IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation: *Equustek Solutions Inc. v. Jack,*
2021 BCSC 2126

Date: 20211029
Docket: S112421
Registry: Vancouver

Between:

Equustek Solutions Inc., Robert Angus, and Clarma Enterprises Ltd.

Plaintiffs

And

Morgan Jack aka Matt Garcia aka Matt Garci aka Ian Taylor, Andrew Crawford aka Derek Smythe, Datalink Technology Gateways Inc., Datalink 5, Datalink 6, John Doe, Datalink Technologies Gateways LLC, Lee Ingraham aka Darren Langdon, Mike Bunker, Igor Cheifot aka Jolio Fernandez, Alexander Cheifot aka Randy Schtolz, Frank Geiger aka Felix Fernandez, Alfonso Doe, and Colin Marsh and Kathleen Marsh

Defendants

Before: The Honourable Madam Justice Duncan

Reasons for Judgment

Counsel for the Plaintiff:	R. Fleming J. Zeljkovich
Counsel for the Defendant/Applicant, Lee Ingraham:	C. Veinotte J. Cytrynbaum
Counsel for the Defendant, Andrew Crawford aka Derek Smythe:	E. Stickland
Written Submissions of the Plaintiffs Received:	October 23, 2020
Written Submissions of the Defendant, Lee Ingraham Received:	November 6, 2020
Written Reply Submissions of the Plaintiff received:	November 13, 2020
Place and Date of Trial/Hearing:	Vancouver, B.C. April 19, 20 and 23, 2021
Place and Date of Judgment:	Vancouver, B.C. October 29, 2021

Introduction

[1] These Reasons for Judgment address several outstanding issues relating to my Reasons for Judgment after trial reported *as Equustek Solutions Inc. v. Jack*, 2020 BCSC 793.

Copyright Damages

[2] I found the Datalink defendants (Morgan Jack and a number of corporate entities under his control) and Andrew Crawford liable for copyright infringement for using large portions of the plaintiffs' manual and application notes, but did not address the quantum of damages for copyright infringement in my reasons as the focus of all the defendants was on whether there was liability in copyright infringement and not on damages.

[3] The plaintiffs originally sought statutory damages under s. 38.1 of the *Copyright Act*, R.S.C. 1985, c. C-42, based on damages paid for each infringing copy of the plaintiffs' copyright materials. Under that approach, the plaintiffs maintained that statutory damages would amount to about $5.3 million, based on the numbers of devices that the Datalink defendants likely sold, each of which were accompanied by a manual and application notes.

[4] The plaintiffs now submit that this assessment of the law was wrong. Statutory damages are not awarded per infringing copy, but per work infringed:

> *Patterned Concrete v. Bomanite*, 2021 FC 314 (CanLII) at paras. 56-61; and
>
> *Young v. Thakur*, 2019 FC 835 (CanLII) at paras. 40-45.

[5] If copyright damages are assessed on the basis of work infringed, the statutory limit is $40,000: $20,000 for the infringement of the manual and $20,000 for the infringement of application notes.

[6] The plaintiffs now seek general damages under s. 35 of the *Copyright Act*, as s. 38.1 allows the plaintiff to make their election at any time before final judgment is rendered. They maintain that the provision should be interpreted liberally, citing

Ritchie v. Sawmill Creek Golf & Country Club Ltd., 2003 CanLII 24511 (O.N.S.C.). In that case, Justice Ducharme noted that the *Copyright Act* makes it clear that statutory damages are for the claimant to choose, from a host of remedies, at any time before final judgment is rendered. Justice Ducharme found that the defendants had not been taken wholly by surprise and had not suffered any real prejudice as a result of the late election and exercised his discretion to permit an amendment to the pleadings and to grant the plaintiff his election: at paras. 32-34.

[7] I am not inclined to permit the plaintiffs in this case to change their election based on their own oversight in litigation which has been ongoing since 2011. I award damages for copyright infringement in the amount of $40,000, jointly and severally, against Morgan Jack, the Datalink defendants and Mr. Crawford.

Damages for The Plaintiffs' Future Losses

[8] I awarded damages in the amount of $1 million CAD for Equustek's loss of sales from March 2008, when Datalink began selling the GW1000, to the date of trial. I deferred the assessment of damages post-trial to allow fuller argument on the issue of whether the plaintiffs can obtain judgment for damages in addition to injunctive relief designed to curtail sales of the defendants' product via Google.

[9] The plaintiffs addressed this issue in their post-judgment submissions and I am satisfied that both remedies are available: *GasTOPS Ltd. v. Forsyth*, [2009] O.J. No. 3969 at paras. 1451-1453 and *Denison v. Carrousel Farms Ltd.* (1982), 138 D.L.R. (3d) 381 (Ont. C.A.).

[10] Mr. Jack and the other non-participating defendants abandoned the litigation. There was cogent evidence that they continued to sell devices made from technology stolen from the plaintiffs even after the Google injunctions were in place. While I observed in my reasons that the Google injunctions slowly but surely had an effect on Datalink's sales and that Mr. Jack appeared to have difficulty paying his bills, Google is not the only internet search engine. Depriving the plaintiffs of a damages award in favour of injunctive relief alone would not be fair or equitable in the circumstances of this case.

[11] An award for damages is intended to restore the plaintiff monetarily to the position it would have been in, but for the defendant's wrongful conduct. Damages can be assessed in a number of ways in cases like this one, which involves a breach of confidence. In *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, [1999] 1 S.C.R. 142, the Court said that, "[t]he objective in a breach of confidence case is to put the confider in as good a position as it would have been but for the breach."

[12] In this case the plaintiffs, as the confider, seek damages from Andrew Crawford, Morgan Jack and the Datalink defendants and the Cheifots based on the following: 1. the defendants' profits gained as a result of their tortious actions; or 2. the plaintiffs' profits lost as a result of the defendants' actions from the time of trial to 15 years in the future.

[13] At trial I queried the rationale for the 15 year timeline, but having reviewed the report of the plaintiffs' expert Mr. Mackay I accept that based on his calculations, it will no longer be profitable for the plaintiffs to manufacture and sell its products after 15 years post-trial.

[14] The plaintiffs have been hampered in their ability to ascertain the Datalink defendants' actual profits, due to the fact that Morgan Jack and the Datalink defendants exited the litigation without producing any documentation. There was some evidence at trial about Datalink's sales, from which future damages may be extrapolated, but I am satisfied that Mr. Mackay's calculations of the plaintiffs' loss of income under three different scenarios provides a more reliable measure of damages.

[15] Mr. Mackay reviewed Equustek's sales and determined that up until early 2008, average annual sales were $585,000 USD. In 2008, sales dropped by 26%. The GW1000 was introduced in March 2008, about halfway through Equustek's fiscal year. In Equustek's 2009 fiscal year, its sales had dropped by 52% and stayed at or near that level until 2013.

[16] The drop in sales of Equustek's products can be traced directly to Datalink, which was publicly advertising the sale of Equustek products then shipping its own product. The defendants produced nothing to contradict the plaintiffs' approach to pre-trial damages, except to suggest, based on the report of Mr. Ingraham's economic expert Mr. Patton, that the 2008 economic downturn might have had some impact on sales.

[17] Mr. Mackay calculated the value of Equustek's drop in income from November 1, 2007 to the start of trial, within a range of $1.8 and $2.3 million. He undertook a similar exercise from the time of trial to 15 years into the future, based on three different scenarios:

i. Google continues to block the Datalink defendants' websites;

ii. Google stops blocking the Datalink defendants' websites and Equustek's sales fall back to the level they were at in the 2014 fiscal year; and

iii. A middle scenario where Equustek's sales fall back to the mid-point between the expected sales in scenarios (i) and (ii).

[18] Mr. Mackay then applied a substantial discount rate – 20% - to arrive at the present value of the future losses. The losses ranged from a low of $524,000 to a high of $1,189,000.

[19] Mr. Ingraham tendered his own economic expert, Mr. Patton, whose reported was intended to inject "real world considerations" into the damages assessment, but Mr. Patton agreed on cross-examination that his alternate calculations were not intended to be relied on. Additionally, Mr. Patton took the eventual obsolescence of the plaintiffs' protocol converter into account, although there was no persuasive evidence at trial that the devices would become obsolete.

[20] Assessing damages in circumstances like these involve a certain amount of crystal ball gazing. The future of the injunction preventing Google from indexing Datalink websites is an unknown. I am satisfied that the damages award should

reflect the highest risk scenario for Equustek's future losses and award $1,189,000, jointly and severally, against Andrew Crawford, Morgan Jack, the Datalink defendants and the Cheifots.

Disgorgement of Profits

[21] In my Reasons for Judgment at paras. 400-401, I awarded the plaintiffs orders concerning unjust enrichment, accounting and disgorgement as well as a declaration of constructive trust and an order piercing the corporate veil against Mr. Jack, the Datalink defendants and the Cheifots in relation to profits made on the sales of the GW1000, with the amount of restitution or quantum of disgorgement to be determined.

[22] While Mr. Jack, the Datalink defendants and the Cheifots did not produce any documentation and did not participate in the trial, the plaintiffs can point to a body of evidence to demonstrate the likely profits made on the sales of the GW1000. Mr. Ingraham testified that Datalink shipped 1,700 units per year between March 2008 and April 2012, or 425 units per year. Mr. Angus estimated the number was 500 units per year, based on the serial numbers of several GW1000 devices the plaintiffs were able to purchase at different points in time.

[23] The plaintiffs proceed on the more conservative footing in Mr. Ingraham's evidence and maintains that between March 2008 and the start of trial in April 2018, Datalink sold 4,250 units of the GW1000.

[24] As for the price of each unit, it appeared to range from $1,125 to $1,250 USD. Using the most conservative pricing, the plaintiffs maintain that the sales of the GW1000 from March 2008 until April 2018 when the trial commenced amounted to $4,781,000 USD.

[25] There was some evidence at trial from Mr. Ingraham that Datalink incurred some costs for production; however, I am not persuaded that Datalink should be credited any cost of production, given that Mr. Jack, the Datalink defendants and the Cheifots produced no documentation and abandoned the litigation.

[26] Determining Datalink's future profits is more difficult. I am satisfied that the same issues of profitability that Mr. Mackay built into the 20% discount rate would apply to Datalink's future sales. That is, assuming Datalink is still selling the GW1000, at some point it will not be profitable for them to continue to do so. In these circumstances, I find that Datalink's future profits will roughly approximate Equustek's future profits and I fix the amount of future profits at $1,189,000.

The Patton Report Issue

[27] The plaintiffs seek special costs from the defendant Lee Ingraham for all the court time related to the report of Mr. Patton. The admissibility of the Patton report was vigorously contested at trial. I admitted the report and Mr. Patton gave evidence at trial.

[28] The plaintiffs' application for special costs is based on the fact that the first version of the Patton report, which was distributed to the other defendants, included the plaintiffs' client list. That list was subject to a confidentiality order by Justice Grauer, as he then was.

[29] Mr. Veinotte, counsel for Mr. Ingraham, acknowledged that he inadvertently disclosed the plaintiffs' client list to Mr. Patton, contrary to the order of Grauer J., and distributed the report to the parties. Counsel for the plaintiffs alerted Mr. Veinotte to this issue and he took steps to retrieve all copies of the report.

[30] Special costs are punitive and only available in exceptional circumstances and generally require some form of reprehensible conduct or conduct deserving of reproof or rebuke. The plaintiffs' consternation about the distribution of the client list is understandable, but Mr. Veinotte's office made a mistake and moved quickly to correct it. The conduct is not deserving of an order of special costs.

Special Costs Against Morgan Jack, The Datalink Defendants and The Cheifots

[31] The plaintiffs seek special costs against Mr. Jack, the Datalink defendants and the Cheifots. Contrary to the circumstances surrounding Mr. Veinotte's

disclosure of the plaintiffs' client to Mr. Patton, the conduct of these defendants is deserving of special costs.

[32] Mr. Jack's conduct in the litigation was reprehensible. He flouted court orders to cease selling the GW1000 and abandoned the litigation. There is a warrant out for his arrest for contempt of court. There will be an order for special costs against Mr. Jack and the Datalink defendants.

[33] As for the Cheifots, they were caught red-handed with the plaintiffs' intellectual property when the Anton Piller order was executed and shortly thereafter abandoned the litigation. Their conduct is also worthy of rebuke and an order for special costs is merited.

Punitive Damages

[34] The plaintiffs successfully sought an award of punitive damages against Mr. Jack, the Datalink defendants and the Cheifots. The issue is the quantum of such damages.

[35] In *Whiten v. Pilot Insurance Co.*, 2002 SCC 18, Binnie J. observed:

> 156 By reason of the relational nature of private tort law, punitive damages do not fit easily into its overall scheme, such as it may be. They are considered at a point in a suit when, in principle, the complainant has suffered a wrong but has been granted compensation as complete as the law allows in order to put him or her back in his or her former position. Hence, punitive damages come on top of everything else and carry no particular price tag. At the same time, an award of punitive damages may reflect broader and different societal concerns. These concerns reflect their position in the law: they are designed to punish, not to compensate. An award of compensatory damages may, in a way, punish the defendant due to the very fact that he or she has been found in breach of some legal duty, that he or she is ordered to indemnify a plaintiff and that he or she has had to go through the inconvenience of a trial and also sometimes the humiliation of adverse publicity attached to legal action. Indeed, by itself, an award of general damages may be punishment enough. It does not mean, though, that an action is primarily punishment: the compensatory nature of the claim remains. Punitive damages differ strikingly from all other damages as the sole reason for awarding them is to punish, as Professor Feldthusen has pointed out. Even aggravated damages differ in this respect from punitive damages (see B. Feldthusen, "Recent Developments in the Canadian Law of Punitive Damages" (1990), 16 *Can. Bus. L.J.* 241).

> 157 Aggravated damages served the traditional corrective purpose of the common law: to make the plaintiff whole for injuries to interests that are not properly compensable by ordinary damages. Punitive damages target not loss, but conduct. (See *Vorvis, supra*, at pp. 1098-99; *Hill v. Church of Scientology of Toronto*, [1995] 2 S.C.R. 1130, at para. 196.) The defendant's wrong must then be considered directly and separately in order to assess its severity and, accordingly, the appropriate degree of punishment. The other forms of damages look to the loss of the plaintiff, but punitive damages refer essentially to the degree of culpability of the defendant's action.
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> 158 The difficulties inherent in the nature of punitive damages have given rise to doubts as to their proper place in the law of torts. Some critics have indeed opined that they have no place in the proper structure of tort law, equating it with some form of "palm tree justice". (See *Cassell & Co. v. Broome*, [1972] A.C. 1027 (H.L.), at p. 1087, per Lord Reid.) Under the pine trees of this country, as we know, punitive damages have found a place in the law of torts. Nevertheless, as with any legal institution, punitive damages must address some identifiable purpose and concern in order to define their proper role. An overriding objective of general deterrence remains problematic, if punitive damages are to remain a useful incident of tort law. Otherwise, their use may turn some parts of the law of tort into a sort of private criminal law, devoid of all the procedural and evidentiary constraints which have come to be associated with the criminal justice system.

[36] In *XY, Inc. v. International Newtech Development Incorporated*, 2012 BCSC 319, a case concerning the theft of intellectual property, Justice Kelleher declined to order punitive damages on top of general damages and special costs, reasoning that the litigants were sophisticated commercial entities and that the defendants had "pulled a fast one" on the plaintiff.

[37] In related litigation, *XY, LLC v. Canadian Topsires Selection Inc.*, 2016 BCSC 1095, Justice Fitzpatrick determined that punitive damages were merited:

> [384] XY submits that the focus here should be on the steps undertaken by Zhu and his employees to achieve the conspiracy and breach of confidence, including being deceitful towards the Trustee, XY and the Court, the violation of bankruptcy laws and the abuse of the court process throughout this action.
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> [385] Here, I agree with XY that this is a case that invites an expression of condemnation by the Court. Unlike the facts before Kelleher J., where the deceit was largely within the context of a contractual relationship between XY and JingJing, Zhu's scheme, as now more fully revealed, went far beyond that scenario.
>
> [386] That scheme, in part, involved false representations and false evidence before this Court, consistent with the earlier deceit that was part of the Original Action. This includes Zhu's lies under oath as noted by Kelleher J. in the Trial Reasons, and the deceitful actions in relation to Xu's status

> when he was allowed to remain in the courtroom to hear XY's confidential testimony. Also relevant here is that the Court was deceived as a result of the sale to Technoterm within the bankruptcy proceedings as the sale required court approval. Thirdly, Zhu lied under oath at the trial of the Original Action regarding the Missing Parts. Clearly, Zhu's deceit in these last two matters was not limited to the Court, but also included the Trustee.
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> [387] The scheme also involved a clear plan to avoid document disclosure of relevant documents in this action to disguise the true nature and extent of Zhu's operations.
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> [388] Of course, the deceit also involved XY. I consider that Zhu's actions go beyond trying to "pull a fast one" on XY. XY describes this as a fraud of epic proportions, which cries out for punitive damages commensurate with the complexity, breadth, and long-standing efforts of Zhu to cheat XY and steal its Confidential Information.

[38] The litigation before me engages the same types of considerations: Mr. Jack, who was the operating mind of the Datalink defendants, schemed to avoid the disclosure of relevant documents in this action and made the plaintiffs' job in uncovering what had happened to its intellectual property far more difficult than it should have been and made discovery of his financial gain impossible. He left the jurisdiction and flouted orders that he stop selling the product that was developed with information stolen from the plaintiffs. His conduct clearly merits an award of punitive damages, which I fix in the amount of $250,000.

[39] The Cheifots are in a slightly different position. While I am satisfied that they facilitated Mr. Jack's deceitful conduct, they were not directing minds like Mr. Jack. In recognition of their lesser role I fix punitive damages in the amount of $100,000 against each of them.

The Form of Orders

[40] At the conclusion of submissions on post-judgment issues, the form of orders against the non-participating defendants and Mr. Crawford were left with counsel to draft, in accordance with my reasons. The main issue with Mr. Crawford was to enable him to continue to make a living as a software engineer, while ensuring he did not resort to using any of the plaintiffs' intellectual property in doing so.

[41] If the parties have not come to an agreement about those orders they should arrange a time to appear before me to complete that process.

Costs of this Application

[42] The plaintiffs are entitled to their costs of this application, with the exception of the Patton report issue, at Scale B.

[43] Mr. Ingraham is entitled to his costs at Scale B from the plaintiffs on their application for special costs related to the Patton report.

"Duncan J."