
CANADA / JUDGMENT

Schluter-Systems KG v. Dollar Tile Distributors Ltd.

2013 BCSC 2508

COURT

Supreme Court of British Columbia

DECIDED

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IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation:

Schluter-Systems KG v. Dollar Tile Distributors Ltd.,

2013 BCSC 2508

Date: 20131202

Docket: S138877

Registry: Vancouver

Between:

Schluter-Systems KG, Schluter Systems L.P.

and Schluter Systems (Canada) Inc.

Plaintiffs

And

Dollar Tile Distributors Ltd.,

Ka Yiu Yu (a/k/a/ David Yu and Ka Yiu David Yu) and

Philip Yu (a/k/a Philip Yo)

Defendants

Before: The Honourable Madam Justice Fenlon

Oral Reasons for Judgment

Counsel for the Plaintiffs:

S.E. Foster

A. Riches, A/S

No one appearing for the Defendants:

Place and Date of Hearing:

Vancouver, B.C.

November 29, 2013

Place and Date of Judgment:

Vancouver, B.C.

December 2, 2013

[1] THE COURT: The plaintiffs apply without notice for three orders:

1) an interim injunction enjoining the defendants from selling counterfeit versions of the plaintiffs' products;

2) Anton Piller orders over four locations to seize and preserve evidence relating to the counterfeit products; and

3) an order sealing the court file for this action for five business days to allow for the execution of the Anton Piller orders.

[2] The three plaintiffs are related companies. Schluter-Systems KG is the parent company in Germany. It owns the trademarks for various Schluter products. Schluter Systems L.P. is a United States company that owns Canadian copyright to registrations of Schluter products, including labels, flyers and brochures. Schluter Systems (Canada) Inc. is the Canadian distributor of Schluter products.

[3] The plaintiffs manufacture and sell various tile installation products in Canada and the United States. The products which are the subject of this action are a waterproof membrane used to line showers and bathtub surrounds to prevent water penetration and damage. The products are sold under the brand mark Kerdi. Annual sales of the Kerdi products exceed \$50 million U.S. in North America and \$19 million in Canada. In British Columbia sales are \$3 million a year.

[4] There are two Kerdi products in issue. The Kerdi membrane is a pliable polyethylene waterproofing membrane and vapour retarder which is contained between two fleece surfaces. It is used in conjunction with tiles in wet areas. The Kerdi membrane is placed against the gyprock board or other surface and tiles are applied to it directly.

- [5] The second product in issue is the Kerdi-Band. It is a pliable polyethylene waterproofing strip used to seal corners and edging joints and floor/wall connections with the Kerdi membrane.
- [6] The plaintiffs claim that the defendants are selling counterfeit Kerdi products, passing them off as authentic Kerdi products using the plaintiffs' trademarks, labels and brochures.
- [7] The defendant Dollar Tile Distributors Ltd. is one of 400 authorized dealers of Kerdi products in Canada. The defendant Philip Yu is an employee of Dollar Tile. The defendant Ka Yiu Yu is a director of Dollar Tile.
- [8] I turn now to the question of whether the orders sought should be granted. First the interim injunction. In order to obtain an interlocutory or interim injunction a plaintiff must satisfy the three-part test in *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311.
1. Is there a serious question to be tried?
 2. Will the applicant suffer irreparable harm if the injunction is not granted?
 3. Which party will suffer the greater harm from granting or refusing the remedy pending a decision on the merits, that is, where does the balance of convenience lie?
1. Is there a serious issue to be tried?
- [9] The plaintiffs have established there are a number of serious issues to be tried in this proceeding. Evidence before the Court supports counterfeiting by the defendants of two Kerdi products: the membrane and the band.
- [10] Use of the plaintiffs' trademark to sell the same class of products would amount to a contravention of s. 19 of the Trademark Act, R.S.C. 1985, c. T-13. A sale of counterfeit Kerdi products using Schluter trademarks would constitute the common law tort of passing off. There is also some evidence the defendants have copied Schluter's labels and brochures, which would be an infringement of copyright under s. 27 of the Copyright Act, R.S.C. 1985, c. C-42.
2. Will the plaintiffs suffer irreparable harm if an injunction is not granted?
- [11] I conclude that the plaintiffs have established doubt that damages will be an adequate remedy should they succeed at trial.
- [12] In *RJR-MacDonald*, the Supreme Court of Canada, describing the meaning of irreparable harm, stated:

"Irreparable" refers to the nature of the harm suffered rather than its magnitude. It is harm which either cannot be quantified in monetary terms or which cannot be cured, usually because one party cannot collect damages from the other. Examples of the former include instances where one party will be put out of business by the court's decision; where one party will suffer permanent market loss or irrevocable damage to its business reputation; or where a permanent loss of natural resources will be the result when a challenged activity is not enjoined.

[13] I conclude that there is in the case before me a real prospect that Schluter will suffer permanent market loss or irrevocable damage to its business reputation. The evidence before me demonstrates that Schluter's business has grown significantly each year since it began selling these products 27 years ago, in large part due to the excellent reputation of its products. That reputation has been enhanced by use of Kerdi products on home renovation shows such as Holmes on Homes and through internet chat rooms and blogs where consumers have consistently given high ratings to the membrane and band.

[14] The evidence before me suggests that the counterfeit products being sold by the defendants are of an inferior quality, are being sold without installation instructions, and will not meet customer expectations. Since customers believe the products are authentic, this will likely lead to such customers sharing their negative experiences on the internet and turning to other products in future. I accept that such reputational harm will be hard to quantify in damages.

3. Where does the balance of convenience lie?

[15] In *Canadian Broadcasting Corporation v. CKPG Television Ltd.* (1992), B.C.L.R. (2d) 96 (C.A.), the Court of Appeal identified a number of factors to be considered under this part of the test for an injunction. They include:

- 1) the likelihood that if damages are finally awarded they will be paid;
- 2) which of the parties has acted to alter the balance of the relationship and so affect the status quo;
- 3) the strength of the applicant's case; and
- 4) any factor affecting the public interest.

[16] In this case, the latter three factors are of particular significance. The defendants have changed the status quo in the relationship by moving from selling authentic products, as they are authorized to do, to selling carefully counterfeited products. The injunction will not prevent the defendants from continuing to sell authentic products.

[17] The strength of the applicants' case appears strong. They have placed before the Court extensive evidence that suggests the defendants are selling products that have been carefully manufactured to look like Kerdi products but which are of inferior quality. The evidence suggests they are using Schluter trademarks and copyrighted materials to do so.

- [18] Finally, the public interest favours the granting of the injunction. The defendants have apparently duped customers and misled them about the source and quality of the products. The products purchased by customers may cause them significant problems in their homes. The products are expected not to last as long and may even result in tiles falling off the wall because the fleece within which the polyethylene membrane is sandwiched is likely to separate from the membrane in the counterfeit product.
- [19] In summary on this part of the application, I conclude that the interim injunction applied for should be granted, and I so order.
- [20] I turn now to the Anton Piller order sought. Anton Piller orders are a draconian remedy. They permit private citizens to search private residences and businesses. They permit plaintiffs to seize evidence in order to preserve it so that unscrupulous defendants cannot circumvent the Court's processes by making such evidence disappear.
- [21] Although Anton Piller orders are a useful tool, the Court must be mindful that they are exceptional orders and highly intrusive. The terms of such an order must be carefully spelled out and limited to what the circumstances show to be necessary. The Supreme Court of Canada decision in *Celanese Canada Inc. v. Murray Demolition Corp.*, [2006] 2 S.C.R. 189, sets this out at paras. 30 through 32.
- [22] This Court and the Law Society have adopted a model order containing the safeguards identified by the Supreme Court of Canada in *Murray Demolition* and in other cases. The plaintiffs have, in accordance with Practice Direction 31 of this Court, prepared a draft order for each of the premises with respect to which an Anton Piller order is sought, and the plaintiffs have identified, by black lining, minor changes from that model order.
- [23] The four requirements for granting an Anton Piller order were restated by the Supreme Court of Canada in *Murray Demolition* as follows:
- 1) the plaintiff must demonstrate a strong prima facie case;
 - 2) the damage to the plaintiff of the defendant's alleged misconduct, potential or actual, must be very serious;
 - 3) there must be convincing evidence that the defendant has in its possession incriminating documents or things; and
 - 4) it must be shown that there is a real possibility that the defendants may destroy such material before the discovery process can do its work.
- [24] I will address each element in turn although not in the same order. First, a strong prima facie case. With respect to this requirement, I have already found, in assessing the application for the interim injunction, that the plaintiffs have a strong prima facie case.

- [25] The second requirement. I find there is a real possibility the defendants may destroy material before discovery. This is an essential requirement, since the purpose of an Anton Piller order is the protection of vital material from possible destruction or elimination. Since it is almost impossible for an applicant to produce direct proof that a defendant will destroy something, courts have generally inferred a risk of destruction when it is shown that a defendant has been acting dishonestly; for example, where property has been acquired in suspicious circumstances or where a defendant has knowingly violated an applicant's rights: *Bardeau Ltd. v. Crown Food Service Equipment Ltd.*, 1982 CanLII 1793, a decision of the Ontario High Court at para. 10, and *Yousif v. Salama*, [1980] 3 All E.R. 405 (C.A.) a decision of the House of Lords at p. 406.
- [26] There is a substantial body of evidence before me that supports the plaintiffs' claim that the defendants have taken advantage of their status as an authorized dealer in order to sell counterfeit products. As I have noted, the counterfeit products are not shoddy knockoffs. Huge rolls of polyethylene liners and bands have been manufactured at considerable effort. In short, it appears the deception has been carefully orchestrated, and it also appears likely that others are involved and will come to light. The defendants have acted dishonestly, it appears, and will be motivated to dispose of incriminating evidence.
- [27] In addition, the defendant Philip Yu has shown a propensity to hide his identification. He operates on eBay under the name Philip Yo. It is only his email address that gives him away as Philip Yu. When he met with an investigator for return of counterfeit product, he called himself David, not Philip, and he was reluctant to provide a return address for product returns. He only agreed to a personal meeting at a public location to take the counterfeit product back.
- [28] It appears Philip Yu and Ka Yiu Yu sell through eBay stores and use PayPal accounts and email accounts for their transactions. These records are electronic, of course, and can be deleted or hidden easily. Further, evidence related to eBay and PayPal accounts is held remotely by eBay and is not on a hard drive.
- [29] All of the information about the source of the counterfeit products, the customers to whom they were sold and the volume sold is likely to be found in the computer systems and records of the defendants, including the eBay accounts, PayPal accounts, email accounts and iCloud.
- [30] The next requirement is for the plaintiffs to establish that they are going to suffer damage because of the defendants' potential misconduct or existing misconduct. I conclude that the plaintiffs have met this requirement.
- [31] If the defendants destroy the counterfeit products and documents related to purchase of the counterfeit products from the manufacturer as well as records of sales, the plaintiffs will not be able to limit the damage to their reputation or future losses.

- [32] It is important for Schluter to find out to whom counterfeit products have been sold so that it can deal with consumers who are misled by the counterfeit products, including contacting them to advise that the products are counterfeit, before Schluter's reputation is harmed.
- [33] It is also important for Schluter to determine where the defendants have obtained the counterfeit products so that it can take steps to stop the supply chain and not simply shut down these particular distributors.
- [34] I come now to the fourth requirement. Is there convincing evidence that the defendants have in their possession incriminating documents or things? The plaintiffs seek Anton Piller orders in relation to the residences of defendants Philip Yu and Ka Yiu Yu, also known as David Yu. I pause to say that the evidence that he also goes by David Yu is a bit muddled on the record. It may simply be that Philip Yu is using Ka Yiu Yu's persona. I believe there is some evidence, though, that he also goes by David Yu. In any event, the plaintiffs seek Anton Piller orders in relation to the defendant Dollar Tile's showroom and its warehouse as well.
- [35] Dollar Tile has a showroom at 3133 Sumner Avenue in Burnaby, British Columbia. The website of Dollar Tile, www.dtflooring.com, states that it has a warehouse at 8185 Argyle Street, Vancouver, British Columbia. There is evidence before the Court that this warehouse site has closed down or is being closed down and that Dollar Tile also leases or has access to a warehouse closer to the Dollar Tile showroom. That warehouse is located at 3455 Gardner Court in Burnaby (the "Dollar Tile warehouse").
- [36] The exact relationship between Dollar Tile and the Dollar Tile warehouse is not known at this point. However, according to the Land Title Office, the Dollar Tile warehouse is registered in the name of a numbered company, 0902555 B.C. Ltd. The corporate summary for that numbered company has the same directors as Dollar Tile.
- [37] A representative of Schluter bought products from the Dollar Tile showroom on October 1, 2013. That product was analyzed and it was determined that the Kerdi-Band product sold in an authentic Kerdi-Band box was not authentic, it was counterfeit. Investigations conducted by the plaintiffs established that Philip Yu works for Dollar Tile and is selling counterfeit Kerdi membrane on eBay under the name Dollar Deals 604 at 30% below Schluter's suggested retail price. The price includes free shipping to Canada and the United States. eBay sales transactions information suggests that at least 264 customers have bought from Philip Yu's eBay store Dollar Deal 604 between January and July of 2013.
- [38] Philip Yu appears to be operating the Dollar Deal 604 store when he is not working at Dollar Tile. He does not work on Tuesdays and the shipping of the Dollar Deal 604 product occurred on a Tuesday. Also, progress of the product orders by Dollar Deal 604 via eBay could be seen to occur in the evening after Dollar Tile closed. The website of Dollar Tile indicates that it closes either at 5:00 or 5:30 p.m.

- [39] Philip Yu lives at Penthouse 17 at 5388 Grimmer Street, Burnaby, British Columbia. He has been followed there by investigators after leaving Dollar Tile. The directory at 5388 Grimmer Street had the initials P.Y. written next to the buzzer for Penthouse 17. Philip Yu does not own Penthouse 17. The Land Title Office search indicates that the owners of the penthouse are Dmitrious Jim Charalampidis [phonetic] and Stilianis Charalampidis [phonetic]. This suggests that Philip Yu is renting the residence or is there with the permission of the owners.
- [40] There is also evidence that links Philip Yu to the defendant Ka Yiu Yu. Philip Yu drives a white Acura with a British Columbia licence plate, number 728 STH. A printout of a PPRS search shows the Acura is leased to an address at 523 Ash Street, Vancouver, British Columbia, with a postal code of V5Z 3G4.
- [41] The other defendant, Ka Yiu Yu, lives at 5230 Ash Street and the postal code for that address is V5Z 3G4, the same postal code Philip Yu gave for the Acura registration. It appears that the PPRS search showing the Acura leased to an address at 523 Ash Street is simply a typographical error and it is actually 5230 Ash Street.
- [42] The Ash Street address is thus connected with a director of Dollar Tile and Philip Yu because of the registration of the vehicle he drives to that address. Philip Yu has also been observed visiting the house. The 5230 Ash Street house is owned by Ka Yiu Yu. Philip Yu also drove to that address with some counterfeit Kerdi membrane purchased by a representative of the plaintiffs. She had bought the counterfeit material from another eBay account, Wholesale Liquidator, on two occasions.
- [43] The shipping label displayed the name David Yu. In order to determine who is behind Wholesale Liquidator, a representative of the plaintiffs contacted Wholesale Liquidator by email stating she wanted to return the second purchase she had made from that eBay store. The person she contacted would not provide an address, but indicated that he would meet the representative at Oakridge Mall in Vancouver to take back the second sample of product purchased.
- [44] In the email correspondence, the individual referred to himself as David. On October 23, 2013, a female private investigator met with David to return the product. The man who met the private investigator was Philip Yu, but he called himself David. A video was taken of the handover and still images from the video are of Philip Yu.
- [45] After receiving the second product purchased from Wholesale Liquidator, Philip Yu drove to the curb at 5230 Ash Street with that product. The investigator did not see Philip Yu enter the house at that point with the product because he had to move on or risk being detected.
- [46] Based on this information, I conclude that there is convincing evidence that Philip Yu and Dollar Tile have incriminating evidence in their possession. I am not satisfied that there is convincing evidence that Ka Yiu Yu is in possession of such evidence at his Ash Street home.

- [47] The evidence suggests, rather, that Philip Yu is using David Yu's name to sell online. There is no evidence David Yu himself has been engaged in selling counterfeit material online from a computer in his home.
- [48] The fact that Philip Yu drove to David Yu's house with counterfeit material that had been returned by a private investigator without more does not demonstrate that the Ash Street residence is likely to have evidence within it.
- [49] I therefore make the following orders. I dismiss the plaintiffs' application for an Anton Piller order for 5230 Ash Street in Vancouver. I grant the plaintiffs' applications for Anton Piller orders for Philip Yu's residence at number 17 - 5388 Grimmer Street in Burnaby, British Columbia, and for the Dollar Tile showroom at 3133 Sumner Avenue in Burnaby, British Columbia, and for Dollar Tile's warehouse at 3455 Gardner Court in Burnaby, British Columbia.
- [50] The orders are granted in the form proposed that is attached to the notice of application with three changes. For counsel's benefit, I identified these three changes at the end of argument on Friday. The first is paragraph 1(a)(3). The first word in that paragraph, "including", should be deleted. Second, paragraph 9 is amended to insert at the end of the introductory paragraph the words "any of the defendants" with related grammatical changes to 9(c), since it does not read correctly with that change. And third, paragraph 18 is amended to replace 7:00 a.m. with 9:00 a.m.
- [51] The final application before me is for a short-term sealing order. I am satisfied that is appropriate given that the Anton Piller orders have been granted. I therefore order that the court file in this action is to be sealed for five days to allow for the execution of the Anton Piller orders on a without notice basis.
- [52] Is there anything arising, counsel?
- [53] MR. FOSTER: One small thing, My Lady. We discussed on Friday a change to 19(b) to remove the fact that the premises should not be shut down overnight.
- [54] THE COURT: Yes. Thank you.
- [55] MR. FOSTER: We proposed to delete the word "premises and" from 19(b).
- [56] THE COURT: Yes, that is quite right. Thank you, Mr. Foster. So to make the record clear, Mr. Registrar, the portion of the order indicating the three changes should have a fourth change. I also order that paragraph 19(b) is to be amended by deleting the words "premises and" in the first line of that subsection.
- [57] Counsel, are all of the other changes clear?
- [58] MR. FOSTER: They are, My Lady. The only other point that falls from My Lady's oral reasons is the order we were seeking was for the court file to be sealed for five business days.

[59] THE COURT: Yes. If I did not say that, it should be five business days.

[60] MR. FOSTER: Thank you.

[61] THE COURT: I did want to ask you whether that was adequate given the plaintiff's expressed preference for exercising this on a Tuesday. I am willing, if there is a basis for it, to extend the sealing order to seven business days.

[62] MR. FOSTER: The plaintiff would like to execute on the Tuesday for the reasons already stated in these oral reasons.

[63] THE COURT: I am satisfied that is appropriate, and I am going to make that change. The sealing order is for seven business days.

[64] Are there any further questions or clarifications?

[65] MR. FOSTER: No. Thank you, My Lady.

[66] THE COURT: Then I thank you again, counsel, for the high calibre of the written argument and the submissions last day.

[67] MR. FOSTER: Thank you, My Lady.

The Honourable Madam Justice L.A. Fenlon

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