

Date: 20080410

Docket: T-2088-05

Citation: 2008 FC 464

Vancouver, British Columbia, April 10, 2008

PRESENT: The Honourable Madam Justice Heneghan

BETWEEN:

**TAZCO HOLDINGS INC.,
EXCALIBRE OIL TOOLS LTD.,
and TEBO INDUSTRIES LTD.**

**Plaintiffs
(Appellants)**

and

**ADVANTAGE PRODUCTS INC.,
GENESIS MACHINING SERVICES INC.,
and WEATHERFORD CANADA LTD.**

**Defendants
(Respondents)**

REASONS FOR ORDER AND ORDER

[1] Tazco Holdings Inc., Excalibre Oil Tools Ltd., and Tebo Industries Ltd. (the “Plaintiffs”) appeal from the Order of Prothonotary Aalto made on August 31, 2007. In that Order, the Prothonotary granted the motion by Advantage Products Inc., Genesis Machining Services Inc., and Weatherford Canada Ltd. (the “Defendants”) that the law firm of Brownlee LLP (“Brownlee”) be removed as solicitors of record for the Plaintiffs on the grounds that Brownlee is in conflict of interest arising from the fact that the lawyer who is representing the Plaintiffs in this action had

previously acted on behalf of the Defendant Advantage Products Inc. in an action for patent infringement.

[2] The material before the Prothonotary consisted of the pleadings, that is, the Statement of Claim issued on November 22, 2005, together with the Defence and Counterclaim filed on January 27, 2006. As well, the Defendants filed the affidavits of Lynn Tessier, sworn March 29, 2006 and Daniel R. Horner sworn on March 29, 2007. Mr. Tessier is the inventor of the TorqStopper, an anti-rotation tool which is the patented device at the heart of this patent infringement action.

[3] In reply, the Plaintiffs filed the affidavits of Edward L. Moore, sworn on March 20, 2007 and of Neil F. Kathol, sworn March 21, 2007. A reply affidavit of Mr. Kathol, sworn May 7, 2007, was also filed. Mr. Moore is the President of Tazco Holdings Inc. and Excalibre Tools Ltd. Mr. Kathol is a partner of Brownlee and represents the Plaintiffs. He is also the lawyer of Brownlee who represented Advantage in a prior patent infringement lawsuit involving the TorqStopper.

[4] The Prothonotary reviewed the affidavit evidence and the written submissions of the parties. He stated the issues arising as follows:

1. Is Brownlee in a position of disqualifying conflict such that it should no longer be able to act for the Plaintiffs?

2. If Brownlee is in a position of disqualifying conflict, does the failure of Advantage to move expeditiously to disqualify Brownlee permit Brownlee to continue to act for the Plaintiffs?

[5] The Prothonotary referred to the decision in *MacDonald Estate v. Martin*, [1990] 3 S.C.R. 1235, where Justice Sopinka at page 1243 said that the Court is concerned with at least three competing values in assessing whether a conflict of interest exists. These values are as follows:

1. Maintaining the high standards of the legal profession and the integrity of our system of justice;
2. Not depriving litigants of their counsel of choice without good cause; and
3. Allowing reasonable mobility in the legal profession.

[6] The test for the existence of a disqualifying conflict of interest in the context of a solicitor-client relationship is two-fold. First, has the solicitor received confidential information that is relevant to the matters in issue? Second, is there a risk to the former client that the confidential information will be used to the prejudice of the client?

[7] In the present case, the Prothonotary found that both parts of the test were met. He found that Mr. Kathol had received confidential information concerning Advantage while he was engaged in the prior retainer. The Prothonotary specifically referred to the evidence before him as contained in the affidavit of Mr. Tessier. At paragraphs 5 and 6 of his reasons, the Prothonotary said the following:

[5] Prior to this proceeding, Advantage had retained the services of Kathol to pursue a patent infringement on their behalf (the “Corlac Action”). This retainer lasted from approximately October 2001 through August 2002 (the “Brownlee Retainer”). Tessier deposes that during the Brownlee Retainer, Kathol worked closely with various individuals from Advantage including Tessier, Horner, John Doyle, an employee of Advantage, and others associated with the TorqStopper patent. During the course of the Brownlee Retainer, Tessier deposes that confidential information was shared by Advantage with Kathol and, more specifically:

6. In the course of the Advantage Communications, the Plaintiffs’ solicitors, and specifically Mr. Kathol:
 - (a) drafted licence agreements and sub-license agreement including those involving MSI and Advantage;
 - (b) discussed, in detail, aspects of the TorqStopper and the nature of its operation;
 - (c) discussed, in detail, patent infringement issues respecting the Corlac Action with myself, Mr. Weber, Mr. Goodwin, Mr. Doyle and Mr. Malyszko;
 - (d) discussed, in detail, litigation strategy concerning patent infringement issues respecting the Corlee Action with Mr. Weber, Mr. Goodwin, Mr. Doyle and Mr. Malyszko;
 - (e) assisted in drafting the Statement of Claim issued by Advantage and MSI in the Corlac Action;
 - (f) prepared Affidavits on behalf of Mr. Weber and Mr. Doyle respecting patent infringement issues in the Corlac Action; and
 - (g) generally, obtained knowledge of Advantage’s finances, share structure, offshore interests and intentions, corporate make-up, customers, suppliers of machined goods, distributors and litigation strategy.

7. As a result of the Advantage Communications, I am of the belief that the Plaintiffs’ solicitors, Brownlee Fryett, and specifically, Mr. Kathol, have confidential

information concerning Advantage's business, interests and affairs as well as the personal characteristics and litigation tolerances of myself and Mr. Weber, which the Plaintiff might use to the disadvantage of Advantage.

[6] Tessier further states that he did not consent to either Kathol or Brownlee releasing confidential information obtained during the Brownlee Retainer relating to the Corlac Action. Attached as exhibits to the Tessier affidavit are copies of accounts rendered by Brownlee to Advantage commencing in October 2001 to August 2002. The total of the accounts is in excess of \$23,000. The accounts are all signed by Kathol on behalf of Brownlee. The work done by Brownlee for Advantage is extensive as appears from the accounts and it would be impossible to believe that during the course of the Brownlee Retainer that confidential information relating to the TorqStopper and Advantage generally was not shared with Kathol and Brownlee.

[8] The Prothonotary then addressed the second part of the test, that is, whether there is a risk that such confidential information will be used to the detriment of the client in the present proceedings. He acknowledged that this is a "much more difficult question to answer" but, having regard to the evidence before him and the submissions of the parties, he concluded that "a risk existed that confidential information will be used to the prejudice of Advantage."

[9] The Prothonotary referred to relevant jurisprudence concerning the use of confidential information by a former solicitor, that is, *O'Dea v. O'Dea* (1987), 68 Nfld. & P.E.I.R. 67; aff'd [1988] N.J. No. 186 (Nfld. C.A.), *R. v. Neil*, [2003] 3 S.C.R. 613, and *Strother et al. v. 3464920 Canada Inc. et al.*, [2007] 2 S.C.R. 177. In *Strother*, Justice Binnie referred to the prior jurisprudence and said the following at para. 51:

In *MacDonald Estate v. Martin*, similarly, the legal rule was arrived at after balancing various interests, including trading off a client's ability to choose counsel against other considerations such as lawyer mobility. Once arrived at, however, the *MacDonald Estate v. Martin* rule protecting against disclosure of confidential information is applied as a "bright line" rule. The client's right to confidentiality trumps the lawyer's desire for mobility. So it is with *Neil*. The "bright line" rule is the product of the balancing of interests not the gateway to further internal balancing. In *Neil*, the Court stated (at para. 29):

The bright line is provided by the general rule that a lawyer may not represent one client whose interests are directly adverse to the immediate interests of another current client – *even if the two mandates are unrelated* – unless both clients consent after receiving full disclosure (and preferably independent legal advice), and the lawyer reasonably believes that he or she is able to represent each client without adversely affecting the other.

[Emphasis in original]

[10] The Prothonotary addressed the Plaintiffs' argument that an adverse inference should be drawn because the Defendants submitted the affidavit of Mr. Tessier, rather than an affidavit from Mr. Weber, in support of their motion. He rejected that submission on the grounds that there was a sufficient nexus between Mr. Tessier, a co-inventor of the TorqStopper, to support the Defendants' claim that confidential information had been provided to Mr. Kathol in the course of his retainer.

[11] Finally, the Prothonotary considered whether the Defendants had delayed in bringing their motion for disqualification of Brownlee, such that the motion should be dismissed.

The Prothonotary disposed of this argument on the basis that the problem was created by Brownlee not the Defendants, and in any event, the issue had been raised by counsel for the Defendants prior to the commencement of this action.

[12] Nonetheless, the Prothonotary went on to consider whether the timing of the motion was a tactical decision by the Defendants. He concluded that the “facts in this case do not support an improper motive on behalf of Advantage for bringing this motion.” The Prothonotary granted the Defendants’ motion, without costs.

[13] The Plaintiffs now argue that the Prothonotary erred in law in making his order and that this Court should review the motion on a *de novo* basis. In this regard, the Plaintiffs rely on the decision of the Federal Court of Appeal in *Canada v. Aqua-Gem Investments Ltd.*, [1993] 2 F.C. 425, where the Court held that a discretionary order of a prothonotary should be reviewed *de novo* on appeal if that decision is vital to the final issue or the order is clearly wrong in the sense that the prothonotary based his or her decision on a wrong principle or a misapprehension of the facts.

[14] In this case, the Plaintiffs argue that the Prothonotary based his findings on speculation rather than upon the evidence submitted. They submit that the Prothonotary failed to make reasonable findings of fact relative to the receipt of confidential information by Mr. Kathol in the course of the prior retainer. In this regard, the Plaintiffs rely on the decision in *Denharco Inc. v. Forespro Inc.*, 162 F.T.R. 202 (T.D.).

[15] Further, the Plaintiffs argue that the delay by the Defendants in bringing the motion should be considered by this Court. They submit that the delay by the Defendants in bringing this motion was a matter of tactics.

[16] For their part, the Defendants submit that the Prothonotary committed no reviewable error.

[17] The Federal Court of Appeal restated the test applicable to review of a prothonotary's decision in *Merck & Co. v. Apotex Inc.*, [2004] 2 F.C.R. 459; leave to appeal refused (2004), 30 C.P.R. (4th) vii, 331 N.R. 394, where the Court said the following at para. 19:

...

I will use the occasion to reverse the sequence of the propositions as originally set out, for the practical reason that a judge should logically determine first whether the questions are vital to the final issue: it is only when they are not that the judge effectively needs to engage in the process of determining whether the orders are clearly wrong. The test would now read: "Discretionary orders of prothonotaries ought not be disturbed on appeal to a judge unless: (a) the questions raised in the motion are vital to the final issue of the case, or (b) the orders are clearly wrong, in the sense that the exercise of discretion by the prothonotary was based upon a wrong principle or upon a misapprehension of the facts."

[18] In the present case, the Prothonotary made findings of fact that, in my opinion, were reasonably open to him on the basis of the evidence that was before him. That evidence consisted of the affidavits that were submitted by the parties, together with the exhibits that were attached.

[19] The Prothonotary correctly identified the test for finding a disqualifying conflict of interest, as stated in *MacDonald Estate* and confirmed recently in *Neil and Strother*. The existence of a disqualifying conflict of interest requires the delivery of confidential information from a client to a solicitor and the existence of a reasonable possibility that such information could be used to the prejudice of the former client. Prothonotary Aalto made findings of fact with respect to each of

these issues, finding that confidential information had been exchanged and that a risk existed that such information could be used to the detriment of the former client.

[20] In its decision in *Housen v. Nikolaisen*, [2002] 2 S.C.R. 235, the Supreme Court of Canada made it clear that, absent palpable and overriding error in the determination of factual findings, a reviewing Court will not interfere with factual findings.

[21] In my view, that principle applies here. I am satisfied that the factual findings made by the Prothonotary are reasonably supported by the evidence. The Prothonotary relied on the statements of account that had been presented by Mr. Kathol to support his conclusion that confidential information had been received by Kathol. This conclusion is reasonable, having regard to the amount of the work that had been done for Advantage. The same invention was involved in the prior litigation as is the subject of the present action. There is no evidence of any “palpable and overriding error” by the Prothonotary. There is no basis to disturb his factual findings.

[22] I am satisfied that the Prothonotary could reasonably determine that, in the circumstances, there is a risk that the prior confidential information could be used to the detriment of the former client, in the context of the present action, if Brownlee were allowed to represent the Plaintiffs.

[23] Finally, the Prothonotary made a factual finding that the Defendants had not delayed in seeking removal of Brownlee or that the timing of the withdrawal motion represented an improper tactic by the Defendants.

[24] The next question is whether the Prothonotary erred by applying wrong principles of law. It is clear from his Reasons that he did not. He referred to and applied relevant jurisprudence. He considered relevant Rules of Professional Practice, that is, the Rules applicable to members of the Alberta Bar.

[25] The Prothonotary committed no reviewable error in granting the Defendants' motion and this appeal is dismissed with costs.

ORDER

THIS COURT ORDERS that this appeal is dismissed with costs.

“E. Heneghan”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-2088-05

STYLE OF CAUSE: TAZCO HOLDINGS INC. et al. v.
WEATHERFORD CANADA LTD.

PLACE OF HEARING: Calgary, Alberta

DATE OF HEARING: October 1, 2007

**REASONS FOR ORDER
AND ORDER:** HENEGHAN J.

DATED: April 10, 2008

APPEARANCES:

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(Appellants)

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