

IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation: *The Software Guy Brokers Ltd. v. Hardy
and Cabell*,
2004 BCSC 82

Date: 20040122
Docket: No. S036893
Registry: Vancouver

Between:

The Software Guy Brokers Ltd.

Plaintiff

And:

Roger Hardy and Winston Cabell dba The Software King and
www.thesoftwareking.com, and www.thesoftwareking.com

Defendants

Before: The Honourable Madam Justice Allan

Reasons for Judgment

Counsel for the plaintiff:

David Wotherspoon

Counsel for the defendants:

Rose-Mary Basham Q.C. and
Vivienne Stewart

Date and place of hearing:

January 12, 2004
Vancouver, B.C.

The relief sought

[1] The plaintiff, The Software Guy Brokers Ltd. ("The Software Guy"), seeks an interlocutory injunction restraining the defendants from using the name "The Software King" or the web address www.thesoftwareking.com and using text from the plaintiff's website, www.thesoftwareguy.com. Initially, the plaintiff also sought to enjoin the defendants from using graphics from the plaintiff's web site but it did not pursue that claim on this application.

Background

[2] The Software Guy is an online retailer of business application software, selling wholesale and direct to individuals and businesses. Its web address is www.thesoftwareguy.com. It has no retail outlet.

[3] The Software Guy began operations in the fall of 2002 with a relatively unsophisticated web site. On March 6, 2003, it introduced a professional looking web site.

[4] Mr. Hui, the principal of the plaintiff, deposes that in August 2003, the defendant Mr. Hardy approached him and expressed an interest in investing in his company. Mr. Hui says he extracted a promise from Mr. Hardy that all information he received would be confidential and used only for the purpose of making a decision as to whether to invest. Mr. Hui says he then disclosed information about virtually every aspect of the plaintiff's business. On the other hand, Mr. Hardy deposes that Mr. Hui told him very little about the business and said he would provide more detail when Mr. Hardy signed a non-disclosure agreement. Mr. Hui

says he agreed to prepare a business plan at Mr. Hardy's request, but he required Mr. Hardy to sign a non-disclosure agreement before delivering it. He mailed Mr. Hardy the non-disclosure agreement in mid-October 2003, but Mr. Hardy did not respond. Mr. Hardy says by the time he received that document, he was no longer interested in investing.

[5] In early November 2003, a new on-line software retailer called The Software King launched its web site. The plaintiff asserts that www.thesoftwareking.com incorporated much of its text from the plaintiff's web site, used many of the same graphics and "shared the same overall look and feel".

[6] The plaintiff has brought an action for passing off, copyright infringement and breach of confidence.

[7] The defendants claim that both the plaintiff and the defendants have used the same copyright material, which is owned by neither party, in their web sites. In fact, the defendants have obtained a licence to use that material from the copyright owner and they say that the plaintiff has not. The defendants suggest that the plaintiff's primary motive in bringing this action is to put them out of business.

[8] In 2000, Mr. Hardy developed two online retail businesses, Coastal Contact Lenses Ltd. ("Coastal Contacts") and Coastal Meds. Mr. Hardy and Mr. Cabell say they considered setting up an on-line software retailing business in September 2003. Mr. Hardy agreed to licence the graphics, images, look and functionality of the Coastal Contacts and Coastal Meds web sites to the new business, and they

chose the concept of a Software King around which to create a marketing plan and strategy. Their logo is a crown and the tag or slogan is “your software solution domain”. Mr. Cabell deposes they secured the domain name “thesoftwareking.com” because “softwareking.com” was already taken. They began operation in November 2003.

[9] Mr. Hui and Mr. Cabell met on December 4, 2003. The defendants say Mr. Hui first approached the defendant Mr. Cabell to ask if they could work together rather than compete. They allege that Mr. Hui’s real purpose was to arrange for Mr. Roy Wong, a private investigator, to follow Mr. Cabell home in order to serve him with the documents in this lawsuit a few days later. Mr. Wong deposes that he was hired by Fasken Martineau DuMoulin, the plaintiff’s solicitors, to conduct surveillance of that meeting and to follow Mr. Cabell to his home.

[10] It is clear that on-line retailing has changed the landscape of sales and advertising. There are numerous software retailers on the Internet offering the same or similar products, pricing and service. Competition is fierce. Competitors bid on particular search words - e.g. “software”, “cheap software” and “discount software” - and the higher they bid, the more likely they are to appear as the first retailer on search engines such as Google and Yahoo. The assumption is that the higher they place on the list of on-line retailers, the more customers they will attract.

The relevant law

[11] The classic three-part test for an injunction, set out in *American Cyanamid Co. v. Ethican Ltd.*, [1975] A.C. 396 has been affirmed by the Supreme Court of Canada in *RJR - Macdonald Inc. v. Canada* (1994), 111 D.L.R. (4th) 385 and *Metropolitan Stores (MTS) Ltd. v. Manitoba Food & Commercial Works, Local 832* (1987), 38 D.L.R. (4th) 321. The Court must consider: (1) the strength of the plaintiff's case; (2) whether there will be irreparable harm if the injunction is granted or denied; and (3) where the balance of convenience lies. Even if a two-prong analysis is utilized, omitting the second factor, the second prong would encompass the element of irreparable harm. I agree with Ms. Basham, counsel for the defendants, that because passing-off cases are usually decided at the interlocutory stage, the Court must fully weigh the relative strengths of the parties' cases: *Dairy Bureau of Canada v. Annable Foods Ltd.*, [1993] B.C.J. No. 196 (S.C.) at p. 6.

Has the plaintiff established a *prima facie* case?

[12] The plaintiff says that it has made out a *prima facie* case of passing-off and copyright infringement. With respect to passing-off, Mr. Wotherspoon, counsel for the plaintiff submits that the names "The Software King" and "The Software Guy" are extremely similar, as are the web addresses, www.thesoftwareking.com and www.thesoftwareguy.com, and that the former's use of the latter's graphics and text only increase the potential for harm. With respect to copyright infringement,

he asserts that many of the graphics are identical and much of the text is copied verbatim, including text containing an obvious grammatical error.

Passing-off

[13] A defendant will be found liable for passing-off where it has named, packaged or described its product or a business in a manner likely to lead the public to believe the defendant's product or business is that of the plaintiff. The Supreme Court of Canada described the three components of a passing off action in *Ciba-Geigy Canada Ltd. v. Apotex Inc.* (1992), 44 C.P.R. (3d) 289 at p. 297: (1) the existence of good will; (2) deception of the public due to a misrepresentation; and (3) actual or potential damage to the plaintiff. The plaintiff provides an example of a customer who, having had an unhappy experience with The Software King, mistakenly contacted The Software Guy to discuss it.

[14] In my opinion, the plaintiffs have not established a *prima facie* case of passing-off. All of the elements of the names The Software King and The Software Guy and the web sites are generic names except the words "King" and "Guy" which are not similar in appearance, sound or meaning. There is no misrepresentation or deception that would deceive the public or suggest that the two businesses were associated: *Dairy Bureau*, *supra* at p. 12.

[15] I agree with Ms. Basham that customers who utilize the internet to purchase computer software are unlikely to be confused by the name "software" in both names.

Copyright infringement

[16] Copyright and copyright infringement are governed by the *Copyright Act*, R.S.C. 1985, c. C-42. Section 3 defines “copyright” as the sole right to produce or reproduce a work or any substantial part of it. Section 5 provides that copyright subsists in original works that include computer software. Section 27 provides that it is an infringement of copyright for a person to do, without the owner’s consent, what only the owner of the copyright has the right to do.

[17] The Software Guy claims copyright in the graphics (an artistic work) and the text (a literary work). Mr. Hui deposed in his first affidavit:

We regard the text and images on www.thesoftwareguy.com as proprietary as well. Although the underlying framework and layout of the site was developed for us by Radiant Communications, we supplied the text and graphics (with the exception of the call-centre woman photograph, which is a stock photo licensed from a third party). I have registered the copyright in the site in the United States. [emphasis added]

[18] With respect to the allegation of copyright infringement, Ms. Basham asserts that it is significant that the plaintiff is not pursuing its claim to enjoin the defendants from using graphics similar to those of the plaintiff. She says that there is no evidence that the elements of the plaintiff’s web site are original. I agree that the web sites of both the plaintiff and the defendants closely resemble that of Coastal Contacts. Radiant Communications Corp. (“Radiant”), a local web developer and web hosting company, developed Coastal Contacts’ and Coastal Meds’ web sites. At that time, Mr. Hui was employed by Radiant. The defendants

assert that Mr. Hui must have known of the Coastal Contacts project and breached his employment agreement not to use confidential information of Radiant or its customers for his own benefit. Mr. Hui deposes that he was unaware of that project.

[19] The defendants complain that although they are entitled to use Coastal Contacts' copyright material under their licence agreement with that company, the plaintiff is using material copied from Coastal Contacts without permission. As noted above, Mr. Hui deposed in his first affidavit that Radiant developed the web site and that he registered the copyright in the site in the United States. The plaintiff did not register its copyright in the Canadian Copyright Office.

[20] Mr. John Thomas is a principal of Radiant. He has deposed that Radiant is the website host for www.thesoftwareguy.com but that Radiant did not build that website and Mr. Hui did not formally or directly use Radiant's services in its construction. He recommended that Mr. Hui approach one of Radiant's programmers directly to develop the site for him.

[21] Mr. Thomas expresses the following opinion in his affidavit:

I do not believe that Mr. Hui created and supplied the graphics that he used in thesoftwareguy.com web site. As I see it from my own observation of the site, thesoftwareguy.com web site is based on images and graphics that were used and supplied by Coastal to Radiant for the Coastal Contacts and Coastal Meds web sites. I oversaw production of the Coastal Contacts site and am therefore very familiar with it. The buttons, the layout, colour scheme, and navigation are exactly the same. The differences are limited to the free shipping image, the "satisfaction guaranteed" bar and the images specific to contact lenses, which would evidently have no application to a software retail site.

[22] Radiant also created a currency converter for Coastal Contacts in about July 2001. The plaintiff appears to have modified its web site in May 2003 to add "select currency" button and flag icons that are identical to those on the Coastal web sites.

[23] In reply to Mr. Thomas' affidavit, Mr. Hui filed a second affidavit, contradicting much of Mr. Thomas' evidence and relating a further discussion he had with Mr. Thomas. Even if it were admissible, the second hand evidence of Mr. Thomas related by the plaintiff can be given little weight in relation to Mr. Thomas' sworn evidence.

[24] In his second affidavit, Mr. Hui sought to correct his earlier statement that Radiant had developed the web site:

Although Radiant did not "officially" build The Software Guy site, the site was built by Radiant employees, using Radian template code provided with the full knowledge and support of Mr. Thomas. The site has always been hosted by Radiant. When I referred to Radiant having built the site, this is what I had meant.

[25] It is common ground there is no copyright in the concept or idea of operating an online software retail business or the marketing strategies used in that business.

[26] However, it would appear that the defendants have virtually copied the entire text of the plaintiff's web site. In one instance, they incorporated an obvious grammatical error: "We maintain tracking numbers for all shipments,

however, our system limitations do not allow us to e-mail our customers which [sic] those numbers.”

[27] Ms. Basham notes that Mr. Hui deposes that he and his wife “regard the text and images [on the web site] as proprietary” and that they “supplied” the text and graphics. There is no evidence that they authored the text or that they do have a proprietary interest in the text. Mr. Hardy deposes that Mr. Hui told him in their August 2003 meetings that nothing about his on-line software retail business was proprietary.

[28] To establish its claim for copyright infringement, the plaintiff must establish that: (1) the work in which it claims copyright is original, i.e., that it was independently produced and not copied; (2) there has been copying from that work; and (3) if there was copying, a substantial portion of the work has been reproduced: *British Columbia Automobile Assn. v. Office and Professional Employees’ International Union* (2001, 10 C.P.R. (4th) 423 (B.C.S.C.) at p. 468; *Great Canadian Oil Change Ltd. v. Dynamic Ventures Corp.* (2002), 1 C.P.R. (4th) 318 (B.C.S.C.) at p. 331.

[29] The defendants have raised significant doubt as to whether the plaintiff created the text and graphics. Indeed, there is strong evidence that the graphics are taken from Coastal Contacts’ web site and are not original. However, there is no satisfactory evidence as to the genesis of the text. It would appear that the defendants have liberally copied much of the text from the plaintiff but it is by no means clear that the plaintiff did not copy it from another source. In my view, it

is significant that Mr. Hui does not depose that he “created” or “authored” the text or the graphics. He deposes only that he “supplied” those elements of the web site.

[30] I conclude that the plaintiff has failed to establish a *prima facie* case that the work in which it claims copyright is original. Accordingly, it has not made out a *prima facie* case of copyright infringement.

Where does the balance of convenience lie?

[31] Mr. Wotherspoon cites the example of a customer mistakenly contacting the plaintiff by phone with respect to a problem the customer had encountered in a transaction with the defendants’ business as exemplifying the irreparable harm that will accrue to the plaintiff without an injunction. The plaintiff also questions whether damages would be a sufficient remedy if it were successful in the action, because the defendants ship their inventory from Blaine, Washington and use an internet host based in Cuba.

[32] In my opinion, the balance of convenience favours the defendants. If the injunction were granted, they would likely be put out of business and suffer irreparable harm. Without the injunction, the parties will continue to compete with each other as well as numerous other on-line software businesses.

[33] A further factor for consideration is that the evidence suggests that the plaintiff, who is seeking an equitable remedy, has improperly utilized Coastal Contacts’ proprietary information.

[34] The plaintiff's application is dismissed.

Costs

[35] The defendants are entitled to their costs. I would not grant them special costs as requested. I do not agree with Ms. Basham's characterization of the plaintiff's application as frivolous and vexatious, and there is no evidence of any conduct sufficiently egregious to warrant an award of special costs.

"M.J. Allan, J."

The Honourable Madam Justice M.J. Allan