered into by and between" RIM and Certicom. Section 5 indicates that the 2007 applies to Confidential Information that is disclosed "between" the Effective Date and six months thereafter. Section 14 refers to "any pre-existing non-disclosure agreements between the Parties."

53 Based on the ordinary and usual meaning and dictionary definition of the word "between" and the manner in which the word is used in the 2007 NDA, a takeover bid would in my view only amount to a business combination *between* the parties if Certicom consented to, or endorsed, the transaction and in that manner participated with RIM in RIM's bid.

54 This conclusion is buttressed by the factual matrix. As noted, when the 2007 NDA was negotiated, the parties contemplated a friendly bid for Certicom. This is the context in which the word must be interpreted.

55 In *Aurizon Mines Ltd. v. Northgate Minerals Corp.* [2006] B.C.J. No. 2070 (B.C.S.C.), affirmed [2006] B.C.J. No. 1584 (B.C.C.A.), Northgate signed a combined confidentiality and

standstill agreement, but no confidential information was provided to it. It took the position that the standstill provision, which was negotiated in anticipation of disclosure of confidential information, was as a result ineffective and made an unsolicited bid for Aurizon. Northgate was held to be subject to the standstill provision, and enjoined from making a bid for Aurizon. As drafted, the standstill provision was not tied to whether or not confidential information was disclosed and the court concluded that such a term could not be implied. The non-disclosure and standstill provisions were held to be separate obligations that were not inter-linked, each with business efficacy. At paras. 52 and 55, Allan J. endorsed the view of Aurizon's financial advisor, Mr. Sauntry of BMO Nesbitt Burns Inc. who deposed that:

> The purpose of confidentiality agreements differs from the purpose of standstill agreements. A confidentiality agreement on its own facilitates, in particular, the exchange of information. Standstill agreements are entered into because companies entering into strategic dialogues do not want to find themselves then exposed to a hostile takeover bid or other unsolicited offer from the party with whom it has had such discussions. Further, where confidential information may be exchanged, standstill agreements typically also remove the need to prove whether information that has been exchanged is confidential at all, or that confidential information has been misused in connection with a bid or other conduct as such conduct itself is simply prohibited.

56 Thus, a confidentiality provision can independently prohibit the use of the information disclosed for the purpose of assessing the desirability of a hostile bid and thereby hamper the ability of the "disclosee" to make an unsolicited bid. A standstill provision is better protection, removing the need for proof, and costly litigation.

57 In this case, I have concluded that the standstill and the non-disclosure provisions are properly interpreted as separate clauses, providing different protections for different terms. The term of the absolute protection of the negotiated standstill is shorter than that provided by the non-disclosure provision. It applied whether or not RIM obtained disclosure. Indeed, section 9 of the 2007 NDA specifically provides that Certicom is not obligated to disclose any confidential information to RIM. After the standstill provision falls away, Certicom is left with longer-term protection that, among other things, entails the need for proof of disclosure *and* proof of use of confidential information. Certicom's patents and patent licences are the heart of its business. The evidence was that Certicom's patent licence agreements are generally for the life of the patent. Longer-term protection is commercially reasonable in this context. After the standstill provision had expired, it was open to RIM to mount a hostile bid, provided that it had not received, and used, any Confidential Information in assessing the bid.

58 Interpreted in this manner, the provisions are complementary, and do not amount to conflicting standstill provisions.

59 I have given a great deal of thought to RIM's argument that, because of the inclusion of the specific standstill provision, the word "between" should be interpreted in a manner inconsistent with its ordinary and usual and dictionary meanings and the manner in which it is used elsewhere in the 2007 NDA to permit the use of confidential information to mount a hostile bid. As noted above, the 2005 NDA was in effect when the parties negotiated and executed the 2007 NDA. The 2005 NDA was RIM's standard form, reciprocal non-disclosure agreement for commercial purposes. The 2008 NDA, discussed below, is the same as the 2005 NDA, except for the date of execution. In my discussion below of the 2008 NDA, I conclude that it prohibits the use of confidential information disclosed for the purpose of a hostile takeover bid for five years. Disclosure in a due diligence process with respect to an acquisition is typically more extensive, and more sensitive, than ongoing disclosure in the course of a commercial relationship. Certicom was unwilling to proceed with the due diligence process unless a new non-disclosure agreement was signed, containing a standstill provision. It does not make sense that as a result of executing an agreement with a specific standstill provision, intended to provide and seen by both parties as providing additional protection to Certicom, Certicom would in fact receive less protection for confidential information likely more sensitive than that disclosed under the 2005 NDA than it would have under the 2005 NDA. This would be the effect of RIM's position. I also think it unlikely that a disclosing party in the context of friendly acquisition discussions would specifically permit the use of the disclosed information to mount a hostile bid.

INTERPRETATION OF THE 2008 NDA

60 As noted above, the 2008 NDA differs from the 2007 NDA in two material respects. First, it does not include a standstill provision. Second, the definition of the Purpose for which the Confidential Information may be used does not include the words, "which may include, without limitation, some form of business combination between the Parties."

61 Counsel to RIM argues that its offer to the shareholders of Certicom is permitted under the second part of the definition of "Purpose", which, for convenience of reference, reads as follows. "Purpose" means: ... (ii) to the extent this Agreement is incorporated by reference into any other agreement between the Parties, achieving the objective of that agreement."

62 The "agreement" that RIM refers to, and says incorporated the 2008 NDA by reference, is *Mr. Wormwald's understanding*, referred to above, based on Mr. Gupta's agreement that additional information could be provided without RIM executing a standstill provision that, "the information disclosed could be used for the potential acquisition of Certicom and RIM was in no way precluded from making an offer directly to Certicom's shareholders." This is, in essence, Mr. Wormwald's after-the-fact interpretation of an agreement signed by the parties several months prior. It is his subjective understanding. It does not amount to an agreement that the information disclosed could be used for an unsolicited offer.

63 Moreover, like the 2007 NDA, the 2008 NDA includes a provision entitled "Entire

Agreement/Modification", which provides that, "All additions or modifications to this Agreement must be made in writing and must be signed by both Parties."

64 Certicom argues, and I accept, that if Mr. Wormwald's understanding amounted to an agreement, it was a modification of the 2008 NDA, and, as it was not in writing and signed by RIM and Certicom, was not effective.

65 I note that Mr. Wormwald's evidence is that RIM's legal department had advised him of the existence of the 2008 NDA. RIM is a sophisticated party and obtained, or could have obtained, legal advice.

66 Alternatively, RIM argues that using the information for the purpose of assessing whether to make a hostile bid for Certicom constitutes "assessing the desirability ... of ... establishing ... a business relationship between the Parties" and is therefore permitted under the first part of the definition of "Purpose". The parent-subsidiary relationship resulting from a successful hostile bid would, it submits, constitute a business relationship between RIM and Certicom for the purposes of this clause. RIM argues that the parties believed that only a standstill clause would prohibit an unsolicited takeover bid and that a commercially reasonable interpretation is that the confidentiality provision protects against the use of confidential information for purposes other than an acquisition.

67 In my view, this interpretation is not supported by the language in the 2008 NDA or the factual matrix when it was negotiated and signed. It makes no business sense to conclude that in July of 2008, when the 2008 NDA was signed, the parties intended to permit RIM to use information disclosed at any time in the ensuing three years for the purpose of a hostile bid.

68 I note again the commentary in *Aurizon*, to the effect that a standstill clause provides greater protection to a disclosing party than a straight non-disclosure agreement, because issues of proof are avoided. That greater protection was not made a condition of the disclosure provided in October of 2008. A non-disclosure agreement can, however, prohibit the use of confidential information to make a hostile bid and in this case does.

69 In my view, given the clear wording of the contract and the factual matrix underlying the negotiation of the 2008 NDA, there is no ambiguity and it is therefore not necessary to consider subsequent conduct. Were it necessary to do so, the fact that Mr. Gupta was unwilling to disclose the business plan without the increased protection of a specific standstill does not affect the interpretation of the 2008 NDA. This subsequent conduct is not evidence of the parties' intention at the time RIM and Certicom entered into the 2008 NDA. Mr. Gupta was unaware of the existence of the 2008 NDA when he made this demand.

BREACH OF THE 2007 AND 2008 NDA

70 In its factum, RIM submitted that if the 2007 NDA and 2008 NDA prohibited the use of the information it obtained from Certicom in connection with its hostile bid, it had not breached those

provisions. In the attendance before me, and in face of Mr. Wormwald's own evidence of use referred to in the Background section, above, RIM conceded that confidential information provided was used by Certicom in assessing the desirability of its hostile bid. It argues below that what it says was the limited value to it of much of the information provided should be considered by me in determining whether it is appropriate to grant the injunction requested.

SHOULD AN INJUNCTION BE GRANTED

Certicom's Position

71 Certicom argues that the covenants in the 2007 NDA and the 2008 NDA to use the Confidential Information only for certain purposes are tantamount to negative covenants, that is, covenants not to use the Confidential Information for other than the permitted purposes. Certicom concedes, referring me to *McDonald's Restaurant of Canada Ltd. v. West Edmonton Mall Ltd*., [1994] A.J. No. 634 at para. 72 (Q.B.), that even in the face of the breach of a negative covenant, courts are not deprived of the right to determine what equitable remedy ought to lie.

72 It submits, however, relying on Sharpe, *Injunctions and Specific Performance*, 2nd ed. (Aurora: Canada Law Book, loose-leaf) at para. 1.80, that where a negative covenant has been clearly breached, there is a strong presumption in favour of equitable relief. The presumption follows from the importance of enforcing terms to which parties have contractually agreed: *Singh v. 3829537 Canada Inc.*, [2005] O.J. No. 2402 at para. 56 (S.C.J.). This presumption in favour of equitable relief, it argues, is further supported by the agreement of the parties, set out in the 2007 NDA and the 2008 NDA, that the disclosing party will have the right to seek injunctive relief in the event of breach. It notes that *Aurizon*, at para. 81, and *Canpages Inc. v. Quebecor Media Inc.*, [2008] O.J. No. 2169, at para. 13 (S.C.J.), found that such a provision creates an inference of irreparable harm. While Certicom submits that there is therefore, and for the reasons referred to below, irreparable harm, it argues, relying on *Canpages Inc. v. Quebecor Media Inc.*, [2008] O.J No. 2169 (S.C.J.) at para. 8; *Canpark Services Ltd. v. Imperial Parking Canada Corp.*, [2001] O.J. No. 3915 (S.C.J.) at paras. 15-19 and *Montreal Trust Co. v. Montreal Trust*, [1988] B.C.J. 410 (B.C.C.A.) at pp. 7-8, that where there is a clear breach of a negative covenant, irreparable harm and balance of convenience need not be established.

73 Certicom argues that the loss of independence, and the loss of status as a reporting issuer, that would result from becoming a subsidiary of RIM, if RIM's offer succeeded, is irreparable harm.

74 In this case, Certicom argues, damages are inadequate and an injunction is the only remedy available to it.

75 As to the effect of the injunction sought, Certicom argues that it does not seek to enjoin RIM from making a hostile bid for Certicom. RIM, it argues, was not precluded from launching a hostile bid; it could have properly done so, had it created a separate acquisition team for the hostile bid and set up a "firewall" to ensure that such team did not use the Confidential Information. Certicom says

that RIM can launch another hostile bid, provided that it puts the appropriate mechanisms in place.

76 Alternatively, it is open to RIM to participate in a friendly offer.

RIM's Position

77 RIM argues that in these circumstances, an injunction, or at least the injunction sought by Certicom, is not the appropriate remedy.

78 First, RIM argues that Certicom itself has suffered no identifiable harm as a result of the breaches. Any harm suffered would be suffered by Certicom's shareholders, whose ability to obtain the best offer for their shares has been affected by what Certicom says are timing and informational advantages obtained through the improper use of the Confidential Information. RIM submits that an injunction is not necessary to address those alleged advantages. As to the timing advantage, RIM points to the fact that it extended its offer to January 27, 2009, and to Certicom's poison pill which, it submits, will exist for a period of time determined by the OSC to be reasonable. The OSC, it urges, has expertise in these matters, and timing advantages should be addressed by it, and not this court. RIM argues that the informational advantage has been addressed because Certicom has established a data room, open to interested persons who have signed non-disclosure and standstill agreements with Certicom. It points out that parties who have access to the date room have access to significant information, including Certicom's new three-year business plan, which RIM did not acquire access to.

79 Second, RIM argues that the injunction sought is contrary to public policy because it would prevent Certicom's shareholders from deciding whether or not they wish to sell their shares to RIM. Those shareholders have received Certicom's Directors' Circular, containing the directors' recommendation that the RIM offer is inadequate. The shareholders should have the chance to decide if they wish to accept RIM's offer.

80 Third, RIM argues that public trading in the securities of Certicom has undoubtedly taken place in light of RIM's offer, and that it would be unfair to persons who purchased RIM shares in the market in light of its offer to now enjoin it.

81 Fourth, RIM argues that the value to it of the Confidential Information used should be considered in determining whether an injunction is an appropriate remedy. It argues, relying on Gurry, *Breach of Confidence* (New York: Oxford University Press, 1991) at 401; *Bostitch Inc. v. McGarry & Cole Ltd.*, [1964] R.P.C. 173, at pp. 176-177 and *Seager v. Copydex Ltd.*, [1967] R.P.C. 349, that where the contribution of the confidential information to the activity sought to be enjoined is minor, an injunction is not the appropriate remedy. RIM submits that the confidential information under both the 2007 NDA and the 2008 NDA were minor factors in its decision to launch its hostile bid, and, with respect to the information disclosed under the 2008 NDA, argues that it was, and is, capable of independently generating most of the information. If this argument is framed with reference to balance of convenience, it argues that the balance of convenience therefore does not

favour Certicom.

82 Fifth, it argues that Certicom does not have "clean hands", because Certicom's interim CEO broke off the due diligence and acquisition discussions after securing the execution of the 2007 NDA, and Certicom resumed discussions with RIM only after entering into discussions with a third party.

83 Sixth, it argues that if the court issues an injunction, a shorter injunction, as opposed to the permanent injunction sought by Certicom, would be adequate. In its language, there is no need for a "sledgehammer" when a "scalpel" would suffice.

Analysis

84 I note first that RIM does not argue that the clauses at issue are positive, as opposed to negative, covenants and I accept that the clauses are negative covenants. They are in substance covenants not to use Confidential Information for certain purposes, not covenants to use the Confidential Information. Sharpe, at para. 7.240, explains the different treatment of positive and negative covenants:

> Where a positive obligation is broken, the plaintiff is deprived of something the value of which can be measured. Where the defendant does something that he or she promised not to do, the impact of the wrongful act is much more difficult to measure in money terms. It is considered preferable to stop the defendant from doing what he or she promised not to do rather than trying to estimate the loss.

85 As a housekeeping matter, I note that the presumption in favour of permanent injunctive relief is expressed in *McDonald's Restaurants*, at paras. 73, 77 and 80, one arising only after a "full trial." This matter is before me as an application. The reference to a full trial is made in contrast to an interlocutory decision, where the court does not have the benefit of a full review of the facts and law, and the validity of the covenant may not be upheld at trial. The interpretation and validity of the covenants in issue has been determined on the merits in this Application. The presumption is in my view applicable.

86 I accept, based on the authorities that Certicom has referred me to, that as a result Certicom is not required to establish irreparable harm. Were it, the loss of the opportunity to select the most opportune time to sell might constitute irreparable harm. This is currently a buyer's market; Certicom's share price has plummeted since Certicom and RIM began their friendly discussions.

87 I must still, however, consider whether I should exercise my discretion to grant the injunction sought.

88 Damages are clearly an inadequate remedy. If successful on its bid, RIM would essentially be paying money to itself. The *Bostitch* and *Seager* cases that RIM refers me to stand for the

proposition that where the contribution to the activity sought to be enjoined is minor, damages may be an appropriate remedy. As indicated above, in this case damages are not an adequate remedy. The *Bostitch* and *Seager* cases are manufacturing cases, and do not assist me.

89 The jurisdiction of the OSC does not extend to enjoining breach of an agreement.

90 A level playing field is not established by the fact that Certicom is making the confidential information RIM had access to available to participants in its auction process. Those participants must sign a standstill agreement, and require Certicom's consent to make an offer to its shareholders. This is significant in this buyer's market. If not enjoined, RIM will be playing by a different set of rules.

91 The public policy interest in enforcing confidentiality agreements was recognized in *Aurizon*:

> Enforcing confidentiality and standstill provisions in agreements of this sort is in the interest of the public generally, and the business community specifically, by permitting market participants to enter into meaningful discussions and consider corporate transactions, strategically and cooperatively, without incurring the risk that if those transactions are not pursued, the participant runs the risk of a hostile take-over bid.
>
> *Aurizon, supra*, at para. 82

92 The U.S. District Court for Northern Texas in *General Portland Inc. v. LaFarge Coppee S.A., et al.* (1981), U.S. Dist. Lexis 10158, (as cited in *Aurizon*) emphasized the same point, stating:

> These agreements [non-disclosure agreements] promote the free exchange of information between business entities who are considering the possibility of mutually agreeable business combinations. They promote maximization of the value offered to shareholders of target companies by promoting friendly combinations without unduly restricting the possibility of bidding contests. They permit the acquiring company to have a reasonable period of time in which to evaluate the target company. They also allow the target company to obtain the interest of more than one acquiring company and to select the most opportune time to sell the company. Such agreements are relied upon by the investment banking industry and the business community. If such confidentiality agreements could not be used and relied upon by the investment banking industry and the business community generally, it could substantially disrupt the present process of negotiating and consummating business acquisitions and mergers.

93 Certicom's shareholders will not necessarily be deprived of an offer for their shares. Certicom's board has launched an auction process designed to maximize shareholder value, and it is

open to RIM to make a proposal to Certicom. While Certicom argues that it is open to RIM to launch another hostile bid, I find it difficult to imagine how, in the circumstances, it could do so.

94 The fact that persons have purchased Certicom shares following RIM's offer, and before this court proceeding was announced, does not weigh against injunctive relief. Persons who purchase shares after a bid has been announced are typically sophisticated purchasers with short-term agendas who appreciate the risks.

95 Certicom is a technology company. Its assets consist of patents and patent licence agreements. The information disclosed to RIM included patent licence agreements. RIM is a strategic purchaser, motivated by Certicom's technology. Some of the agreements are sufficiently sensitive that participants in the auction process are given access to the agreements only through their counsel. Which of these commercially sensitive agreements contains change of control provisions and which permit assignment or sub-licensing would be of value to a strategic purchaser. Having regard to the nature of Certicom's business, and Mr. Wormwald's evidence that the information was important for its assessment of a potential acquisition of Certicom, I am able to come to the above conclusion that such disclosure was of value, without the necessity for viva voce evidence.

96 Nor do I accept that Certicom does not have "clean hands". It broke off discussions with RIM for legitimate reasons. Certicom was not subject to an exclusivity obligation when it commenced discussions with the unidentified multinational, and it re-opened discussions with RIM.

97 In the result, a permanent injunction shall issue, enjoining RIM and RIMAC from taking any steps to advance the hostile take-over bid launched on December 10, 2008. As Certicom indicated, RIM is free to make a friendly bid, and, should it manage to craft a manner of launching a subsequent hostile bid without breaching the non-disclosure agreements, as Certicom submits it is possible to do, another hostile bid.

98 Should the parties require any clarification as to the intended effect of the relief granted, I may be spoken to.

COSTS

99 If the parties are unable to agree on costs, Certicom shall provide brief written submissions with two weeks, and RIM shall provide brief written submissions in response within ten days thereafter. I may spoken to if counsel are of the view this timetable is onerous.

A. HOY J.

* * * * *

SCHEDULE "A"

Standstill Provision in 2007 NDA

12. Standstill Until the earliest of: (i) the expiration of twelve (12) months from the date hereof, (ii) such date, if any, that the Participant or any of its affiliates or Representatives enters into a legally binding agreement with any third party or a third party makes a public announcement regarding a *bona fide* unsolicited offer with respect to the potential purchase of the Participant or its outstanding equity securities, assets or operations, including without limitation the granting of an exclusive license to all or substantially all of the Participant's intellectual property, or any other potential transaction that would reasonably be expected to result in a change of control of the Participant, including without limitation any transaction described in paragraph (a) below (each, an "Acquisition Proposal"), (iii) such time as RIM shall not be permitted by the Participant to participate in any process being conducted by the Participant to consider its strategic alternatives or any subsequent "auction" or similar process on terms (including with respect to standstill obligations) at least as favourable as other participants, and (iv) such time as you receive the written consent of the Participant (collectively, the "Standstill Period"), neither RIM nor any of its affiliates nor any of its Representatives for their account or jointly and in concert with RIM shall directly or indirectly;

(a) effect or seek, offer, agree or propose (whether publicly or otherwise) to effect, or cause to participate in or in any way advise, encourage or assist (including without limitation financial assistance) any other person to effect or seek, offer agree or propose (whether publicly or otherwise) to effect or participate in (i) any acquisition of any securities or rights to acquire any securities (or any other beneficial ownership thereof), assets or properties of the Participant or any of its subsidiaries, whether such agreement or proposal is with the Participant or any of its subsidiaries or shareholders or with a third party, (ii) **any merger or other business combination or tender, takeover bid or exchange offer involving the Participant or any of its subsidiaries or shareholders**, (iii) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to the Participant or any of its subsidiaries; or (iv) any "solicitation" of "proxies" (as such terms are used in the proxy provisions of the *Securities Act* (Ontario)) or consent to vote or otherwise with respect to any voting securities of the Participant or any of its subsidiaries;

(b) form, join or in any way participate in a group or act jointly or in concert with any person with respect to voting securities of the Participant or attempt to acquire control of the Participant or acquire any assets thereof;

(c) otherwise act, alone or in concert with others, to seek to control or influence the management, Board of Directors or policies of the Participant

(other than negotiations or proposals in accordance with this Agreement);

(d) take any action which might reasonably be expected to cause or require the Participant to make a public announcement regarding any of the types of matters set forth in (a)-(c) above;

(e) disclose any intention, plan or arrangement in contravention of the foregoing; or

(f) enter into any discussion or arrangements with any third party with respect to any of the foregoing.

Nothing contained herein shall prohibit RIM from making a private proposal to the Board of Directors of the Participant relating to a proposal for **an offer for the assets, securities of the Participant or other business combination**. During the Standstill Period, Participant shall promptly notify RIM of any legally binding agreements entered into with third parties in respect of the matters described in this Section 12, including without limitation any such legally binding agreements with third parties for Acquisition Proposals, or other events that would result in the termination of the Standstill Period.

[emphasis added]

1 [emphasis added].